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This document comprises (i) a circular prepared in accordance with the Listing Rules of the Financial Conduct Authority (the "**FCA**") made under section 73A of FSMA and (ii) a prospectus relating to Phoenix Group Holdings plc ("**Phoenix**" or the "**Company**" and, together with its consolidated subsidiaries from time to time, the "**Group**", which expression shall, for any date occurring or period ending prior to 12 December 2018, include where the context so requires PGH Cayman (as defined below) and its consolidated subsidiaries) prepared in accordance with the Prospectus Regulation Rules of the FCA made under section 73A of FSMA. This document has been approved by the FCA in accordance with section 87A of FSMA, will be made available to the public and has been filed with the FCA in accordance with the Prospectus Regulation Rules. This document together with the documents incorporated into it by reference (as set out in Part XVI ("*Documents Incorporated by Reference*") of this document) will be made available to the public in accordance with Prospectus Regulation Rule 3.2.1 by the same being made available, free of charge, at www.thephoenixgroup.com.

This prospectus has been approved by the FCA, as competent authority under Regulation (EU) 2017/1129 of the European Parliament and Council of 14 June 2017 (the "**Prospectus Regulation**"). The FCA only approves this prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such approval should not be considered as an endorsement of the issuer that is the subject of this prospectus or an endorsement of the quality of the securities that are the subject of this prospectus. Investors should make their own assessment as to the suitability of investing in the securities.

If you sell or have sold or have otherwise transferred all of your Shares, please send this document and any accompanying documents at once to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for delivery to the purchaser or transferee except that such documents should not be sent to any jurisdiction where to do so might constitute a violation of local securities laws or regulations, including but not limited to the Excluded Territories. If you sell or have sold or otherwise transferred only part of your holding of Shares, you should retain this document and any accompanying documents and consult with the bank, stockbroker or other agent through whom the sale or transfer was effected as to the action you should take.

The Company is not offering any Shares nor any other securities in connection with Acquisition (as defined below) or the Admission (as defined below). This document does not constitute an offer to sell, or the solicitation of an offer to subscribe for or buy, any Shares nor any other securities in any jurisdiction. The Shares will not be generally made available or marketed to the public in the UK or any other jurisdiction in connection with the Acquisition or Admission.

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PHOENIX GROUP

Phoenix Group Holdings plc

(a company incorporated under the Companies Act 2006
and registered in England and Wales with registered number 11606773)

Proposed acquisition of ReAssure Group plc

Issue of 277,277,138 new ordinary shares of 10 pence each
and application for admission to the premium listing segment of the Official List
and to trading on the LSE's main market for listed securities

Notice of General Meeting

Sponsor

HSBC

Phoenix and the Directors, whose names appear on page 40 of this document in the section entitled "*Directors, Company Secretary and Advisers*", accept responsibility for the information contained in this document. To the best of the knowledge of Phoenix and the Directors, who have taken all reasonable care to ensure that such is the case, the information contained in this document is in accordance with the facts and contains no omission likely to affect its import.

A Notice of General Meeting of the Company, to be held at Juxon House, 100 St. Paul's Churchyard, London EC4M 8BU at 10.00 a.m. on 13 February 2020, is set out at the end of this document. Whether or not you intend to be present at the General Meeting, you are asked to complete and return the enclosed Form of Proxy in accordance with the instructions printed on it as soon as possible and, in any event, so as to be received by the Registrar, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY, by not later than 10.00 a.m. on 11 February 2020 (or, in the case of an adjournment, not later than 48 hours before the time fixed for the holding of the adjourned meeting).

This document relates to the proposed acquisition by the Company of the entire issued share capital of ReAssure Group plc ("**ReAssure**") from Swiss Re Finance Midco (Jersey) Limited (formerly Swiss Re ReAssure Midco Limited) ("**Swiss Re**"), an indirect subsidiary of Swiss Re Ltd ("**SRL**" and together with its subsidiaries, the "**Swiss Re Group**") (the "**Acquisition**"). Application will be made to the FCA and the LSE, respectively, for the 277,277,138 new Shares to be allotted and issued by the Company to Swiss Re (or a nominated member of the Swiss Re Group) as part consideration pursuant to the Acquisition (the "**Acquisition Shares**") to be admitted to the premium listing segment of the Official List of the FCA and to trading on the LSE's main market for listed securities (together, the "**Admission**"). It is currently expected that Admission will become effective following the closing of the Acquisition pursuant to the Share Purchase Agreement ("**Completion**") and that dealings in the Acquisition Shares will commence at 8.00 a.m. on the first Business Day after the date of Completion, whereupon an announcement will be made by the Company to a Regulatory Information Service.

Your attention is drawn to the letter of recommendation from the Chairman which is set out in Part I ("*Letter from the Chairman of Phoenix Group Holdings plc*") on pages 42 to 51 of this document. You should read the entire document but your attention is also drawn to the section of this document headed "Risk Factors" which sets out certain risks and other factors that should be considered by Shareholders when deciding on what action to take in relation to the Acquisition.

Merrill Lynch International ("**BofA Securities**"), Citigroup Global Markets Limited ("**Citigroup**"), HSBC Bank plc ("**HSBC**" or the "**Sponsor**" and together, with BofA Securities and Citigroup, the "**Financial Advisers**"), each of which is authorised by the Prudential Regulatory Authority (the "**PRA**") and regulated in the United Kingdom by the PRA and the FCA, are each acting exclusively for the Company and no one else in connection with the arrangements described in this document and will not regard any other person (whether or not a recipient of this document) as a client in relation to the arrangements described in this document and will not be responsible to anyone other than the Company for providing the protections afforded to their respective clients or for providing advice in relation to the arrangements referred to in this document.

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Shareholders and prospective investors acknowledge that they have not relied on the Financial Advisers or any person affiliated with the Financial Advisers in connection with any investigation of the accuracy of any information contained in this document or their decision in connection with the Acquisition or any investment decision. In making an decision in connection with the Acquisition or any investment decision, each Shareholder or prospective investor must rely on their own examination, analysis and enquiry of the Company.

The contents of the websites of the Group, the ReAssure Group, the Swiss Re Group, MS&AD Insurance Group Holdings, Inc. ("**MS&AD**"), the L&G Group and Old Mutual Wealth Life Assurance Limited (together with its subsidiary Old Mutual Wealth Pensions Trustees Limited, "**OMW**") do not form part of this document.

Capitalised terms used in this document have the meanings ascribed to them, and certain technical terms are explained, in Part XVII ("*Definitions*") of this document.

THE CONTENTS OF THIS DOCUMENT ARE NOT TO BE CONSTRUED AS LEGAL, FINANCIAL OR TAX ADVICE. EACH SHAREHOLDER AND PROSPECTIVE INVESTOR SHOULD CONSULT HIS, HER OR ITS OWN SOLICITOR, INDEPENDENT FINANCIAL ADVISER OR TAX ADVISER FOR LEGAL, FINANCIAL OR TAX ADVICE.

WHERE TO FIND HELP

If you have questions, please telephone the Shareholder Helpline on the numbers set out below. This helpline is available from 8.30 a.m. to 5.00 p.m. on any day (other than a Saturday or Sunday) on which banks are open for general business in London (a "**Business Day**").

Shareholder Helpline

0370 702 0181 (from within the United Kingdom)

or

+44 (0)370 702 0181 (from outside the United Kingdom)

Calls may be recorded and monitored randomly for security and training purposes. Please note that, for legal reasons, the Shareholder Helpline will only be able to provide information relating to your shareholding and will be unable to give advice on the merits of the Acquisition or to provide legal, financial, tax or investment advice.

The date of this document is 17 January 2020.

CONTENTS

SUMMARY

1. INTRODUCTION AND WARNINGS

The securities which Phoenix Group Holdings plc (the "**Company**") intends to issue are ordinary shares of £0.10 each (ISIN: GB00BGXQNP29). The Company's registered office is at Juxon House, 100 St Paul's Churchyard, London EC4M 8BU, United Kingdom and its telephone number is +44 203 567 9100. The Company's Legal Entity Identifier number is 2138001P49OLAEU33T68.

This document was approved by the FCA as competent authority on 17 January 2020. The FCA's head office is at 12 Endeavour Square, London, E20 1JN, and its telephone number is +44 207 066 1000.

This summary has been prepared in accordance with Article 7 of the Prospectus Regulation and should be read as an introduction to this document. Any decision to invest in the Shares should be based on consideration of the prospectus as a whole by the investor. Any investor could lose all or part of their invested capital. Where a claim relating to the information contained in the prospectus is brought before a court, the plaintiff investor might, under the national law, have to bear the costs of translating the document before the legal proceedings are initiated. Civil liability attaches only to those persons who have tabled the summary, including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the document or if it does not provide, when read together with the other parts of the document, key information in order to aid investors whether to invest in the Shares.

2. KEY INFORMATION ON THE ISSUER

2.1 Who is the issuer of the securities?

The Company was incorporated and registered in England and Wales on 5 October 2018 as a public company limited by shares under the UK Companies Act 2006 (the "**Companies Act**") with the registered number 11606773.

The principal legislation under which the Company operates is the Companies Act and regulations made thereunder. The Shares are issued pursuant to the terms of the articles of association of the Company (the "Articles") and the Companies Act.

The Group specialises in the management and acquisition of closed life and pension funds and currently operates primarily in the UK. Alongside this, the Group has an "open" business which manufactures and underwrites new products and policies to support people saving for their future in areas such as workplace pensions and self-invested personal pensions. As at 30 June 2019, the Group had approximately 10 million policies, £245 billion of assets under management and Solvency II Own Funds of £10.8 billion. Measured by number of policyholders, the Group is Europe's largest specialist closed life and pension fund consolidator.

As at 16 January 2020 (the "**Latest Practicable Date**"), insofar as the Company has been notified, the following persons will, prior to and immediately following Admission, be directly or indirectly interested in 3 per cent. or more (or 5 per cent. in the case of investment managers) of the Company's issued share capital (assuming the issuance of 277,277,138 Acquisition Shares and that no additional shares are issued by the Company or options granted under the Group's Long-Term Incentive Plan ("**LTIP**"), Sharesave Scheme, Share Incentive Plan ("**SIP**"), Deferred Bonus Share Scheme ("**DBSS**"), Irish Share Incentive Plan ("**Irish SIP**"), Irish Sharesave Scheme and the International Plan (together, the "**Employee Share Schemes**") are exercised between the Latest Practicable Date and Completion).

Name	Latest Practicable Date		Immediately following Completion
	Number of voting rights	Percentage of Share Capital	Percentage of Enlarged Share Capital
Standard Life Aberdeen plc(1)	185,430,325	25.7%	18.6%
Ameriprise Financial Inc. and its group	42,847,290	5.9%	4.3%
BlackRock, Inc.	38,875,162	5.4%	3.9%
Artemis Investment Management LLP.	36,520,986	5.1%	3.7%
Prudential plc and its group	30,265,032	4.2%	3.0%
Swiss Re(1)(2)	—	—	13.0 – 17.0%
MS&AD(1)(2)	—	—	11.0 – 15.0%

Notes:

(1) Including Shares held: (i) for investment purposes in the ordinary course of business in the context of managing investments (as defined in the FCA Handbook) for, or advising, clients; and (ii) as bare nominee, custodian or trustee on behalf of a customer.

(2) Pursuant the Share Purchase Agreement, Swiss Re (or a nominated member of the Swiss Re Group) will receive a total shareholding of the Company equal to approximately 28 per cent. of the Enlarged Group. Swiss Re has agreed pursuant to the Swiss Re MS&AD SPA to transfer between approximately 40 and 52 per cent. of the Acquisition Shares it (or a nominated member of the Swiss Re Group) receives at Completion under the Share Purchase Agreement to MS&AD, in consideration for the transfer to Swiss Re of MS&AD's entire shareholding in ReAssure prior to Completion.

The Company's executive directors are Clive Bannister and James McConville. Clive Bannister will resign from his roles as Group Chief Executive Officer and Director effective from 10 March 2020 and will be succeeded by Andy Briggs, who was appointed as Chief Executive Officer Designate from 1 January 2020 and will be appointed to the Board on receipt of regulatory approval. The Company's statutory auditors are Ernst & Young LLP, whose registered address is at Ernst & Young LLP, 25 Churchill Place, London E14 5EY, United Kingdom.

2.2 What is the key financial information regarding the issuer?

The selected consolidated financial information set out below has been extracted without material adjustment from the Company's unaudited interim results for the six months ended 30 June 2019 and audited historical financial statements for the years ended 31 December 2018, 2017, and 2016.

Summary selected statement of consolidated income of the Group

	Six months ended 30 June		Year ended 31 December		
	2019	2018	2018	2017 (restated)	2016
	(£ million) (unaudited)		(£ million) (audited)		
Net income	20,411	889	(6,873)	6,105	7,445
Total operating expenses	(20,115)	(864)	7,274	(5,980)	(7,393)
Finance costs	(79)	(67)	(142)	(132)	(122)
Profit/(loss) for the year before tax	**217**	**(42)**	**259**	**(7)**	**(70)**
Tax (charge)/credit attributable to policyholders' returns	(268)	4	211	(21)	(58)
Tax credit/(charge) attributable to owners	90	14	(60)	1	28
Tax (charge)/credit	(178)	18	151	(20)	(30)
Profit/(loss) for the year attributable to owners	**39**	**(24)**	**410**	**(27)**	**(100)**
Attributable to:					
Owners of the parent	37	(24)	379	(27)	(101)
Non-controlling interests	2	—	31	—	1
	39	**(24)**	**410**	**(27)**	**(100)**

Summary selected consolidated statement of financial position of the Group

	As at 30 June 2019	As at 31 December		
		2018	**2017 (restated)**	**2016**
	(£ million) (unaudited)	**(£ million) (audited)**		
Total assets	243,866	229,980	83,443	85,999
Total liabilities	238,075	224,031	80,288	82,666
Equity attributable to owners of the parent	5,007	5,161	3,155	3,333
Non-controlling interests	290	294	—	—
RT1 Notes	494	494	—	—
Total equity	**5,791**	**5,949**	**3,155**	**3,333**

The selected consolidated financial information set out below has been extracted without material adjustment from the ReAssure Group's unaudited interim results for the six months ended 30 June 2019 and financial statements for the years ended 31 December 2018, 2017, and 2016.

Summary selected statement of consolidated income of the ReAssure Group

	Six months ended 30 June 2019	Year ended 31 December		
		2018	**2017**	**2016**
	(£ million) (unaudited)	**(£ million) (audited)**		
Net income/(expense)	3,830.2	(937.0)	3,472.7	6,878.3
Total income/(expense)	(3,591.4)	1,048.8	(2,198.0)	(5,944.0)
Profit before tax	**232.6**	**104.8**	**1,267.3**	**926.5**
Tax on profit for the period/year	(82.2)	(13.1)	(256.2)	(122.0)
Profit for the period/year	**150.4**	**91.7**	**1,011.1**	**804.5**

Summary selected consolidated statement of financial position of the ReAssure Group

	As at 30 June 2019	As at 31 December		
		2018	**2017**	**2016**
	(£ million) (unaudited)	**(£ million) (audited)**		
Total assets	47,106.8	44,273.9	49,813.1	50,543.9
Total liabilities	44,993.8	41,777.4	46,501.7	48,040.0
Total equity	2,111.3	2,496.5	3,311.4	2,503.9

The selected consolidated financial information does not include the impact of the OMW Acquisition, which completed on 31 December 2019, or the L&G Transaction, which is scheduled to complete in the first half of 2020. On a *pro forma* basis as if those transactions completed on 31 December 2018, the total assets disclosed above would increase by approximately £40 billion.

Summary unaudited pro forma solvency information of the Enlarged Group as at 30 September 2019

The unaudited *pro forma* statement of Group Solvency II Surplus of the Enlarged Group (the "**Unaudited** ***Pro Forma*** **Solvency Information**") set out below has been prepared in accordance with Annex 20 of Commission Delegated Regulation (EU) 2019/980 and on the basis of the notes set out below. The Unaudited *Pro Forma* Solvency Information has been prepared to illustrate the effect on the Group solvency position at the level of Phoenix as if the proposed Acquisition (including, in respect of ReAssure, the L&G Transaction and the OMW Acquisition) and the associated financing had taken place on 30 September 2019. The Unaudited *Pro Forma* Solvency Information has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and does not, therefore, represent the Company or the Enlarged Group's actual financial position, results or solvency position. The Unaudited *Pro Forma*

Solvency Information is stated on the Company's basis of Solvency II reporting (the "**Solvency Accounting Policies**") expected to be applied by the Company for the year ending 31 December 2019.

The ReAssure Group has regulatory approval to calculate its solvency capital requirements in accordance with its own PIM. The preparation of the unaudited *pro forma* solvency information for the Enlarged Group has been completed using Method 2. Under this method, the ReAssure Group will continue to calculate its solvency capital requirements in accordance with its existing PIM. The use of Method 2 is subject to approval at the discretion of the PRA. The Group intends to make the relevant application to use Method 2 ahead of Completion.

The Group will seek the approval of the PRA to harmonise to a single Enlarged Group Internal Model in the future and to incorporate the ReAssure Group within that model. Any such approval to use a single Enlarged Group Internal Model will also be within the discretion of the PRA.

Unaudited *pro forma* statement of Enlarged Group Solvency II Surplus as at 30 September 2019

	Pro forma adjustments							
	Phoenix Note 1	**ReAssure Note 2**	**L&G Note 3**	**OMW Note 4**	**Pre-Completion adjustments Note 5**	**Financing adjustments Note 6**	**Acquisition adjustments Note 7**	***Pro forma* Enlarged Group total**
Own Funds *(£ billion)*	11.4	4.8	0.5	0.4	(0.5)	1.2	(1.2)	16.6
Solvency Capital Requirement *(£ billion)*	(8.4)	(3.3)	(0.4)	(0.3)	—	—	—	(12.4)
Solvency II Surplus *(£ billion)*	3.0	1.5	0.1	0.1	(0.5)	1.2	(1.2)	4.2
Regulatory Coverage Ratio	136%	—	—	—	—	—	—	134%
Shareholder Capital Coverage Ratio *(Note 8)*	156%	—	—	—	—	—	—	148%

Notes:

Note 1—The solvency information for Phoenix has been extracted, without material adjustment, from the Phoenix Q3 Trading Update, as at 30 September 2019.

Note 2—The solvency information for ReAssure has been extracted from the underlying management schedules used to prepare regulatory returns for the ReAssure Group as at 30 September 2019, as adjusted to assume a dynamic recalculation of TMTP, thereby stating on a consistent basis with the Solvency Accounting Policies.

Note 3—The solvency information for the L&G Business as at 31 December 2018 has been extracted from management information prepared on a Standard Formula basis relating to the L&G Business. A breakdown of additional surplus on a regulatory basis over and above that included under the Risk Transfer Agreement ('RTA') is as follows:

(a) Prior to the L&G Transaction, the L&G Group carried out all administration related to the acquired policies and incurred the expenses of doing so, but in return were paid management charges by ReAssure Limited. Once the L&G Transaction is complete, ReAssure Limited will administer the contracts directly and will therefore directly incur the expenses and not be required to pay any charges to the L&G Group. As a result, Own Funds and Solvency II surplus will increase by £0.2 billion which represents the reduction in cost base and hence decrease in the Solvency II expense provision.

(b) After the L&G Transaction, asset management services for the acquired mature savings business will be provided by the L&G Group and hence fees that were previously exempt will now be subject to VAT. An additional provision of £0.1 billion, which reduces Own Funds by the same amount, is therefore made for future VAT payments.

(c) At the date of the L&G Transaction, the L&G With-Profit Fund elements of the RTA will be cancelled and replaced with the L&G With-Profit Fund.

  (i) Removal of the RTA results in (1) a decrease in Own Funds of £0.3 billion and (2) an increase in the SCR of £0.1 billion. The change in Own Funds includes an increase in the Best Estimate Liability ("**BEL**") of £0.2 billion, and a reduction in Transitional Provisions of £0.1 billion.

  (ii) The addition of the L&G With-Profit Fund results in an increase of Own Funds of £0.7 billion and an increase in the SCR of £0.5 billion. The net impact on Solvency II Surplus is £0.2 billion.

Note 4—The solvency information for OMW has been extracted, without material adjustment, from the OMW Solvency and Financial Condition Report, as at and for the year ended 31 December 2018.

Note 5—This column represents the following adjustments which reduce Own Funds by £0.5 billion:

(a) Under the terms of the OMW SPA:

  (i) OMW paid a dividend of £40 million prior to completion of the OMW Acquisition by ReAssure.; and

  (ii) ReAssure agreed to pay consideration of £425 million to acquire OMW. The consideration is subject to interest for the period from 1 January 2019 to the date of completion, resulting in final consideration payable of approximately £446 million at 31 December 2019.

Note 6—The assumed receipt of debt financing in the form of £1,200 million of hybrid capital instruments will increase the Own Funds by £1.2 billion as the hybrid capital instruments qualify as Own Funds under Solvency II. The actual amount of hybrid capital issued by Phoenix to finance the cash consideration will depend on a number of factors, including market conditions and the implementation of management actions undertaken to reduce the Enlarged Group's SCR.

Note 7—The acquisition adjustments comprise the following:

(a) The payment of the cash consideration reduces Own Funds by £1.2 billion. The cash consideration is calculated as the total consideration of £3.2 billion less the value of the share capital in the Group issued to Swiss Re (or a nominated member of the Swiss Re Group) of £2.0 billion.

(b) Expenses incurred in association with the proposed Acquisition and the associated financing including the issuance of £1,200 million of hybrid capital instruments will be borne by Phoenix and therefore decrease the Group Solvency II Surplus by £50 million.

Note 8—The Shareholder Capital Coverage Ratio represents the ratio of Own Funds to SCR, after elimination of amounts related to unsupported with profit funds and the PGL Pension Scheme. Unsupported with profit funds and pension schemes are those whose Own Funds exceed their SCR.The pre-Completion, financing and acquisition adjustments described in Notes 5, 6 and 7 all impact the Shareholder Capital position. The Shareholder Capital position for the Enlarged Group excludes Own Funds and SCR amounts of £3.6 billion in respect of unsupported with profit funds and the PGL Pension Scheme. The Enlarged Group's Solvency II Surplus of £4.2 billion is unchanged. The Enlarged Group Shareholder Capital position therefore comprises £13.0 billion of Own Funds, £8.8 billion of SCR and a Shareholder Capital Coverage Ratio of 148 per cent.

Note 9—In preparing the unaudited *pro forma* statement of Group Solvency II Surplus, no account has been taken of the trading activity or other transactions of the Group or ReAssure Group since 30 September 2019, and since 31 December 2018 for the L&G Group and OMW.

2.3 What are the key risks that are specific to the issuer?

The Acquisition is subject to a number of conditions, including PRA approval, CBI approval, the approval by Shareholders of the Acquisition as a class 1 transaction under the Listing Rules, and the satisfaction of relevant antitrust authorities. If any of the conditions are not satisfied or waived prior to the Long Stop Date, the Acquisition may not complete. There can be no assurance that regulators or antitrust authorities will approve the Acquisition or not seek to impose new or more stringent conditions on the Group, changes to the terms of the Acquisition, or additional requirements, limitations or costs on the business of the Group.

The value of the ReAssure Group business purchased by the Group may be less than the consideration agreed to be paid (for example, because of an adverse event affecting the value of ReAssure) and, accordingly, the net assets and Own Funds of the Enlarged Group could be reduced. Also, the L&G Transaction may also not complete, meaning the Group would acquire the ReAssure Group without the L&G Business, or may not complete on terms which allow the Group to realise its expected benefits.

The Group may be unable to integrate past or prospective acquisitions successfully and/or in a timely manner, which could materially adversely affect the Group's growth. The integration of acquisitions may, among other things, lead to substantial costs, delays or operational or financial issues.

There will be numerous challenges associated with the integration of Standard Life Assurance, ReAssure, OMW and the L&G Business, including the risk of Phoenix's and ReAssure's limited management resources becoming overstretched or distracted, which may have other adverse effects on the Group's business. The synergies expected from the transitions may not be fully achieved.

The costs and effects of threatened, pending or future legal or arbitration proceedings, including with any of the Company's major Shareholders, or adverse developments with respect thereto, could have a material adverse effect on the Group's business, results, financial condition and prospects.

Regulatory capital requirements, including solvency capital requirements under the Solvency II regime, may change and are matters of the regulator's discretion. Certain of the Life Companies could lose the benefit of: (i) the Solvency II Internal Model; (ii) the Matching Adjustment; (iii) the Volatility Adjustment; and (iv) the application of transitional provisions.

The Group's business is subject to risks arising from general and sector-specific economic conditions in the United Kingdom and other markets in which it operates or in which its and its policyholders' investments are invested and from risks arising from the vote by the United Kingdom to leave the European Union (the "**EU**"), also known as "Brexit", and any possible future further referendum on Scottish independence.

Significant declines in equity markets, bond markets or property prices, or significant movements in swap yields relative to gilt yields, could have an adverse effect on the Group's business, results, financial condition and prospects.

Changes in actuarial assumptions driven by experience and estimates may lead to changes in the level of reserving and regulatory capital required to be maintained.

If the Group is unable to maintain the availability of its systems and safeguard the security of its data, including customer and employee data, due to accidental loss, cyber-crime, the occurrence of disasters or other unanticipated events affecting the Group or its service providers, its ability to conduct business may be compromised.

Defaults in relation to investments and financial investments and by counterparties may adversely affect the Group's business, results of operations, financial condition and prospects.

3. KEY INFORMATION ON THE SECURITIES

3.1 What are the main features of the securities?

When admitted to trading, the Acquisition Shares (which are ordinary shares) will be registered with ISIN number GB00BGXQNP29 and SEDOL number BGXQNP2. The currency of the Acquisition Shares is pounds sterling. The Acquisition Shares will be issued with a nominal value of £0.10 each.

The Acquisition Shares will, when issued and fully paid, rank equally in all respects with the existing Shares in issue immediately prior to Completion, including the right to receive all dividends and other distributions made, paid or declared after the date of issue of the Acquisition Shares.

At a general meeting, each owner of Shares has one vote on a show of hands and one vote on a poll. There are no restrictions on the transferability of the Shares. The Shares do not carry any rights to participate in a distribution (including on a winding-up) other than those that exist under the Companies Act.

The Company may by ordinary resolution declare dividends in respect of the Shares but no dividend shall exceed the amount recommended by the Board. The Board may pay interim dividends if it appears to the Board that they are justified by the profits of the Company available for distribution. Holders of the Shares are entitled to participate in any surplus assets in a winding up in proportion to their shareholdings.

3.2 Where will the securities be traded?

Applications will be made to the FCA and to the LSE for the Acquisition Shares to be admitted to the premium listing segment of the Official List and to trading on the LSE's main market for listed securities respectively.

3.3 What are the key risks that are specific to the securities?

Shareholders will experience dilution in their ownership following the issuance of the Acquisition Shares in connection with the Acquisition and may be diluted by future equity offerings.

The issuance of the Acquisition Shares and future substantial issuances of Shares or future substantial sales by Swiss Re, MS&AD or other major Shareholders may adversely affect the market price of the Shares.

4. KEY INFORMATION ON THE ADMISSION TO TRADING ON A REGULATED MARKET

4.1 Under which conditions and timetable can I invest in this security?

There is no offer of shares being made pursuant to this document. It is currently expected that Admission will become effective on the first Business Day following the date of Completion and that the Acquisition Shares will be eligible for dealing as soon as practicable after 8.00 a.m. on that date.

If the Acquisition completes, as a result of the issuance of the Acquisition Shares by Phoenix to Swiss Re (or a nominated member of the Swiss Re Group), Shareholders will suffer a reduction of approximately 27.8 per cent. in their proportionate ownership and voting interest in the Shares as represented by their holding of Shares immediately following Admission (assuming the issuance of 277,277,138 Acquisition Shares and that no additional shares are issued by the Company or options granted under the Employee Share Schemes are exercised between the Latest Practicable Date and Completion).

The total costs, charges and expenses payable by the Company in connection with Admission, the Acquisition and associated financing are estimated to be approximately £49 million (inclusive of VAT). There are no commissions, fees or expenses to be charged to investors by the Company.

4.2 Why is this prospectus being produced?

On 6 December 2019, the Company announced the proposed acquisition of ReAssure from Swiss Re. Total consideration of £3.2 billion payable to Swiss Re upon Completion will be satisfied through cash consideration of £1.2 billion, subject to certain customary adjustments, and the issuance to Swiss Re (or a nominated member of the Swiss Re Group) of Shares with a value (as determined on the date of the Share Purchase Agreement) of £2.0 billion (the "**Acquisition Shares**").

On 6 December 2019, Swiss Re entered into a separate share purchase agreement (the "**Swiss Re MS&AD SPA**") with MS&AD Insurance Group Holdings, Inc. ("**MS&AD**") that provides for the transfer to Swiss Re of MS&AD's entire shareholding in ReAssure prior to Completion in consideration for the transfer to MS&AD of part of the Acquisition Shares received by Swiss Re (or a nominated member of the Swiss Re Group) from Phoenix pursuant to the Acquisition.

This document has been prepared in connection with the Acquisition (which requires the approval of the Company's shareholders as a class 1 transaction under the Listing Rules) and the application for admission of the Acquisition Shares to the premium listing segment of the Official List and to trading on the LSE's main market for listed securities.

No proceeds will accrue to the Company in connection with the issuance of the Acquisition Shares to Swiss Re (or a nominated member of the Swiss Re Group) or the transfer of part of the Acquisition Shares from Swiss Re (or a nominated member of the Swiss Re Group) to MS&AD pursuant to the Acquisition.

RISK FACTORS

The Acquisition and any investment in the Shares is subject to a number of risks. Accordingly, Shareholders and prospective investors should carefully consider the factors and risks associated with any investment in the Shares, the Group's and the Enlarged Group's business and the industry in which it operates, together with all other information contained in this document and all of the information incorporated by reference into this document, including, in particular, the risk factors described below, and their personal circumstances, prior to making any investment decision. Some of the following factors relate principally to the Group's and the Enlarged Group's business. Other factors relate principally to the Acquisition and an investment in the Shares. The Group's business and the Enlarged Group's business, operating results, financial condition and prospects could be materially and adversely affected by any of the risks described below. In such case, the market price of the Shares may decline and investors may lose all or part of their investment.

*Prospective investors should note that the risks relating to the Group and the Enlarged Group, its industry and the Shares summarised in the section of this document headed "Summary" are the risks that the directors of the Company as at the date of this document or, where the context so requires, the directors of the Company from time to time (the "**Directors**") believe to be the most essential to an assessment by a prospective investor of whether to consider an investment in the Shares. However, as the risks which the Group and the Enlarged Group face relate to events and depend on circumstances that may or may not occur in the future, prospective investors should consider not only the information on the key risks summarised in the section of this document headed "Summary" but also, among other things, the risks and uncertainties described below.*

The following is not an exhaustive list or explanation of all risks which investors may face when making an investment in the Shares and should be used as guidance only. Additional risks and uncertainties relating to the Group and the Enlarged Group that are not currently known to the Group, or that it currently deems immaterial, may individually or cumulatively also have a material adverse effect on the Group's and the Enlarged Group's business, prospects, operating results and financial position and, if any such risk or risks should occur, the price of the Shares may decline and investors could lose all or part of their investment. Investors should consider carefully whether an investment in the Shares is suitable for them in the light of the information in this document and their personal circumstances.

References in this section to the Group include references to the enlarged Group following Completion (the "**Enlarged Group**").

References in this section to ReAssure include references to OMW and the mature savings business (the "**L&G Business**") of the L&G Assurance Society Limited group ("**L&G Group**").

RISKS RELATING TO THE ACQUISITION

The Acquisition is subject to a number of conditions which may not be satisfied or waived.

Completion is subject to the satisfaction (or waiver, where applicable) of a number of conditions, including PRA approval, CBI approval, the approval by Shareholders of the Acquisition as a class 1 transaction under the Listing Rules, and the satisfaction of relevant antitrust authorities. Although the Company and each of the other parties to the Share Purchase Agreement have agreed to use best endeavours to satisfy each condition as promptly as practicable after signing the Share Purchase Agreement, there is no assurance that these (or other) conditions will be satisfied (or waived, if applicable) either at or before 31 December 2020 (or such other date as the Company, Swiss Re and SRL may agree in writing) (the "**Long Stop Date**"), in which case the Acquisition may not be completed. No assurance can be given that all necessary approvals, clearances or conditions will be obtained, satisfied or waived and that Completion will take place. If the Acquisition does not complete, the Company would nonetheless have incurred approximately £16 million of costs (primarily due diligence, advisory and financing fees) in connection with the Acquisition. The Company may also incur losses or costs on any hedging arrangements which it seeks to implement in connection with the Acquisition prior to Completion. Failure to complete the Acquisition may materially adversely affect the business and financial condition of the Group and, accordingly, the Group's operating results and the trading price of the Shares.

There can be no assurance that regulators or antitrust authorities will approve the Acquisition or not seek to impose new or more stringent conditions on the Group.

If consent (or non-objection) is obtained from the relevant regulators and antitrust authorities for the Acquisition, the regulators or antitrust authorities may impose conditions to Completion, changes to the terms of the Acquisition, or additional requirements, limitations or costs on the business of the Group. There can be no assurance that any such conditions or other legal or regulatory conditions or undertakings (including those imposed by other regulators or authorities) will not materially limit the revenues of the Group, impose additional regulatory capital requirements on the Group, compulsory divestments, changes to business plans, restrict the ability of the Group to generate, distribute or release cash, increase the costs of the Group, reduce the ability of the Group to achieve cost and capital synergies and/or lead to the abandonment of the Acquisition or otherwise affect the Group's practices. Such conditions and/or undertakings may materially adversely affect the Group's business, results, financial condition and prospects.

The value of ReAssure may be less than the consideration paid.

Prior to Completion, the Company has limited rights to terminate the Acquisition. In addition, the consideration agreed to be paid at Completion is £3.2 billion (subject to any variations in the value of the Acquisition Shares between the date of the Share Purchase Agreement and Completion). Accordingly, in the event that there is an adverse event affecting the value of ReAssure or the value of the ReAssure Group business declines prior to Completion, the value of the ReAssure Group business purchased by the Group may be less than the consideration agreed to be paid and, accordingly, the net assets and Own Funds of the Enlarged Group could be reduced. The Company may therefore pay an amount in excess of market value for ReAssure, which could have an adverse effect on the business and financial condition of the Enlarged Group.

The L&G Transaction is subject to various approvals associated with a Part VII Transfer (principally, regulatory approval, court approval and policyholder consultation). The L&G Transaction may be delayed, may not complete, or may not complete on terms which allow the Group to realise its expected benefits. In such circumstances, the Group may include ReAssure but not the L&G Business (subject to the terms of the relevant transfer agreement). The Company considers the L&G Transaction to be value accretive and therefore a material delay or a failure to complete the L&G Transaction, or completing the L&G Transaction on less favourable terms, could have an adverse effect on the business and financial condition of the Enlarged Group.

RISKS RELATING TO INTEGRATION

The Group may be unable to integrate past or prospective acquisitions successfully and/or in a timely manner, which could materially adversely affect the Group's growth.

Acquisitions may strain the Group's management and financial resources. Among the risks associated with the integration of acquisitions that could materially adversely affect the Group's growth, are the following:

- the Group may incur substantial costs, delays or other operational or financial problems in integrating acquired businesses, such as costs and issues relating to monitoring, hiring and training of new personnel or the integration of accounting and internal control systems;
- IT infrastructure and data elements of the integration process may fail or not be managed so as to achieve the Group's operational objectives;
- the Group may incur costs associated with revamping or rebranding newly acquired businesses or developing appropriate risk management and internal control structures for operations in a new market, or understanding and complying with a new regulatory scheme;
- increased investments may be needed in order to understand new markets and follow trends in these markets in order to effectively compete; and
- an acquisition may not achieve anticipated synergies or other expected benefits, including as a result of the termination of material contracts of the target business due to change of control mechanisms in place. In particular, in relation to the Acquisition, the termination of the Aviva Agreement prior to or after Completion may result in the loss of associated revenues and the incurrence of costs.

Following the integration of an acquired business into the Group, such acquired business may not be able to generate the expected margins or cash flows. For further information on the risks associated with acquisitions more generally, see "*Risks Relating to the Group—Economy and Financial Markets—Competition, regulatory restrictions and an inability to raise acquisition financing in the future may make it difficult for the Group to execute its M&A strategy and future acquisitions and disposals, which could have an adverse effect on the Group*" below.

The Group's success will be dependent upon its ability to integrate any businesses it purchases into its existing businesses; there will be numerous challenges associated with the transition of Standard Life Assurance and ReAssure and the synergies expected from the transitions may not be fully achieved.

ReAssure and Standard Life Assurance are materially larger and more complex businesses with stronger cultures and brand identities relative to the other businesses previously acquired by Phoenix. To the extent that the Group's management is unable to efficiently transition the various operations within proposed timeframes, realise anticipated cost reductions, retain qualified personnel or customers and avoid unforeseen costs or delay, there may be an adverse effect on the business, results of operations, financial condition and/or prospects of the Group.

In addition, ReAssure has entered into arrangements in relation to the L&G Transaction and recently completed the OMW Acquisition. Many of the foregoing risk factors apply, to a lesser or greater extent, to OMW and the L&G Transaction in a similar manner to Phoenix by reference to ReAssure and Standard Life Assurance.

Under any of the foregoing circumstances, the growth opportunities, cost reductions, purchasing and distribution benefits, capital and other synergies anticipated may not be achieved as expected, or at all, or may be materially delayed. To the extent that the Group incurs higher transition costs or achieves lower synergy benefits than expected, its business, results of operations, financial condition and/or prospects may be materially adversely affected.

Phoenix and ReAssure each has limited management resources and thus may become distracted or overstretched by the process of migrating/transitioning past acquisitions and managing the Group.

The Group is required to devote significant management attention and resources to migrating and transitioning the ReAssure Group business. Significant existing resources are being used to integrate Standard Life Assurance. These integration activities may distract management from existing operational objectives for the Group. Furthermore, both Standard Life Assurance and ReAssure are materially larger and more complex businesses relative to other businesses the Group has acquired and integrated in the past, which may require skills and expertise that the existing management team do not currently have, leading to unforeseen delays and an inability to achieve the required objectives. In respect of ReAssure, OMW and the L&G Business are together smaller than SLAL, but their migration and integration into ReAssure's operations may also present challenges, including the risk of loss of key staff. There is a risk that the challenges associated with migration and integration or transition under any of the circumstances above, and/or those associated with other actual or potential acquisitions, may result in overstretch of management and the deferral or reduced effectiveness of certain planned management actions. Consequently, the Group's business may not perform in line with management expectations, which could have a material adverse effect on the Group's business, results, financial condition and prospects.

RISKS RELATING TO THE GROUP

Economy and Financial Markets

The Group's business is subject to risks arising from economic conditions in the United Kingdom and other markets in which it operates or in which its and its policyholders' investments are invested and from risks arising from the vote by the United Kingdom to leave the European Union (the "EU"), also known as "Brexit", and any possible future further referendum on Scottish independence.

The Group's business is subject to risks arising from general and sector-specific economic conditions in the markets in which it operates or invests, particularly the United Kingdom, in which the Group's earnings are and will be predominantly generated and in which its and its policyholders' investments are predominantly invested. Although under drawdown or accumulation policies investment risks are often borne, in whole or in part, by its policyholders in accordance with the terms of the relevant policies, fluctuations in investment markets and the general rate of inflation will, directly and indirectly, affect the financial position of the Group including its value, reserving and regulatory capital requirements and results. In addition, the Group bears risk in respect of products where the benefits are not aligned with the investment performance of the assets which support them. Substantial decreases in the value of investments could lead to shareholder capital of the Life Companies being required to meet obligations to policyholders and reserving and regulatory capital requirements and could restrict the ability of the Life Companies to distribute dividends or release capital to service debt. Decreases in the value of investments may lead to policyholders terminating their policies with the Group as they may seek to reduce their exposure to the Group's investments. Decreases in the value of investments could also require further capital to be held to cover pension scheme obligations.

The Group bears certain risks in relation to with-profit policies, which relate to its proportion of total with-profit bonus declarations for the relevant fund that the Group is entitled to receive (maximum of 10 per cent.). A decrease in with-profit bonus declarations could cause policyholders to lapse as policyholders seek to maximise their returns which could lead to a fall in profits for the Group. Furthermore, if losses in the Group's with-profit funds are substantial enough to cause the value of the assets of the with-profit funds to fall below the contractual commitments to policyholders, the Group will be required to contribute the additional capital to meet those policyholder liabilities and such losses could affect the Group's ability to release capital to pay dividends to its shareholders.

The exact impact of market risks faced by the Group is uncertain, difficult to predict and respond to, in particular, in view of: (i) the unpredictable consequences of the vote by the United Kingdom to leave the EU, also known as "**Brexit**"; (ii) difficulties in predicting the rate at which any economic deterioration may occur, and over what duration; and (iii) the fact that many of the related risks to the business are totally, or partly, outside the control of the Group.

Economic conditions in the UK and other markets, including Europe, in which the Group operates or in which the Group's or their policyholders' investments are invested, could therefore have a material adverse effect on the Group's business, results, financial condition and prospects.

The majority of Standard Life Assurance's businesses are situated in Scotland. Scotland's First Minister has called for a further referendum on Scottish independence from the rest of the UK. It is uncertain whether any such referendum will in fact occur, what the outcome would be, and, if a referendum occurred and Scotland voted to leave the UK, what Scotland's future relationship with the rest of the UK and the EU would be. The consequences of a potential future referendum on the economy and the Standard Life Assurance businesses are therefore uncertain.

Significant declines in equity markets, bond markets or property prices, or significant movements in swap yields relative to gilt yields, could have an adverse effect on the Group.

As at 30 June 2019, funds of the Life Companies were invested as follows: 44 per cent. in government, supranational, corporate debt and other fixed income securities; 7 per cent. in cash and cash equivalents; 39 per cent. in equity securities; 3 per cent. directly in property; and 6 per cent. in other investments.

Although, subject to certain guaranteed benefits (see paragraph below), policyholders bear most of the impact of falls in equity, debt and property values in accordance with the terms of their policies, significant decreases in the market prices of the Group's equity, debt and property investments could reduce the amounts available to fund its long-term policyholder obligations. This, in turn, could increase liquidity risks and could lead to shareholder capital of the Life Companies being retained or shareholder capital available within the Group being required to be injected into the Life Companies to meet obligations to policyholders and regulatory capital requirements. Further capital could also be required to cover the Group's pension scheme obligations (see "*Internal Operations and Management—The Group may be required to make further contributions, in addition to those already agreed, to its defined benefit pension schemes for employees if the value of or cashflows from pension fund assets is not sufficient to cover future obligations under the schemes*" below).

Certain of the benefits due to policyholders do not track the performance of the underlying investments held in respect of their policies, in particular some of the Group's annuity policies, protection policies, with-profit policies and a number of the Group's unit linked policies offer guaranteed benefits which are uncorrelated to investment performance. These policies increase the Group's financial exposure to investment risk because members of the Group are exposed to the mismatch between performance and the benefits it has to offer policyholders. The Group has implemented hedging arrangements which seek to protect it to an extent against declines in equity markets but not all investment exposure is hedged and it may not be possible, feasible or desirable to hedge such exposure in the future. To the extent that these exposures have not been hedged, the Group may have to meet the mismatch between the benefits to be paid under the policies and the performance of the underlying assets. Relative movements in credit spreads, gilt yields and swap yields may affect the calculated value of the assets and liabilities of the Group and different financial and actual metrics which are applied to the Group will respond in different ways. For example, the market value of the Group's holdings in gilts will move in line with changes in gilt yields, whereas the Group's holdings in certain other assets such as swaps, swaptions and other derivatives will move in line with swap yields. For reporting under Solvency II, and the calculation of reserving and regulatory capital, the Group's liabilities generally move in line with swap yields. Changes in the relative swap yields versus gilt yields could therefore have adverse impacts on the Group's regulatory capital position and its Own Funds, and the impacts may not move in a linear fashion. The Group implements hedging arrangements which seek to partially mitigate some changes in relative yields but not all exposure is hedged and it may not be possible, feasible or desirable to hedge all such exposures in the future. Similarly, movements in credit spreads may also adversely impact on the Group's capital and profit positions. Asset valuations change by reference to the entire change in the credit spread, whereas the liability calculation may not reflect fully or may not reflect at all the movement in credit spread, depending on the type of business and the metric being considered.

As at 30 June 2019, the Group holds a portfolio of £4.2 billion of illiquid credit assets (including equity release mortgages, local authority loans, commercial real estate loans, and infrastructure debt), and the Group's business plan targets further material investments in illiquid credit assets in the future. Therefore, there is also a risk that the Group is unable to source the desired volume of illiquid assets to support its business plans. This becomes heightened with the addition of the ReAssure Life Companies to the Group as management would also need to source illiquid assets for the ReAssure Life Companies' portfolios. A significant decline or sustained future declines in UK residential house prices could causes losses on the equity release mortgages portfolio, which is secured on residential property and, as at 30 June 2019, represented £2.4 billion of the Group's assets. Future adverse deviations in the mortality or voluntary repayment experience of lifetime mortgage borrowers could also cause losses on the equity release mortgages portfolio. The performance of the Group's illiquid credit asset portfolio is sensitive to movements in interest rates, credit spreads and credit default experience.

Other EU countries may seek to conduct their own referenda on their continuing membership of the EU or other issues (for example, Catalonian independence). Brexit, other referenda, political instability or increased geopolitical tensions could adversely affect UK, European or worldwide economic or market conditions and could contribute to instability and volatility in global financial markets, which could act as a drag on the relative valuations of UK equities or other companies making use of the European single market, with a negative impact on insurers, such as the Group whose assets are exposed to UK and other markets. Economic and political instability may also impact on foreign exchange and interest rates, which will also have an impact on the value of an insurer's investment portfolio, or any collateral that it holds. The Group's European business will generate profit in Euros and will accordingly be exposed to any devaluation in the currency.

Any significant declines in equity markets, bond markets, interest rates (including for sovereign debt) or property prices, or significant movements in swap yields relative to gilt yields or credit spreads, and corresponding changes to reserving and regulatory capital requirements, could therefore have a material adverse effect on the Group's business, results, financial condition and prospects.

Defaults in relation to investments and financial investments and by counterparties may adversely affect the Group.

The Group is exposed to counterparty risk. Such counterparty risk may be manifested in deterioration in the actual or perceived creditworthiness of, or default by, issuers of the securities or other financial instruments forming part of the Group's investments, or borrowers of loans (including commercial real estate loans and infrastructure loans issued by one of the Group's businesses as part of the Group's investments). For instance, assets held to meet obligations to policyholders include corporate bonds and other debt securities. Counterparty risk may also include the risk of counterparties failing to meet all or part of their obligations, such as reinsurers failing to meet obligations assumed under reinsurance arrangements, or bulk purchase agreements or derivative counterparties or stock-borrowers failing to pay as required. Counterparty defaults could have a material adverse effect on the Group's business, results, financial condition and prospects. An increase in credit spreads, particularly if it is accompanied by a higher level of issuer defaults, could have a material adverse impact on the Group's financial condition although some of this risk is shared with policyholders.

Furthermore, securities which have been loaned could be redelivered and it may then prove difficult or impractical to return collateral held against those securities in the event that this collateral had been reinvested in assets which have become illiquid.

In the event of a counterparty becoming distressed or insolvent the applicable insolvency regime and/or regulatory resolution regime may apply, potentially resulting in the Group receiving less than a full recovery in respect of amounts due to it. In addition, in the case of bulk purchase agreements (some of which are high value contracts), the Pension Protection Fund, as established under the Pensions Act 2004, may adjust the relevant contract or the liabilities under the contract, potentially resulting in negative outcomes for the Group.

Additionally, the underlying collateral supporting a counterparty's securities-redelivery obligation could be invested by collateral managers in a manner that breaches the terms of their investment mandates, causing the Group to incur losses on its securities-lending transactions, with potential material adverse effects on the Group's business, results, financial condition and prospects.

Competition, regulatory restrictions and an inability to raise acquisition financing in the future may make it difficult for the Group to execute its M&A strategy and future acquisitions and disposals, which could have an adverse effect on the Group.

The Group's strategy includes the disciplined acquisition of companies and portfolios that have a closed life focus which would offset the natural decline inherent in a largely closed book business as well as to grow the business and create additional value from scale advantages.

The Group's ability to acquire closed life companies and portfolios will depend upon a number of factors, including its ability to identify suitable acquisition opportunities, its ability to consummate acquisitions on favourable terms and the Group's ability to obtain financing to make acquisitions and support growth (for example, through new business or bulk purchase arrangements). Additionally, the Group's ability to obtain required regulatory consents from the FCA and PRA and other relevant regulatory authorities for acquisitions, disposals and insurance business or portfolio transfers (including under Part VII of FSMA) will depend on, amongst other things, the financial condition of the Group, the financial implications of any acquisition of the Group, the impact of such implications on new and existing policyholders and wider risks to policyholder security.

There are many other potential purchasers for closed life companies, including closed life fund consolidators, insurance companies and private equity firms, which may result in increased competition (and therefore higher prices paid). External factors which influence sector participants' decisions to seek to dispose of their insurance interests could also impact the Group's ability to make acquisitions.

In connection with any future acquisitions, the Group may experience unforeseen difficulties as it integrates the acquired companies and portfolios into its existing operations. These difficulties may require significant management attention and financial resources.

In addition, future acquisitions involve risks more generally, including:

- due diligence investigations not identifying material liabilities or risks within the acquired business or adequately assessing the value of the acquired business;
- difficulties in integrating the risk, financial, technological and management standards, processes, procedures and controls of the acquired business with those of the Group's existing operations;
- impact of integrating acquisitions into the Group's Solvency II Internal Model and aggregate Group regulatory capital requirements;
- challenges in managing the increased scope and complexity of the Group's operations;
- triggering or assuming liabilities, including employee pension liabilities;
- failure to achieve the anticipated benefits and synergies from acquisitions;
- distraction of management from existing businesses;
- unexpected losses of key employees of the Group and the acquired business;
- the value of any acquired business being less than the consideration paid as a result of adverse events affecting the value;
- changing the structure of the Group which may result in a reduction in brought forward tax losses; and
- Phoenix being placed under negative watch by rating agencies or losing its investment grade rating due to the inherent risks of acquisitions such as an increase in leverage ratio and decrease in solvency (based on Fitch Ratings Limited's capital model).

If the Group decides to dispose of a company which it owns, or the business or assets of such a company, such as a block of annuities, there is no guarantee that it will find a purchaser for such a company, business or assets, or that a potential purchaser will have the same view of the value of such company, business or assets. In addition, significant acquisitions and disposals by the Group are likely to require regulatory approval and/or the consent of the Group's bank lenders or pension trustees and there can be no assurance that the Group would be able to obtain such approvals or consents. Any of these factors may mean that the Group is unable to realise the target value of such company, business or assets.

If the Group is unable to acquire additional closed life companies and portfolios in line with its strategy or successfully meet the challenges associated with any future acquisitions or disposals, this could have a material adverse effect on the Group's business, results, financial condition and prospects.

The Group may be adversely affected by changes in interest rates and inflation risks.

The Group's exposure to interest rate and inflation risks relates primarily to the variability of market prices and cashflow of assets relative to liabilities associated with changes in interest and inflation rates.

The Group's obligations to pension schemes and policyholders vary as interest rates fluctuate as they are discounted based on the level of long-term interest rates. As a result, a reduction in long-term interest rates or negative interest rates increases the amount of the Group's liabilities. The Group attempts to match a significant proportion of its liabilities with assets whose sensitivity to interest rates is the same as, or similar to, that of the underlying liabilities. However, to the extent that such asset-to-liability matching is not practicable or fully achieved, there may be differences in the impact of changes in interest rates on assets and liabilities, which could have a material adverse effect on the Group's business, results, financial condition and prospects. Changes to inflation rates could also have an adverse impact on the Group primarily as a result of increased pension scheme obligations or where a Group member holds policies which afford policyholders inflation-linked benefits.

The Group's with-profit funds are exposed to additional interest rate risk as the funds' guaranteed liabilities are valued based on market interest rates, with the funds' investments including fixed-interest investments and derivatives. As a result, declines in interest rates or negative interest rates could materially decrease the amount of distributions from the Group's with-profit funds which are available to policyholders or shareholders, and this could have a material adverse effect on the Group's business, results, financial condition and prospects.

Certain of the Life Companies are required to hold a risk margin under Solvency II. This risk margin will increase significantly if there is a material fall in long-term interest rates. It is expected they would be able to offset the impact of such a fall through applying to the PRA for a recalculation of the transitional measures on technical provisions. If the PRA does not approve such a recalculation, then the impact of such a fall would be greater.

On 6 June 2019, ReAssure entered into a multicurrency revolving facility agreement between, among others, ReAssure and Lloyds Bank plc (as agent), which was amended on 19 August 2019 (the "**ReAssure RCF**"). Under the ReAssure RCF, the lenders have made available a multicurrency revolving facility in an aggregate principal amount equal to £350 million, which bears a floating rate of interest.

On 13 June 2019, ReAssure issued: (i) £500,000,000 in aggregate principal amount of 5.867 per cent. Tier 2 Subordinated Notes due 2029 ("**ReAssure Tier 2 Subordinated Notes**"); (ii) £250,000,000 in aggregate principal amount of Fixed Rate Reset Callable Tier 2 Subordinated Notes due 2029 ("**ReAssure Fixed Rate Reset Callable Tier 2 Subordinated Notes**" and, together with the ReAssure Tier 2 Subordinated Notes, the "**ReAssure Tier 2 Notes**"); and (iii) £250,000,000 in aggregate principal amount of 4.016 per cent. Tier 3 Subordinated Notes due 2026 (the "**ReAssure Tier 3 Subordinated Notes**" and, together with the ReAssure Tier 2 Notes, the "**ReAssure Subordinated Notes**"). In respect of the ReAssure Fixed Rate Reset Callable Tier 2 Subordinated Notes, these initially bear interest at a rate of 5.766 per cent. per annum, however, such rate of interest will reset on 13 June 2024 which may affect the interest payable on the ReAssure Fixed Rate Reset Callable Tier 2 Subordinated Notes and could affect their market value.

On 27 June 2019, Phoenix entered into a credit agreement between, among others, Phoenix and NatWest Markets Plc (as agent) (the "**Revolving Credit Agreement**"). Under the Revolving Credit Agreement, the lenders have made available a multicurrency revolving loan facility in an aggregate principal amount equal to £1.25 billion, which bears a floating rate of interest.

Movements in interest rates can impact the price of fixed rate debt or the interest cost of variable rate debt (if any). Due to the long-term nature of the liabilities of the Life Companies, sustained declines in long-term interest rates and negative interest rates may also subject the Group to reinvestment risks and increased hedging costs. Declines in credit spreads may also result in lower spread income. During periods of declining interest rates, issuers may prepay or redeem debt securities that the Group owns, which could force the Group to reinvest the proceeds at materially lower rates of return. This could, in the absence of other countervailing changes, cause a material increase in the net loss position of the Group's investment portfolio, which could have a material adverse effect on the Group's business, results, financial condition and prospects.

Any downgrade of the credit rating of the Group or its rated subsidiaries could increase the borrowing costs of the Group and/or its relevant subsidiaries, weaken the Group's market position, weaken the Group's capital position and/or weaken the Group's liquidity position.

Given the existing indebtedness in the Group and its acquisitive nature, the Group is dependent on its ability to access the capital markets and its cost of borrowing in these markets is influenced by the credit rating supplied by Fitch. Any downgrading of the credit rating could increase the Group's borrowing cost and may weaken its position in the market. Changes in the methodology and criteria used by Fitch Ratings Limited could result in downgrades that do not reflect changes in general economic conditions or the financial condition of the Group.

Regulatory Risks

Regulatory capital and other requirements may change.

Firms that are authorised to underwrite insurance, like the Life Companies, are required to maintain reserves to match their best estimate of their liabilities under the policies they have written, together with a "risk margin" (such amounts together representing the potential cost to transfer the business to a third party). The excess of assets over liabilities is called "**Own Funds**", with specific rules about what types of asset are eligible and the proportion of Own Funds that each type of eligible asset may represent. Such firms are also required to maintain sufficient Own Funds to meet the solvency capital requirements ("**SCR**") under the Solvency II regime, under a standardised formula or a Solvency II Internal Model (as described in the paragraphs below). The Group maintains capital at target levels over and above a Group SCR, in accordance with its stated risk appetite. If the Group's excess over SCR is below these target levels, discretionary payments outside of the Group could continue to be made. However, the Board of Directors of Phoenix would need to consider the circumstances leading to the shortfall, the expected timeline for restoring the Group's solvency capital to the target levels, as well as implications for other key financial metrics.

Since 1 January 2016, the Life Companies have been required to carry out regulatory capital calculations under Solvency II, as described in the section entitled "*Solvency II*" of Part IV ("*Regulatory Overview*"). The supervision of the regulatory capital requirements of those Life Companies authorised in the UK is carried out by the PRA and the CBI carries out the same function for SLIDAC and Ark Life. Any existing regulations may be amended in the future or new regulations may be implemented (for example, as a result of the biennial stress testing mandated by the PRA). For further information on the regulation applicable to the Group, see "*Regulation applicable to the Enlarged Group's insurance business*" in Part IV ("*Regulatory Overview*") of this document. In particular, the regulatory capital and/or reserving position applicable to certain of the Life Companies may be modified by four matters which are within the PRA's discretion and which certain of the Life Companies could lose the benefit of: (i) the Solvency II Internal Model; (ii) the Matching Adjustment (as defined in the paragraph below); (iii) the Volatility Adjustment (as defined in the paragraph below); and (iv) the application of transitional provisions, as described in the paragraphs below.

- *Internal Model*: Solvency II requires the calculation of a "solo" SCR for each authorised insurance company and a Phoenix Group SCR, which takes into account the regulatory capital requirements of the insurance companies within the Group, as well as the risks of the wider Group. The PRA has approved an agreed methodology and model to calculate the pre-SLA Acquisition (as defined below) group SCR for Phoenix pursuant to Solvency II. The PRA has approved a separate Solvency II Internal Model for SLAL and SLPF. SLIDAC calculates its SCR in accordance with the Standard Formula. These calculations then feed in to a single Group SCR. The Group is liaising with the PRA to create a single Group-wide Solvency II Internal Model. This process will not complete for SLAL and SLPF before December 2020. The Group also intends to liaise with the CBI and the PRA to incorporate SLIDAC into the Group's Solvency II Internal Model in the future. This process will not complete before 2021. The Group may also be unable to agree changes to a single harmonised Solvency II Internal Model with the PRA in line with its capital management plans, which could mean maintaining the existing methodology and/or being required to hold additional capital as applied by the PRA to reflect the risk profile of the Group. This could significantly increase the amount of regulatory capital certain of the Phoenix Life Companies and/or other members of the Group have to hold or result in a lower coverage ratio for the Group SCR and the MGSCR (as defined below) than that set out in Part II ("*Business Overview of the Group*").

- After the Acquisition, the ReAssure Life Companies will become part of the Group SCR calculation. The Group will seek approval to apply separate calculations to the ReAssure Life Companies and then aggregate the results into the Group SCR. These discussions are in the early stages and the PRA may not consent to Phoenix's proposed approach, which may increase the Group SCR.

- *Matching Adjustments*: Generally, the Life Companies apply a "matching adjustment" to certain long-term liabilities that are closely matched by an assigned matching adjustment portfolio of assets of equivalent nature, term and currency ("**Matching Adjustment**"). This Matching Adjustment partially mitigates the sensitivity of the balance sheet to changes in the market prices of assets held in the assigned matching adjustment portfolio, in funds where the Matching Adjustment is approved. The Matching Adjustment is subject to strict criteria and ongoing compliance in relation to maintenance of close matching, asset and liability characteristics and segregation of the management of the assigned matching adjustment portfolios. The Life Companies authorised in the UK have permission from the PRA to apply the Matching Adjustment in respect of certain agreed portfolios of liabilities, thereby reducing the reserves and capital requirements associated with such liabilities.

- *Solvency II Volatility Adjustment*: Certain of the Life Companies apply a "volatility adjustment" to substantially all of their long-term liabilities other than unit linked liabilities and liabilities to which a matching adjustment has already been applied (the "**Volatility Adjustment**"). The purpose of the Volatility Adjustment is to prevent the requirement for market-consistent valuation of assets and liabilities under Solvency II from dis-incentivising insurers from investing in assets that it would otherwise be appropriate for the insurer to hold, taking into account the nature and duration of their insurance liabilities. The Volatility Adjustment aims to mitigate 'artificial' balance sheet volatility caused by short-term market volatility in the value of assets by allowing insurers to reflect movements to those asset prices within the market-consistent valuation of the corresponding liabilities. Certain of the Life Companies have received permission from the PRA to apply the Volatility Adjustment, which reduces the reserving and capital requirements associated with the liabilities. The level of the adjustment is prescribed by EIOPA and may change in future.

- *Transitional Provisions:* Solvency II increased the regulatory capital requirements and reserving requirements on the Life Companies. However, some of these increases have been partly mitigated by the introduction of transitional provisions, which are designed to ensure a smooth transition from Solvency I (the old regime) to Solvency II (the new regime). The benefit of the transitional provisions will be phased out over a 16-year period from 1 January 2016. There remains some uncertainty over the pace of run-off within that period, in particular in circumstances where the transitional provisions are required to be recalculated due to a future material change in the risk profile of the Life Companies.

Regarding the discretionary matters above which are already the subject of a relevant regulator's agreement or non-objection, the Group is not aware of any current matters or circumstances that might reasonably be expected to result in the Life Companies losing the relevant benefit.

ReAssure has issued £1 billion in aggregate principal amount of ReAssure Subordinated Notes which are both eligible and available to qualify as Own Funds of the ReAssure Group. The qualification of the ReAssure Subordinated Notes as available Own Funds of the Enlarged Group requires confirmation from the PRA. The Company is liaising with the PRA in order to confirm such availability and, while such availability is expected to be confirmed, there can be no assurance that such availability will be confirmed either prior to Completion or at all.

An increase in the regulatory capital and/or reserving requirements of an entity or a restriction on the use or availability of capital within the Group or a reduction in the value of the Own Funds that can be used to meet such requirements, may reduce the profits of the Group or trap cash or assets in certain Group companies. There are also circumstances where the Group may choose to move cash or assets from another part of the Group to meet an increased regulatory capital requirement. Consequently, a change in the regulatory capital and/or reserving requirements applied to certain Group companies, and in particular the loss of (or the failure to obtain) certain discretionary reductions in those requirements in respect of the Life Companies and SLPF, could have a material adverse effect on the Group's business, results, financial condition and prospects.

The Group operates in a regulated sector and its operations and practices may be affected by changes in law and regulation, changes in interpretation or emphasis with respect to existing law and regulation and/or industry wide changes in approach to law and regulation.

The Group operates in the life and pensions sector in several jurisdictions, which, in each case, are the subject of continued legal and regulatory change. The legal and regulatory environments in which the Group operates may change, meaning that the Group has to change its practices. Such change can come in the form of a change in law or regulation. For example, (i) Solvency II (which became effective on 1 January 2016) increased the capital requirements on the Life Companies and is now subject to a review by EIOPA which may further amend those requirements and (ii) the General Data Protection Regulation (EU) 2016/679 (the "**GDPR**") (which became effective on 25 May 2018) increased the territorial scope of the existing EU data protection framework and imposed stronger sanctions on those who breach it, amongst other things. Alternatively, a relevant regulator may reinterpret or place new emphasis on an existing piece of law or legislation.

In the UK and Ireland, a number of significant changes to law and regulation are currently being proposed or have relatively recently been implemented. In the pensions sector, the effect of certain new laws and regulations has not yet been fully realised, in part because the new laws and regulations may change customer behaviours. For example, on 1 April 2015, wide-ranging reforms of UK pensions legislation came into effect, including the cessation of the requirement for pension benefits to be taken in the form of an annuity and a requirement for customers to receive guidance on their options at the time of retirement. The advent of these freedoms resulted in a reduction in annuity sales. It is also possible that (as has happened since the advent of the reforms) there may continue to be a reduction in customer retention in particular when a customer with a pension policy would previously have been likely to buy an annuity. In Ireland, proposed pensions reforms have been published in the Irish Government's "Roadmap for Pension Reform 2018 – 2023". The transposition of EU Directive 2016/2341 (IORP II) and the proposed introduction of an auto-enrolment pension system in Ireland could result in changes to customer behaviour when it comes to pension savings and investment. The Group is monitoring and projecting the impact of ongoing pensions reforms on its business, but the true impact will only become clear once relevant laws and regulations are implemented and, following that, a stable pattern of customer experience has emerged. In Germany, as in the UK and Ireland, the relevant legal and regulatory landscape is subject to significant and continuous change.

The Group may experience changes in the value of its assets, liabilities and/or capital requirements as a result of the ongoing Global Benchmark Reform mandated by the Financial Stability Board (including the transition away from current benchmarks, for example the London Interbank Offered Rate (LIBOR) and the Euro Interbank Offer Rate (EURIBOR), to alternative interest rate benchmarks such as SONIA (the Sterling Over Night Index Average)), and any associated changes in regulatory policy made by the PRA, FCA, EIOPA and other regulators in the jurisdictions in which the Group operates or has exposure to.

In addition to the already changing regulatory landscape, it is anticipated that Brexit will result in changes to the UK and EU's regulatory system. While the business of the Group primarily is situated in the UK, some of the changes to the regulatory system may affect the business of the Group (positively or negatively). Changes to law and regulation may also affect the regulation of UK business if the UK and EU regulatory systems diverge and may also affect contracts (including derivative contracts) to which a UK business is party. The Group is exposed to the risk of counterparties failing to meet all or part of their obligations, such as derivative counterparties failing to pay as required, which could have a material adverse effect on the Group's business, results, financial condition and prospects. As a result, it is possible that Brexit may require the Group to take mitigating action, or to change parts of its business. In addition, like many of its peers, the Group will also administer some EU policyholders' policies on a run-off basis consistent with EIOPA's guidance. If this route falls away, or local regulators disallow it, the Group may have to take action.

The Group's main regulators are the PRA and the FCA in the UK. Outside the UK, SLIDAC and ReAssure's Irish subsidiary, Ark Life Assurance Company ("**Ark Life**"), are authorised and regulated in Ireland by the CBI. The Group also conducts business outside the UK and Ireland and the law and regulations of a number of other jurisdictions also apply to the Group. These jurisdictions include (but are not limited to) Hong Kong, Germany, Austria and the United States. In particular, SLIDAC sells and administers a significant number of products in Germany and Austria via its German branch. As a result, the Group may be subject to greater regulatory oversight by German and Austrian regulators in respect of its activities in the German and Austrian markets even though the Group does not have an authorised subsidiary in Germany or Austria. Law and regulation (and its interpretation) may change in any of the jurisdictions in which the Group operates or conducts business.

As a result, existing law and regulation (where the economic or other impact has not yet been fully realised), changes in law and regulation, changes in interpretation or emphasis in respect to existing law and regulation, industry wide changes in approach to regulation, and/or any failure by the Group to comply with applicable law and regulation, may individually or together have a material adverse effect on the Group's business, results, financial condition and prospects.

The Group is subject to potential intervention by the FCA, the PRA, the CBI, BaFin and other regulators on industry-wide issues and to other specific investigations, reports and reviews.

Members of the Group are regulated by the PRA, the FCA and the CBI. The PRA and FCA each has significant statutory powers in respect of the regulation of the Life Companies authorised in the UK and the other regulated entities in the Group. While regulating the Life Companies and other regulated entities in the Group, the PRA, the FCA, the CBI and other regulators may make regulatory interventions using such powers, including through investigations, requests for data and analysis, interviews or reviews (including skilled persons reports under section 166 of FSMA). The PRA, the FCA and the CBI have each adopted an approach of intensive supervision in respect of the life and pensions sector. This is expected to continue. As a result, the Group believes the incidence of regulatory interventions has the potential to increase.

The PRA, the FCA and the CBI may also carry out formal "thematic reviews" which are sector wide reviews or other informal sector wide inquiries in respect of a theme or common issue or a particular type of product. While these are not expressly targeted at only the Group, the Group has participated in, and expects to continue to participate in, such reviews from time to time.

Regulatory intervention, including of the sort described above, may lead to the FCA, the PRA and/or the CBI (and other relevant regulators or bodies) requiring:

- specific remediation in respect of historic practices (which could include compensating customers, fines or other financial penalties);
- changes to the Group's practices;
- public censure; and/or
- the loss or restriction of regulatory permissions necessary to carry on the Group's business in the same manner as before, as well as changes to the Group's existing practices.

Certain companies in the Group, including the Life Companies and other regulated entities in the Group, are subject to regulation in foreign jurisdictions resulting in potential policyholder claims and regulatory intervention in those jurisdictions. In particular, while no member of the Group is authorised in Germany, SLAL and SLIDAC have a significant German business. The sale of life and pensions products in Germany is regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht ("**BaFin**").

Such regulatory interventions could have a material adverse effect on the Group's business, results, financial condition and prospects, as well as damaging the Group's reputation.

Internal Operations and Management

Changes in actuarial assumptions driven by experience and estimates may lead to changes in the level of reserving and regulatory capital required to be maintained.

The Group has liabilities under bulk purchase agreements, annuities and other policies that are sensitive to future mortality and longevity rates. In particular, bulk purchase agreements and annuities are subject to the risk that annuity holders or pension scheme members (as applicable) live longer, or longevity rates increase, compared to what was projected at the time their policies were issued, with the result that the issuing Life Companies must continue paying out to the annuitants or pension scheme members (as applicable) for longer than anticipated and, therefore, longer than was reflected in the price of the annuity or bulk purchase agreement (as applicable). There may also be increases in the cost of meeting guarantees on policies with a right to convert their policy value into an annuity at a fixed rate and the contributions required to be paid under the Group's defined benefit pension schemes may also increase. Conversely, increased mortality, or higher mortality rates, may increase the number of death claims on term-assurance and protection products.

The Life Companies monitor their actual liability experience against the actuarial assumptions they use and apply the outcome of such monitoring to refine their long-term assumptions. Based on these assumptions, the Life Companies make decisions aimed at ensuring an appropriate build-up of assets and liabilities relative to one another. These decisions include the allocation of investments among fixed-income, equity, property and other asset classes, the setting of any applicable variable policyholder bonus rates (some of which are guaranteed) and the setting of surrender terms. However, because of the underlying risks inherent in actuarial assumptions, it is not possible to determine precisely the amounts that will ultimately be paid to meet policyholder liabilities. Actual liabilities may vary from estimates, particularly when those liabilities do not occur until well into the future. The Life Companies evaluate their liabilities allowing for changes in the assumptions used to establish their liabilities, as well as for the actual claims experience. It is also possible that the longevity assumptions used by ReAssure will be changed to align with those used by certain of the Phoenix Life Companies. Any changes in assumptions may lead to changes in the level of capital that is required to be maintained. In the event that the Group's reserving and/or regulatory capital requirements are significantly increased, the amount of cash or other assets available for other business purposes or to meet the Group's financing commitments, including payments under the Notes, may decline.

To the extent that actual mortality, longevity and morbidity rates or other insurance risk experience are less favourable than the underlying assumptions about such rates or experience and it is necessary to increase reserves for policyholder liabilities as a consequence, the amount of additional capital required (and therefore the amount of capital that can be released from the Life Companies in order to service and pay down debt or to finance distributions to their shareholders) and the ability of the Group to manage the Life Companies in an efficient manner may all be materially adversely affected. In particular, there is considerable uncertainty over the rate at which mortality rates will continue to improve in the future. Over time, the Group could incur significant losses if mortality rates improve faster than has been assumed.

In addition, the Group makes assumptions about the rates at which policyholders will surrender or otherwise terminate their policies prior to their maturity date. It is possible that specific factors (like changes to charges applied to surrendering policies or terminations as a result of a corporate transaction or debranding) or more general macro-economic conditions and interest rate changes may affect surrender and persistency rates. For products with guarantees at maturity, the Group is exposed to the risk that fewer policyholders will terminate their policies prior to their maturity date than assumed, since this will increase the volume of guarantees that are required to be met at maturity. Conversely, for policies with no guarantees, the anticipated future profits obtained from those policies may be curtailed if more policyholders terminate their policies prior to their maturity date than assumed. Surrender rates may also be affected by changes in law and/or regulation.

If the assumptions underlying calculations of reserves are shown to be incorrect (e.g., if policyholders do not die at the rate assumed in actuarial calculations or if the volume of guarantees that are required to be met at maturity is greater than assumed), the Group may have to increase the amount of its reserves or the amount of risk reinsured. The Group also has obligations towards pension schemes that are sensitive to longevity experience rates. If members live longer than expected, additional capital may need to be held to cover increased pension scheme obligations. Any of these factors could have a material adverse impact on the Group's business, results, financial condition and prospects.

If the Group is unable to maintain the availability of its systems and safeguard the security of its data, including customer and employee data, due to accidental loss, cyber-crime, the occurrence of disasters or other unanticipated events affecting the Group or its service providers, its ability to conduct business may be compromised, which may have an adverse effect on the Group.

The Group uses computer systems to store, retrieve, evaluate and utilise policyholder, employee and company data and information. In certain circumstances, and in certain parts of the Group, the Group's computer, information technology and telecommunications systems, in turn, interface with and rely upon third party systems, including those of third party outsourced service providers. In certain circumstances, the Group's business is highly dependent on its ability, and the ability of certain third parties, to access these systems to perform necessary business functions, including, without limitation, processing premium payments, making changes to existing policies, filing and paying claims, administering annuity products, providing customer support and managing the Group's investment portfolios. Furthermore, the SLA Acquisition has significantly increased, and the Acquisition will significantly increase, the complexity and volume of systems inside the Group, and has therefore increased the likelihood of systems failures or outages which could compromise the Group's ability to perform these functions in a timely manner. This could harm its ability to conduct business and hurt its relationships with its business partners, clients and customers. In the event of a disaster, such as a natural catastrophe, an industrial accident, a blackout, a computer virus, a terrorist attack or war, the Group's systems may be inaccessible to its employees, customers, clients and/or business partners for an extended period of time. The Group's systems could also be subject to physical and electronic break-ins, cyber-crime and subject to similar disruptions from unauthorised tampering. In addition, the Group is subject to the accidental loss of data by its employees or outsourced service providers, which could expose the Group to potential liabilities and could negatively impact its relationships with its business partners and customers. The factors described above may impede or interrupt the Group's business operations or lead to unauthorised disclosure or loss of data or data corruption, including customer data, which could lead to potential liabilities and damage the Group's reputation. Furthermore, because of the long-term nature of much of the Group's business, accurate records have to be kept for long periods of time, increasing the potential for exposure.

Despite the resilience plans and facilities the Group has in place, the Group's ability to conduct business may be adversely impacted by a disruption in the infrastructure that supports the Group's business (particularly in relation to the SLAL insourced platform for certain of the Life Companies and the ALPHA platform in relation to the ReAssure Life Companies) in the communities in which the Group is located, such as disruption to electrical, communications, internet, transportation or other services used by the Group or third parties with which it conducts business. Notwithstanding the Group's efforts to maintain business continuity, depending on the intensity and longevity of the event, a catastrophic event impacting any of its offices could adversely impact its businesses. If a disruption occurs in one location and the Group's employees in that location are unable to occupy the Group's offices or communicate with or travel to other locations, or if the disruption impacts the Group's ability to use its platforms, its ability to service and interact with its clients may suffer, and it may not be able to successfully implement contingency plans that depend on communication or travel.

Any of the above could have a material adverse effect on the Group's business, results, financial condition and prospects.

Changes in accounting standards and assumptions may lead to increases in the level of provisioning or additional provisions being made in respect of a range of actual, contingent and/or potential liabilities including, but not limited to, tax, and changes in the determination of fair value could have a material adverse effect on the estimated fair value amounts of financial instruments.

A provision is recognised when the Group has present legal or constructive obligations as a result of a past event and it is probable that an outflow of resources will be required to settle these obligations. Where the Group has present legal or constructive obligations, but it is not probable that there will be an outflow of resources to settle the obligation or the amount cannot be reliably estimated, this is disclosed as a contingent liability. Provisions held by the Group, including those relating to tax, may be subject to estimates and may prove inadequate or inaccurate resulting in a material liability. Liabilities may also arise where no provision has been made. In particular, there is a time lag between acquisitions, disposals and other corporate transactions undertaken by the Group and the review of its tax treatment by HM Revenue & Customs ("**HMRC**"). While significant transactions are discussed with HMRC on an ongoing basis, in some cases formal confirmation of HMRC's position cannot be obtained until the relevant tax returns are submitted, which can lead to uncertainty. If a liability, including tax, were to arise in respect of which there is inadequate or no provision, this could have a material adverse effect on the Group's business, results, financial condition and prospects.

In addition, as at 30 June 2019, the Group had derivative assets of £4,607 million and derivative liabilities of £816 million. Determination of fair value is made at a specific point in time, based on available market information and judgments about financial instruments, including estimates of the timing and amounts of expected future cashflows and the credit standing of the issuer or counterparty. The use of different methodologies and assumptions could have a material adverse effect on the estimated fair value amounts of financial instruments, which could adversely affect the Group's business, results, financial condition and prospects.

The Holding Companies are dependent upon distributions from their subsidiaries to cover operating expenses, debt interest and repayments, pension scheme contributions and dividend payments. In times of severe market turbulence, the Group may not in the longer term have sufficient capital or liquid assets to make sufficient distributions to the Holding Companies, or to meet its payment obligations, or they may suffer a loss in value.

The Group's insurance operations are conducted through subsidiaries. The Holding Companies ultimately rely on distributions and other payments from their subsidiaries, including in particular the Life Companies, to meet the funding requirements of Group companies, including in order to make payments of principal and interests on the Notes, as the Holding Companies do not generate a cash surplus from their operations and other activities. The Holding Companies' principal sources of funds are dividends from subsidiaries, inter-company loans from subsidiaries, repayment of inter-company loans that have been made by the Holding Companies to subsidiaries and any amounts that may be raised through the issuance of equity or debt instruments or bank financing. As a result, deterioration in the liquidity and solvency position of the Life Companies, or other members of the Group could, in addition to its impact on the liquidity or solvency position of the individual Life Companies, have in the longer term an adverse impact on the Group's funding or liquidity, which could have a material adverse effect on the Group's financial condition and prospects.

Phoenix has ongoing principal repayment and interest payment obligations in respect of the £450,000,000 4.125 per cent. Tier 3 subordinated notes due 2022 (the "**2022 Notes**"), the £428,113,000 6.625 per cent. guaranteed subordinated notes due 2025 (the "**2025 Notes**"), the US$500,000,000 5.375 per cent. Tier 2 notes due 2027 (the "**2027 Notes**"), the €500,000,000 4.375 per cent. Tier 2 notes due 2029 (the "**2029 Notes**"), the £300,000,000 5.75 per cent. senior unsecured bonds (of which £121,610,000 are currently outstanding) (the "**Senior Bonds**"), the £500,000,000 fixed rate reset perpetual restricted tier 1 write down notes (the "**RT1 Notes**"), and for any amounts drawn under the Revolving Credit Agreement (as defined herein) (which is currently undrawn), which obligations are expected to be funded by existing cash resources, the release of capital, profits and liquidity from the Group's operating units or through refinancing.

ReAssure has ongoing principal repayment and interest payment obligations in respect of the ReAssure Subordinated Notes.

Certain of the Holding Companies also have ongoing commitments to make contributions to the Group's pension schemes in accordance with the agreed contribution schedules and to meet their general operating expenses. The availability and amounts of cashflows from subsidiaries, in particular the Life Companies, may be impacted during periods of severe market turbulence by the need to maintain appropriate levels of regulatory capital in the Group. In certain circumstances, such as if a Group company was unable to meet applicable regulatory capital requirements or significant threats to policyholder protection were identified, the PRA or the CBI could intervene in the interests of policyholder security, for example, by imposing restrictions on the fungibility or movement of capital between members of the Group. Moreover, Phoenix may elect to reduce or forgo dividend payments to it from its subsidiaries as a means of maintaining or enhancing the relevant solo or Group capital position. Although the Holding Companies maintain liquidity buffers to reduce the reliance on emerging cashflows in any particular year, in the event that cashflows from the Group's subsidiaries are limited as a consequence of periods of severe market turbulence, this may in the longer term impair the Group's ability to service these obligations, which would have a material adverse effect on the Group's business, results, financial condition and prospects.

The Group needs to reduce the expenses of managing long-term business in line with the run-off profile of its funds. The inability to adjust these costs could have an adverse effect on the Group.

Most of the business of the Life Companies, are long-term run-off policy portfolios and should become smaller over time consistent with the management of a heritage business. In order to protect with-profit policyholder benefits and shareholder returns, it will be necessary to reduce the costs of managing the Group's long-term business at least in line with the run-off profile, which the Group partly does through the use of outsourcing arrangements. The Group is exposed to the risk that it may be unable to reduce costs proportionately or to make changes to achieve an appropriate balance of fixed and variable costs. This exposure could arise, for example, from deficient management, contractual restrictions, significant changes in the regulatory environment, material sector-specific inflationary pressures or an unexpected increase in policy lapses. The current expense assumptions for policy charges are based on anticipated governance costs and the run-off profile of the Group's business. Unlike some of the Group's operations, the SLAL and ALPHA platforms are not outsourced and this represents a level of fixed costs which will not be easily scalable to match the run- off profile of the policies that it administers. An inability to adjust costs (and in particular to manage non-scalable costs) could therefore have a material adverse effect on the Group's business, results, prospects and financial condition. In addition to managing policy costs, the Group is exposed to losses, particularly on historical long-term business as a result of the failure or poor execution of significant operational processes.

The Group's risk management policies and procedures may not be effective and may leave the Group exposed to unidentified or unexpected risks.

The Group's policies, procedures and practices used to identify, monitor and control a variety of risks may fail to be effective. As a result, the Group faces the risk of losses, including losses resulting from human error, the payment of incorrect amounts to policyholders due to incorrect administration, market movements and fraud. The Group's risk management methods rely on a combination of technical and human controls and supervision that can be subject to error and failure. Some of the Group's methods of managing risk are based on internally developed controls, models and observed historical market behaviour, and also involve reliance on industry standard practices. These methods may not adequately prevent future losses, particularly if such losses relate to extreme or prolonged market movements, which may be significantly greater than the historical measures indicate. These methods also may not adequately prevent losses due to technical errors if the Group's testing and quality control practices are not effective in preventing technical software or hardware failures.

Ineffective risk management policies and procedures may have a material adverse effect on the Group's business, results, financial condition and prospects.

The Group is vulnerable to adverse market perception arising as a result of reputational damage, especially as it operates in a highly regulated industry.

The Group must display a high level of integrity and have the trust and the confidence of its customers and its advisers. Any mismanagement, fraud or failure to satisfy fiduciary responsibilities, or any negative publicity resulting from the Group's activities, the activities of a third party to whom or from whom the Group has licensed its brands or to whom or from whom it has outsourced any services, or any accusation by a third party in relation to the Group's activities (in each case, whether well founded or not) that is associated with the Group or the industry generally (such as those that arose in respect of mortgage endowments, split-capital investment trusts or payment protection insurance), could have a material adverse effect on the Group's results, financial condition and prospects, including:

- reducing public confidence in the Group including shareholder willingness to subscribe for new equity;
- decreasing its ability to retain current policyholders;
- adversely affecting the willingness of counterparties to sell closed-book companies or portfolios to the Group;
- increasing the likelihood that the FCA and PRA or non-UK regulators will not approve acquisitions or insurance business transfers necessary to effect intra-Group consolidations of closed-book companies or portfolios or will subject the Group to closer scrutiny than would otherwise be the case;
- increasing costs of borrowing, including in debt capital markets transactions;
- adversely affecting the Group's ability to obtain reinsurance or to obtain reasonable pricing on reinsurance; and
- decreasing customers' willingness to invest in or acquire particular products.

There have been a number of highly publicised cases involving fraud or other misconduct by employees in the financial services industry in recent years. It is not always possible to deter or prevent employee misconduct and the precautions the Group takes to prevent and detect this activity may not be effective in all cases. The Group therefore runs the risk that employee misconduct could occur, with possible adverse effects on the Group as set out above.

The Group is also exposed to the risk that it fails to deliver fair outcomes for its customers, leading to adverse customer experience and/or potential detriment. Such matters could lead to reputational damage and/ or have a material adverse effect on the financial condition of the Group.

Any of the above could have a material adverse effect on the Group's business, results, financial condition and prospects.

Increases in liabilities relating to product guarantees may adversely affect the Group.

In the 1970s and 1980s, when interest rates were higher than they currently are or have been in recent years, UK life insurance companies (including certain of the Life Companies) sold pension contracts that contained certain guarantees or options, including guaranteed annuity options that allowed the policyholder to elect to take the lump sum payable upon the maturity of the pension and apply the funds to purchase an annuity at a minimum guaranteed rate. During the last decade, long-term interest rates have declined. As a result, the Group may have to meet the cost of the mismatch between the performance of the underlying assets and the guaranteed annuity which they are obliged to provide to relevant policyholders.

Similarly, some of the products sold in Germany by SLAL contain terms which guarantee certain of the relevant customer benefits. For example, the German with-profits products contain guaranteed annuity terms and roll-up terms. This is particularly relevant where the Group's liabilities under the products are unhedged or cannot be provided for using pre-existing assets like the inherited with-profit estate.

The Life Companies have existing liabilities relating to guarantees and options contained in policies, which are increased by adverse movements in interest rates, increasing life expectancy and the proportion of customers exercising their options. The Group has purchased derivatives that provide some hedge protection against movements in interest rates but not all such interest rate risk is hedged and it may not be possible, feasible or desirable to hedge such risks in the future. The Group is also exposed to counterparty risk in respect of such financial instruments. The most significant factors affecting the cost of these liabilities relating to guarantees and options relative to the provisions made are the number of customers electing to exercise their option to take the more favourable annuity rates, the relative values of any hedge derivatives that may be maintained from time to time, interest rates and the longevity rates of annuity holders.

If the existing mismatch between the performance of the underlying assets and the guaranteed annuity benefits increases, the Group's business, results, financial condition and prospects could be materially adversely affected.

The Group is exposed to risks arising from new business.

The Group is primarily focused on the efficient management of in-force policies and has historically written a limited number of new policies (broadly as increments to existing policies and annuities for current policyholders when their policies mature). The Group writes a limited set of directly marketed protection policies, including Guaranteed Over 50s policies (life insurance policies available to people over 50 years of age, which pay out upon the death of the life assured). The Group also contains companies (SLIDAC and SLAL) that manufacture workplace pensions, self-invested personal pensions ("**SIPP**"s), drawdown products, onshore bonds and offshore bonds and conducts new business in Ireland and Germany. The risks associated with new business include underwriting risk, uncompetitive pricing, operational risk from processing new business, conduct risk, the risk of increased FCA (and other regulatory) supervision for example in respect of marketing activities and regulatory capital requirements. In particular, there is a dependency on Standard Life Aberdeen distributing SLIDAC and SLAL products and services, details of which are defined in the SLA Client Service and Proposition Agreement. If the Group is unable to successfully meet the challenges of these new and/or increased risks, this could have a material adverse effect on the Group's business, results, financial condition and prospects.

In addition, the Group must ensure its propositions meet the needs of customers and clients, both in relation to new and existing business. If the Group's propositions do not meet the needs of customers and clients, this could adversely impact the Group's ability to deliver the growth levels assumed in its business plans, which could in turn cause increased outflows or reduced new business levels and have a material adverse effect on the financial condition and prospects of the Group.

The Group may encounter new risks as it participates in the bulk annuity market.

The Group is now marketing bulk annuity policies to the trustees of defined benefit pension schemes and completed three transactions during 2018 and completed four further transactions in 2019. There is a risk that bulk annuity business could generate losses, in particular if longevity expectations are different to those assumed in the pricing of the contracts or if the Group fails to generate sufficient investment returns on the investments supporting the Group's liabilities under such arrangements. To the extent the Group reinsures longevity risk arising from bulk annuity policies, this will increase the Group's exposure to reinsurer credit risk with respect to its ability to recover amounts due from reinsurers under such arrangements.

The Group's success will depend upon its ability to attract, motivate and retain key personnel.

The calibre and performance of the Group's senior management and other key employees are critical to the success of the Group. The continued success of the Group will depend on its ability to attract, motivate and retain highly skilled management and other personnel, including lawyers, actuaries, portfolio and liability managers, analysts, IT professionals and executive officers. Competition for qualified, motivated and skilled personnel in the life insurance industry remains significant. Moreover, in order to retain certain key personnel, the Group may be required to increase compensation to such individuals, resulting in additional expenses.

If the Group is unable to attract, motivate and retain key personnel, its business, results, financial condition and prospects could be materially adversely affected.

The Group may be required to make further contributions, in addition to those already agreed, to its defined benefit pension schemes for employees if the value of or cashflows from pension fund assets is not sufficient to cover future obligations under the schemes.

The Group operates several different pension schemes. Of these, the three main pension schemes with defined benefit sections are: the scheme covering the past and present employees of the Group prior to the acquisition of Pearl Group Holdings (No.1) Limited (previously Resolution plc) ("**PGH1**") and its subsidiaries and, where the context requires, the on-sold assets of PGH1 until their disposal (the "**Resolution Group**") (the "**Pearl Pension Scheme**"); the scheme covering the past and present employees of the Resolution Group and the employees of the former SunLife Embassy Business (the "**PGL Pension Scheme**"); and the scheme relating to the former employees of Abbey Life (the "**Abbey Life Pension Scheme**"). Each of those schemes has both defined benefit and defined contribution sections. The defined benefit sections of all three schemes are closed to new members and future accrual and contain no active members.

Following Completion, the Enlarged Group will operate an additional defined benefit scheme, the ReAssure Staff Pension Scheme (the "**RSPS**"), which is also closed to new members and future accrual of benefits, and a Private Retirement Trust ("**PRT**"), which is an unapproved single member defined benefit scheme in relation to a former employee of the business being acquired.

The pension schemes' trustees are required to undertake triennial valuations of the schemes and agree statutory funding plans with the Group, although the trustees are free to call for a further valuation on an earlier date if they see fit. Any future decline in the value of scheme assets, changes in mortality and/or morbidity rates, future changes in interest rates, changes in inflation rates, changes in the current investment strategies of the pension schemes and/or changes in the financial strength of the schemes' statutory employers could increase or contribute to the pension schemes' funding deficits and require the Group to make additional funding contributions in excess of those currently expected. As is the case for all formerly contracted-out defined benefit pension schemes in the UK, the liabilities of the schemes, and so the funding level is also likely to be impacted by the outcome of the recent High Court judgement requiring equality in the provision of guaranteed minimum benefits. The Group does not believe there is a material risk of additional deficit repair contributions being required within the next 12 months.

The triennial valuation for the PGL Pension Scheme as at 30 June 2018 was completed in July 2019. This showed a surplus of £246 million on the agreed technical provisions basis as at 30 June 2018. Since 1 March 2019, all defined benefits in the PGL Pension Scheme have been insured with PLL. No further contributions are scheduled to be paid.

The triennial valuation for the Pearl Pension Scheme as at 30 June 2018 was completed in June 2019. This showed a surplus of £104 million on the agreed technical provisions basis as at 30 June 2018. The trustees of the Pearl Pension Scheme and Pearl Group Holdings (No. 2) Limited ("**PGH2**") entered into a pensions funding agreement on 27 November 2012 (the "**2012 Pensions Agreement**") under which the trustees agreed the technical provisions basis to be used for each triennial valuation and agreed the contributions payable to the scheme. Under this agreement, which was amended and restated on 29 June 2017, following the 2015 valuation discussions, PGH2 is required to pay contributions of £3.33 million per month until September 2021.

The triennial valuation for the Abbey Life Pension Scheme as at 31 March 2018 showed a deficit of £98 million on the agreed technical provisions basis. The trustees of the Abbey Life Pension Scheme and Pearl Life Holdings Limited ("**PeLHL**") entered into an agreement on 29 June 2017 under which PeLHL will pay contributions of £400,000 per month between July 2017 and June 2026. PeLHL is also required to pay an additional £4 million per annum into a charged escrow account (the "**2016 Charged Account**"). A separate charged account was set up as part of a funding agreement entered into in June 2013 (the "**2013 Charged Account**"). The 2013 Charged Account and the 2016 Charged Account contained a combined £50.9 million as at 30 June 2019. If the scheme shows a deficit on a defined technical provisions basis as at 31 March 2021, PeLHL must pay to the scheme the lower of the deficit and the value of the assets in the 2013 Charged Account. If the scheme shows a deficit on a defined technical provisions basis as at 31 March 2027, PeLHL must pay to the scheme the lower of the deficit and the value of the assets in the 2016 Charged Account.

The triennial valuation for the RSPS as at 31 December 2017 showed a deficit of £59 million on the agreed technical provisions basis. However, no deficit repair contributions are being made directly into the RSPS. Instead, in accordance with a funding agreement dated 8 July 2016 entered into with the RSPS trustees, the scheme employer funds a security account with assets that are ring-fenced for the benefit of the RSPS. That account currently holds assets of around £59 million. The RSPS actuary expects that if the assumptions set out in the RSPS's 2017 valuation are borne out in practice, the amount expected to be held in the security account as at 31 December 2025 would be more than sufficient to remove any remaining deficit at that date on an agreed "self-sufficiency basis". If not, then the scheme employer would need to reach agreement with the RSPS trustees as to the continued funding of the RSPS.

The PRT does not in law require an actuarial valuation. As at 31 December 2018 it had a deficit on an IAS19 basis of £1.8 million.

The Pensions Regulator has statutory powers to demand contributions from companies connected or associated with an employer in a defined benefit pension scheme (such as other entities within a group), including powers to issue Financial Support Directions or Contribution Notices. The powers may be exercised against any entity which is "connected" or "associated" (using Insolvency Act 1986 definitions) with the company which participates in the scheme. Changes to the employer covenant supporting any of the Pearl Pension Scheme, the PGL Pension Scheme, the Abbey Life Pension Scheme and/or RSPS could therefore expose any connected or associated Group or Enlarged Group entity to the Pensions Regulator's powers for a period of up to 6 years afterwards.

In March 2018, the Department for Work and Pensions issued a White Paper, "Protecting Defined Benefit Pension Schemes", which includes proposals to extend the Pensions Regulator's powers, including to issue punitive fines on targets of a Contribution Notice, to take enforcement action in relation to scheme funding and to include additional requirements on employers undertaking certain corporate activities to notify the Pensions Regulator and consult with pension scheme trustees. The Pension Schemes Bill 2019 introduced in the last Parliamentary session fell away with the General Election but is expected to be reintroduced on the same terms. The White Paper also included proposals for variations to the statutory funding requirements for defined benefits schemes, which could affect the valuation of assets and liabilities of the schemes at their next triennial valuations.

The Pensions Regulator also has statutory powers to intervene in pension scheme funding if the employers and trustees fail to reach agreement or if it is not satisfied that the statutory funding plans will eliminate the funding deficit in a timely manner.

Any of the above could have a material adverse effect on the Group's business, results, financial condition and prospects.

The Group is exposed to risks related to climate change, which could adversely affect its results, customer outcomes and operations.

The physical impact and transition risks of climate change pose potentially significant risks to the Group. The climate risk landscape continues to evolve and is of increasing importance to many regulators, governments, non-governmental organisations and investors.

The transition to a low carbon economy in the coming decades could have an adverse impact on global investment assets. The failure to understand and respond effectively to the physical and transitional risks associated with climate change could adversely affect the Group's business, results of operations, financial condition and prospects.

Additionally, rising global temperatures and more volatile weather patterns as a result of climate change, may impact operations and also demographic risks.

Third parties and other counterparties

If the Group experiences difficulties arising from outsourcing relationships, its ability to conduct business may be compromised.

Certain Group companies outsource almost all of their key customer service, policy administration, accounts collection, human resource payroll and administration functions under formal outsourcing arrangements. The Group only enters into outsourcing relationships with firms which the Group believes have the know-how, expertise and business models that put such services at the core of their offerings. In addition, in connection with certain transactions, the Group enters into transitional service arrangements with vendors to supply services back to the holding companies which divested of their businesses to the Group. The businesses acquired through the SLA Acquisition, along with the ReAssure Group business, make use of a number of outsourcing and transitional services arrangements and these are expected to continue for the next six months to five years.

The Group aims to maintain effective systems and controls for outsource providers and transitional service providers in compliance with the Group's ongoing obligations. However, there can be no assurance that such systems and controls will be completely successful in seeking to avoid, or reduce the potential effects of, underperformance. In particular, while the outsourcing and transitional service relationships are carefully monitored, underperformance may also result in breaches of applicable law and regulation, which could result in regulatory intervention. There is also a risk that the providers will not be able to keep up with the pace of legal and/or regulatory change, in which case the Group's operations may become non-compliant.

If the Group does not effectively develop, implement and monitor its outsourcing strategy or its transitional services relationships (including any related contingency plans) do not perform as anticipated or the Group experiences problems with a transition of service arrangements, the Group may experience poor investment returns, operational difficulties, increased costs, reputational damage and a loss of business that may have a material adverse effect on the Group's business, results, financial condition and prospects. The high cost barriers to entry and the previous consolidation of the outsourcing industry has led to an increased exposure for the Group to fewer third party policy administration suppliers lessening the number of supply options. In addition, the expected or unexpected decline or insolvency of one or more of the Group's third party service providers leading to a reduced ability, or an inability, to provide relevant services could have a material adverse effect on the Group's ability to sustain its ongoing operations, which could have a material adverse effect on the Group's business, and require the use of effective contingency options to manage the impact on the Group's results, financial condition and prospects.

The Group relies predominantly on third party asset management firms outside the Group to manage its assets (in particular Standard Life Aberdeen). Periods of underperformance of the asset management firms appointed by the Group could lead to material redemptions or impact our ability to attract business in the funds of the Group, and the performance of such firms (and therefore the performance of its investments) may be adversely affected by mismanagement of client assets or liabilities and the loss of key investment managers.

The Group relies predominantly on outside third party asset management firms to manage its assets (in particular Standard Life Aberdeen). Members of the Group enter into investment management agreements when they appoint third party asset management firms to manage their assets. Such investment management agreements typically contain provisions relating to performance conditions, the breach of which can permit the early withdrawal of assets from third party asset managers. The Group only enters into third party asset management relationships with firms which the Group believes have the know-how, expertise and business models appropriate for the provision of asset management services to the Group. The Group aims to maintain effective systems and controls for third party asset management firms in compliance with the Group's ongoing obligations. However, there can be no assurance that such provisions would be successful in seeking to avoid or reduce the potential effects of underperformance by third party asset management firms.

If the investment performance of the third party asset management firms appointed by the Group represents underperformance relative to other asset management firms, the Group's policyholders may seek to redeem their policies. In addition, the Group derives a significant portion of its income from its share of the appreciation of investments held in shareholder, non-profit and with-profit funds. Therefore, where lower returns on those assets occur, this reduces the level of income derived by the Group. Any of these factors could have a material adverse effect on the Group's business, results, financial condition and prospects.

The performance of the third party asset management firms appointed by the Group are also subject to risks associated with the process of managing client assets and providing asset and liability management services, such as the risk of failure to manage the investment process or execute trading activities properly. Such failure could lead to poor investment decisions, incorrect risk assessments, poor asset allocation, inappropriate investments being bought or sold and incorrectly monitoring exposures. A failure by asset management firms to effectively manage the Group's assets, interest rate and liquidity risks could have a material adverse effect on the Group's business, results, financial condition and prospects.

The Group may be adversely affected by third party reinsurers' unwillingness or inability to meet its obligations under reinsurance contracts, or potential variations and reductions in the nature and scope of cover through schemes of arrangement or portfolio transfers. In addition, the unavailability, adverse pricing and/or inadequacy of reinsurance arrangements may adversely affect the Group.

The Life Companies seek, through reinsurance with third parties, to transfer risk to reinsurers (and, in particular, in relation to the Life Companies, mortality, longevity and morbidity risk) that can cause unfavourable outcomes to its business. As a result, the Group has substantial exposure to reinsurers through reinsurance (or retrocession) arrangements in relation to the Life Companies. Under these arrangements, reinsurers assume all or a portion of the costs, losses and expenses associated with the reinsured (or retroceded) policies' claims and reported and unreported losses in exchange for a premium, or as part of a sale arrangement. However, the Life Companies generally remain liable as the direct insurer (or reinsurer) on all risks reinsured (or retroceded). Consequently, reinsurance arrangements do not eliminate the Group companies' obligation to pay claims. The Group companies are subject to reinsurer credit risk with respect to their ability to recover amounts due from reinsurers. Even where the reinsurer has an obligation to put up collateral in support of its operations, there can be no certainty that such collateral will satisfy the full amount of the Group's liabilities.

While the Group regularly evaluates the financial condition of its reinsurers to minimise its exposure to significant losses from reinsurer defaults and insolvencies, reinsurers may become financially unsound or choose to dispute their contractual obligations when they become due. Reinsurers may also seek to "cut off" the obligations they owe under the reinsurance arrangements by schemes of arrangement. A scheme of arrangement allows an insurer or reinsurer to achieve finality for its exposure to certain policies by giving creditors a fair valuation of ultimate liabilities (i.e., settling all known claims balances and incurred but not reported balances). A scheme of arrangement may limit the benefit of reinsurance protections and ultimately the amount available to pay out subsequent claims.

In addition, market conditions beyond the Group's control determine the availability and cost of the reinsurance that the Group is able to purchase in the event that the existing reinsurance arrangements prove to be insufficient. Historically, reinsurance pricing has changed significantly from time to time. No assurances can be given that reinsurance will remain continuously available to the Group to the same extent and on the same terms as are currently available or which were available at the time that the current arrangements were established. If the Group were unable to maintain its current level of reinsurance or purchase new reinsurance protection in amounts that the Group considers sufficient and at prices that it considers acceptable, the Group would have to either accept an increase in its net liability exposure or develop other alternatives to reinsurance.

The availability of reinsurance to the Life Companies may also depend on the precise terms of the UK's Brexit arrangements.

Third party reinsurers' unwillingness or inability to meet their obligations under reinsurance contracts, or potential variations and reductions in the nature and scope of cover through schemes of arrangement and the unavailability, adverse pricing or inadequacy of reinsurance arrangements could have a material adverse effect on the Group's business, results, financial condition and prospects.

The withdrawal of assets from investment management agreements with Standard Life Aberdeen companies may expose the Group to purchase price adjustments and other costs or claims.

In July 2014, the Group completed the divestment of Ignis Asset Management ("**Ignis**"). The divestment agreement contains certain warranties and indemnities in favour of Standard Life Investments (Holdings) Limited ("**Standard Life Investments**"). In addition, in the divestment agreement, PGH Cayman agreed with Standard Life Investments that it will guarantee the payment obligations of Impala Holdings Limited ("**Impala**") under that agreement, including warranties and indemnities given by Impala to Standard Life Investments. The extent to which the Group will be required in the future to incur costs under any of these warranties, agreements or indemnities is not predictable and, if the Group should incur such costs, these costs may have an adverse effect on the Group's business, results, financial condition and prospects.

As a result of the completion of the SLA Acquisition, the purchase price adjustment mechanism which applied upon the divestment of Ignis has been modified such that it has: (i) been extended to apply for a ten-year period from the completion of the SLA Acquisition; (ii) been expanded to apply to withdrawals of certain additional Group assets managed by Standard Life Aberdeen; and (iii) a different agreed run-off profile to the initial Ignis purchase price adjustment. In addition, the notional fees which would have been paid in respect of withdrawn assets were determined by reference to the highest management fee paid for such assets in the three years preceding the withdrawal (instead of a pre-determined fee profile). As with the initial Ignis purchase price adjustment, where the mandate for new assets acquired by the Group is awarded to a Standard Life Aberdeen subsidiary, any purchase price adjustments due in a year under the revised purchase price agreement shall be reduced by the value of the fees paid to a Standard Life Aberdeen subsidiary in that year. Where a purchase price adjustment is due, adjustments will be made to the consideration paid by PGH Cayman in respect of the SLA Acquisition.

The purchase price adjustment arising from the SLA Acquisition could result in the Group incurring a cost which would need to be funded from its internal cash resources from time to time. Any adjustments to the purchase price paid in respect of the SLA Acquisition or any increased regulatory capital requirements in relation to the purchase price adjustment mechanism may reduce the Company's cash resources and/or have an adverse effect on its financial condition and/or a material adverse effect on the Group's business, results, financial condition and prospects.

The costs and effects of threatened, pending or future legal or arbitration proceedings, including with any of the Company's major Shareholders, or adverse developments with respect thereto, could have a material adverse effect on the Group's business, results, financial condition and prospects.

From time to time, the Group is party to or is threatened with legal or arbitration proceedings in respect of which monetary damages, compensation or specific performance can be sought.

On 5 June 2015, PA (GI) Limited ("**PA (GI)**") was subject to a judgment in the Chancery Division of the Companies Court. The judgment directed that PA (GI) is liable to the claimants for mis-selling complaints and claims relating to a book of creditor insurance business that PA (GI) underwrote until 2006. As a consequence, PA (GI) is liable for complaint handling and redress with regard to these complaints. As at 30 September 2019, PA (GI) has paid a total of £45 million in respect of such complaints and claims, including associated costs of administering the claims, and recognised an accounting provision in this regard of £29 million as at 30 September 2019. The FCA introduced a deadline for creditor insurance claims of August 2019. The FCA also commenced a publicity campaign, the purpose of which was to ensure persons with a right of claim are aware of their rights prior to the deadline. An increased number of complaints compared to previous experience were received shortly before the deadline, which PA (GI) is processing in order to confirm their validity and conclude on the extent to which redress will be required. Whilst the accounting provision has been strengthened as at 30 September 2019 in this regard, the increase in volume of complaints could result in the total additional liability of the Group in respect of these complaints and claims being in excess of the £29 million for which provision has been made as at that date.

As at 30 September 2019, a reimbursement asset of £17 million has been recognised in other receivables in connection with the Group's exposure to those complaints. This represents recoveries due from third parties under contractual arrangements. Total recoveries received prior to 30 September 2019 under these arrangements amounted to £31 million.

As a consolidator of life and pensions books, the Group enters into share purchase and other acquisition agreements from time to time, as well as transitional service arrangements with sellers to supply services to, or for the supply of services by, businesses which are sold to the Group as part of the process of separation from the seller. The Group may also enter into longer term arrangements as part of an ongoing relationship. If there are disagreements over the terms of such agreements, such transitional services and other arrangements do not perform as anticipated or the cost of such arrangements is not as anticipated, disputes may arise between the Group and its counterparties and the Group may threaten, or be threatened with, legal or arbitration proceedings from time to time.

On 23 February 2018, the Group entered into the SLA Share Purchase Agreement with Standard Life Aberdeen, pursuant to which the Group acquired the entire share capital of SLAL. In connection with the SLA Acquisition, certain members of the Group entered into the SLA Transitional Services Agreement with certain members of the Standard Life Aberdeen group, pursuant to which certain services were agreed to be provided from one group to the other group for a specified period. In addition, certain members of the Group entered into the SLA Client Service and Proposition Agreement with certain members of the Standard Life Aberdeen group, which set out the terms under which the parties would provide services and support to each other with respect to certain client propositions, products and services. The Group is currently engaged in ongoing discussions with members of the Standard Life Aberdeen group in respect of disagreements over the operation of certain aspects of the SLA Share Purchase Agreement relating to services and expenses, and the scope and cost of services provided pursuant to the SLA Transitional Services Agreement, the SLA Client Service and Proposition Agreement and certain other agreements between the Group and members of the Standard Life Aberdeen group. Whilst Phoenix and Standard Life Aberdeen are currently seeking a commercial resolution in respect of such disagreements, it is possible that all or some of these matters (and any other disagreements which may arise from time to time in respect of these agreements) could be escalated to a dispute resolution process provided for in the relevant agreements. If Phoenix and Standard Life Aberdeen fail to reach agreement, either party could threaten or commence legal or arbitration proceedings. In the event that such proceedings are threatened or commenced by one of the parties, the Group may incur substantial expense in pursuing or defending such proceedings. There is no certainty as to how the current disagreements will be resolved but it is possible that the resolution may result in a reduction in the revenues charged in respect of services provided to members of the Standard

Life Aberdeen group. A failure to reach a commercial resolution in respect of all or some of these disagreements could adversely affect the Group's relationship with Standard Life Aberdeen.

The Group's management cannot predict with certainty the outcome of pending or threatened legal or arbitration proceedings or potential future legal or arbitration proceedings, and the Group may incur substantial expense in pursuing or defending these proceedings. Potential liabilities may not be covered by insurance, the Group's insurers may dispute coverage or may be unable to meet their obligations, or the amount of the Group's insurance coverage may be inadequate. Moreover, even if claims brought against the Group are unsuccessful or without merit, the Group would have to defend itself against such claims. The defence of any such actions may be time consuming and costly, may distract the attention of management and potentially result in reputational damage. As a result, the Group may incur significant expenses and may be unable to effectively operate its business. Accounting provisions recognised by the Group in its financial statements may prove to be insufficient. Any of the above and any adverse outcomes and reputational damage arising out of any such proceedings could have a material adverse effect on the Group's business, results, financial condition and prospects.

Indebtedness

The Group could be materially adversely affected by its indebtedness.

The total principal amount outstanding under the 2022 Notes, the 2025 Notes, the 2027 Notes, the 2029 Notes, the Senior Bonds, the RT1 Notes, the PLL Tier 2 Bonds and the Revolving Credit Agreement as at 30 June 2019 was £2,530 million (with the principal of the 2027 Notes included at the swapped rate of £385 million). The 2029 Notes were issued on 24 September 2018 and the swapped rate principal amount of the 2029 Notes is £445 million.

The total principal amount outstanding under the ReAssure Subordinated Notes as of 30 June 2019 was £1 billion and no amounts had been drawn under the ReAssure RCF as at 30 June 2019.

The Group's indebtedness and restrictions on the Group under the terms of its bonds, notes and Revolving Credit Agreement could have a material adverse effect on the Group, including:

- requiring the Group to dedicate a substantial portion of its cashflow to payments on its debt;
- restricting the Group from pursuing potential acquisition opportunities or preventing the Group from being able to obtain regulatory approval for a potential acquisition opportunity, which could impair the Group's ability to execute its acquisition strategy;
- exposing the Group to changes in interest rates, which can impact the price of fixed rate debt or the interest cost of variable rate debt (if any);
- placing the Group at a competitive disadvantage compared to its competitors that have lower levels of indebtedness;
- the Group losing its investment grade rating;
- limiting the Group's flexibility in planning for, or reacting to, changes in its business and industry; and
- limiting, among other things, the Group's ability to borrow additional funds or raise equity capital in the future and increasing the costs of such additional financings.

The Group may need to refinance the remaining outstanding principal amount of its bonds, notes and credit facilities (if applicable) either on terms which could potentially be less favourable than the existing terms or under unfavourable market conditions.

On the other hand, the Group's leverage has a positive effect on the Group's value through the beneficial impact of the tax deductibility of interest and so any significant reduction in its indebtedness and associated interest costs may have an adverse impact on the Group's value as a consequence of higher tax payments than currently projected by the Group. There can be no assurance that the Group will, in the future, continue to benefit from tax deductions for its interest costs to the same extent.

The level of the Group's indebtedness and financing structure could therefore have a material adverse effect on the Group's business, results, financial condition and prospects.

The finance facilities and debt instruments that the Group has entered into include covenants that may restrict the Group from taking certain business actions and/or implementing its business strategies.

The agreements that govern the Group's finance facilities and debt instruments contain certain restrictions limiting its flexibility in operating its business. Such restrictions limit the Group's ability to:

- create liens;
- borrow money;
- sell or otherwise dispose of assets; and
- engage in mergers or consolidation.

These restrictions could in the longer term hinder the Group's ability to implement its business strategies. The Group is also subject to other financial and non-financial restrictions that may limit its ability to pay dividends. In addition, a breach of the terms of the Group's finance facilities or debt instruments could cause a default under the terms of those finance facilities or debt instruments, causing some or all of the debt under those financing arrangements to become due prior to its scheduled maturity date.

Taxation

Changes in taxation law may adversely impact the Group.

There are specific rules governing the UK taxation of policyholders. The Group's management cannot necessarily predict the impact of future changes in tax law on the taxation of life and pension policies in the hands of policyholders. Amendments to existing legislation (particularly if there is a withdrawal of any tax relief or an increase in tax rates) or the introduction of new rules may impact upon the decisions of policyholders, and could have a material adverse effect on the Group's business, results, financial condition and prospects.

More generally, UK and overseas taxation law includes rules governing company taxes, business taxes, personal taxes, capital taxes, value added taxes and other indirect taxes. The Group's management cannot predict the impact of future changes in UK and overseas tax law on its business. From time to time, changes in the interpretation of existing UK and overseas tax laws, amendments to existing tax rates, changes in the practice of tax authorities, or the introduction of new tax legislation in the UK or overseas may adversely impact the Group's business, results, financial condition and prospects.

Specifically, there have been significant changes both made and proposed to international tax laws that increase the complexity, burden and cost of tax compliance for all multinational groups. The Organisation for Economic Co-operation and Development ("**OECD**") is continuously considering recommendations for changes to existing tax laws. While the Group does not currently expect its business to be materially impacted by the OECD's ongoing review, the proposed changes to the laws governing international tax is yet to be agreed, let alone implemented, by member states. The Group continues to monitor these and other developments in international tax law.

The effect of future changes in tax legislation on specific products may have an adverse effect on the Group and may lead to policyholders attempting to seek redress where they allege that a product fails to meet their reasonable expectations.

The design of long-term insurance and annuity products is predicated on tax legislation applicable at that time. However, future changes in tax legislation or in interpretation of the legislation may, when applied to these products, have a material adverse effect on the financial condition of the relevant Group companies in which the business was written and therefore have a material negative impact on policyholder and the Group's returns.

The design of long-term products takes into account, among other things, risks, benefits, charges, expenses, investment returns (including bonuses) and taxation. Policyholders may seek legal redress where a product fails to meet their reasonable expectations. An adverse outcome of such legal redress and reputational damage arising out of such legal redress could have a material adverse effect on the Group's business, results, financial condition and prospects.

Changes to the current VAT rules may result in VAT being chargeable on certain outsourcing agreements of the Group.

Group companies currently do not pay significant amounts of value added tax ("**VAT**") in respect of services they receive under their outsourced services agreements for policy administration. If the amount of

VAT payable were to increase then this would increase the Group's costs to the extent that the relevant agreements did not contain adequate protection against VAT being charged or increased. VAT charged on goods and services is largely irrecoverable for financial services groups such as the Group.

Services supplied under the outsourced services agreements are largely exempt from VAT under the UK's insurance intermediaries' exemption. The Court of Justice of the European Union (the "**CJEU**") has considered the scope of the insurance intermediaries' exemption in a number of cases, most recently in March 2016, and ruled that certain types of outsourced insurance services were subject to VAT. The UK's interpretation of the insurance intermediaries' exemption is out of step with these judgments. However, the UK government has historically been supportive of a wider exemption. It remains to be seen how the impact from Brexit, during transition and thereafter, will affect this view and the applicability of such CJEU decisions. If any such changes are effected, this may lead to the conclusion that certain services under the Group's outsourced services agreements for policy administration would be treated as subject to VAT. Although certain of the outsourced services agreements have a measure of protection against such changes, since VAT is largely irrecoverable by the Group, such treatment could have a material adverse effect on the Group's business, results, financial condition and prospects.

RISKS RELATING TO AN INVESTMENT IN THE SHARES

The price of the Shares could be subject to significant fluctuations.

The market price of the Shares could be subject to significant fluctuations due to a change in sentiment in the market regarding the Shares (or securities similar to them), including, in particular, in response to various facts and events, such as any regulatory changes affecting the Group's operations, variations in the Group's operating results and/or business developments of the Group and/or its competitors. Stock markets have from time to time experienced significant price and volume fluctuations that have affected the market prices for securities and which may be unrelated to the Company's operating performance or prospects. Furthermore, the Group's operating results and prospect from time to time may be below the expectations of market analysts and investors. Any of these events could result in a decline in the market price of the Shares.

Shareholders will experience dilution in their ownership following the issuance of the Acquisition Shares in connection with the Acquisition and may be diluted by future equity offerings.

If the Acquisition completes, Shareholders will suffer a reduction of approximately 27.8 per cent. in their proportionate ownership and voting interest in the Company as represented by their holding of Shares immediately following Completion, as a result of the issuance of the Acquisition Shares by Phoenix to Swiss Re (or a nominated member of the Swiss Re Group). It is possible that Phoenix may decide to offer additional Shares in the future either to raise capital for future acquisitions or for other purposes. If Shareholders do not purchase a proportionate amount of such Shares or were not eligible to participate in such an offering, their proportionate ownership and voting interests in Phoenix would be reduced and the percentage that their Shares would represent of the total share capital of Phoenix would be reduced accordingly.

The issuance of the Acquisition Shares and future substantial issuances of Shares or future substantial sales by Swiss Re, MS&AD or other major Shareholders may adversely affect the market price of the Shares.

Issuance of the Acquisition Shares in connection with the Acquisition, future issuances of Shares or future sales of Shares by Swiss Re (or a nominated member of the Swiss Re Group) or MS&AD may adversely affect the market price of the Shares. It is possible that Phoenix may decide to offer additional Shares in the future either to raise capital for further acquisitions or for other purposes. An additional offering, or significant sales of Shares by Swiss Re (or a nominated member of the Swiss Re Group), MS&AD or other major Shareholders, or the perception that such sales could occur, could increase volatility of, and could also have a material adverse effect on, the market price of the Shares.

Swiss Re will be issued the Acquisition Shares which will represent a significant interest in Phoenix on Completion and part of that interest will be transferred to MS&AD; their interests may differ from those of other Shareholders.

After Completion, Swiss Re (or a nominated member of the Swiss Re Group) will directly (in addition to any indirect shareholding as a result of its investment management business) own a strategic stake of approximately 28 per cent. of the Shares of the Enlarged Group. Swiss Re has agreed pursuant to the Swiss Re MS&AD SPA to transfer between approximately 40 and 52 per cent. of the Acquisition Shares it receives at Completion to MS&AD (which MS&AD will own in addition to any indirect shareholding as a result of its investment management business). As a result, MS&AD will own a strategic stake in the range of 11 to 15 per cent., with Swiss Re (or a nominated member of the Swiss Re Group) holding 13 to 17 per cent., of the Shares of the Enlarged Group. This assumes the issuance of 277,277,138 Acquisition Shares to Swiss Re (or a nominated member of the Swiss Re Group) and that no additional shares are issued by the Company or options granted under the LTIP, the Sharesave Scheme, the Share Incentive Plan ("**SIP**"), the Deferred Bonus Share Scheme ("**DBSS**"), the Irish Share Incentive Plan ("**Irish SIP**"), the Irish Sharesave Scheme and the International Plan (together, the "**Employee Share Schemes**") are exercised between the Latest Practicable Date and Completion.

As a result of each of Swiss Re (or a nominated member of the Swiss Re Group) and MS&AD's direct and indirect (as a result of their investment management businesses) shareholding in the Company, following Completion and the transfer of part of the Acquisition Shares to MS&AD, each of Swiss Re and MS&AD will be a "related party" of the Company for the purposes of Listing Rule 11.

Phoenix has agreed the terms of a relationship agreement to be entered into with each of Swiss Re and MS&AD, in the case of Swiss Re, upon Completion and, in the case of MS&AD, upon the transfer of Acquisition Shares that represent 10 per cent. or more of the total issued share capital of Phoenix pursuant to the Swiss Re MS&AD SPA (the "**Relationship Agreements**"). Pursuant to the Relationship Agreements, for so long as Swiss Re and its subsidiary undertakings and associates (excluding any member of the Group) or MS&AD and its subsidiary undertakings and associates (excluding any member of the Group), as applicable, holds at least 10 per cent. of the Shares, each of Swiss Re and MS&AD shall be entitled to appoint (and remove and reappoint) one non-executive director to the Board. For the purpose of these calculations, any Shares held by Swiss Re or MS&AD for the purposes of providing asset management services shall be excluded, unless expressly stated otherwise. Notwithstanding that Swiss Re and MS&AD have entered into the Relationship Agreements, the interests of Swiss Re and MS&AD may not always be aligned with those of other Shareholders and, for so long as they retain a substantial shareholding, they may have significant influence over all matters requiring shareholder approval, including the election of directors and the approval of significant corporate transactions. In addition, Swiss Re and MS&AD may hold interests in, or may make acquisitions of or investments in, other businesses that may be, or may become, competitors of the Enlarged Group.

For further information on the principal terms of the Relationship Agreements, see paragraph 3 ("*Principal Terms of the Relationship Agreements*") of Part XIV ("*Terms of the Acquisition*") of this document.

Future dividends will be dependent on, amongst other things, the Group's future profits, financial condition, capital requirements, pension commitments, distributable reserves, general economic conditions and other factors that the Board deems relevant from time to time.

Although the Board considers it prudent to maintain a stable and sustainable dividend policy, there can be no guarantee that the Company will continue to pay dividends. Any decision to declare and pay dividends will be made at the discretion of the Directors and will depend on, among other things, applicable law and regulation, including regulatory capital requirements, the Enlarged Group's financing arrangements and financial position, including the level of its distributable reserves, working capital requirements, finance costs, pension funding commitments, general economic conditions and other factors the Directors deem significant from time to time.

IMPORTANT INFORMATION

Cautionary note regarding forward-looking statements

This document includes statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements may be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "plans", "projects", "anticipates", "expects", "intends", "may", "will" or "should" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this document and include, but are not limited to, statements regarding the Group's or the Enlarged Group's intentions, beliefs or current expectations concerning, among other things, the Group's or the Enlarged Group's business, results of operations, financial position, prospects, dividends, growth, strategies and the asset management business.

By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Forward-looking statements are not guarantees of future performance and the actual results of the Group's or the Enlarged Group's operations, its financial position and dividends, and the development of the markets and the industries in which the Group or the Enlarged Group operates may differ materially from those described in, or suggested by, the forward-looking statements contained in this document. In addition, even if the Group or the Enlarged Group's results of operations and financial position, and the development of the markets and the industries in which the Group or the Enlarged Group operates, are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods. A number of risks, uncertainties and other factors could cause results and developments to differ materially from those expressed or implied by the forward-looking statements including, without limitation:

- the Acquisition being made subject to additional conditions or failing to proceed at all;
- the Enlarged Group failing to realise the expected benefits of the Acquisition, including anticipated synergies;
- management of the Company being distracted or overstretched by the process of integrating and managing the Enlarged Group;
- risks stemming from the economy and the performance of financial markets generally;
- changes in the legal and regulatory environment in which the Group operates;
- the FCA, the PRA, the CBI or other regulators intervening in the Group's business on industry-wide issues or conducting thematic reviews;
- restrictions on the ability to pay dividends, or a failure to pay dividends according to the Group's dividend policy;
- changes in regulatory capital requirements;
- changes in accounting standards or in actuarial assumptions;
- risk management policies and procedures being ineffective;
- further contributions, in addition to those already agreed, being required to be made to the Group's defined benefit pension schemes;
- third party asset management firms that manage the Group's assets underperforming or difficulties arising from the Group's outsourcing relationships;
- the Group failing to maintain the availability of its systems and to safeguard the security of its data;
- third party reinsurers being unwilling or unable to meet their obligations under reinsurance contracts;
- legal and arbitration proceedings;
- the level of the Group's indebtedness;
- changes in taxation law, including future changes in the tax legislation affecting specific products offered by the Group and changes to the VAT rules; and
- other factors discussed in the section of this document headed "*Risk Factors*".

Forward-looking statements may and often do differ materially from actual results. Any forward-looking statements in this document reflect the Group's current view with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to the Group's business, results of operations, financial condition, prospects, dividends, growth, strategies and the asset management business. Investors should specifically consider the factors identified in this document, which could cause actual results to differ, before making an investment decision. Subject to the requirements of the Listing Rules, the Prospectus Regulation Rules, the Prospectus Regulation, Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 (the "**Market Abuse Regulation**") and the Disclosure Guidance and Transparency Rules produced by the FCA and forming part of the book and rules and guidance maintained by the FCA (the "**FCA Handbook**"), the Company undertakes no obligation publicly to release the result of any revisions to any forward-looking statements in this document that may occur due to any change in the Company's expectations or to reflect events or circumstances after the date of this document.

Presentation of financial information

Capitalisation and indebtedness for the Group and ReAssure Group in this document and other financial information, unless otherwise stated, has been extracted without material adjustment from (i) the Company's unaudited half-yearly interim results for the six months ended 30 June 2019; (ii) the Company's Annual Report and Accounts for the year ended 31 December 2018; (iii) PGH Cayman's Annual Report and Accounts for the years ended 31 December 2017 and 2016; (iv) the audited combined historical financial information of Standard Life Assurance as at and for the years ended 31 December 2017 and 2016, each of (i)-(iv) being incorporated by reference as described in paragraph 22 ("*Documents Available for Inspection*") of Part XV ("*Additional Information*") of this document; (v) the unaudited consolidated management accounts of the Group for the year ended 31 December 2019; (vi) the unaudited consolidated historical financial information of the ReAssure Group as at and for the six months ended 30 June 2019 in Part A of Part VIII ("*Financial Information of the ReAssure Group*"); (vii) the audited consolidated historical financial information of the ReAssure Group as at and for the years ended 31 December 2018, 2017 and 2016 in Part B of Part VIII ("*Financial Information of the ReAssure Group*"); and (viii) the audited historical financial information of OMW for the years ended 31 December 2018, 2017 and 2016 in Part A of Part IX ("*Financial Information of Old Mutual Wealth Assurance Limited*"). As a result of an annuity data issue: (i) certain ReAssure Group IFRS accounts for the six months ended 30 June 2019 and 2018 have been restated to reflect adjustments and (ii) certain ReAssure Group IFRS accounts for the years ended 31 December 2018 and 2017 that were included in the ReAssure registration document that was published on 7 June 2019 and the ReAssure prospectus that was published on 27 June 2019 in connection with the ReAssure Proposed IPO have been restated to reflect adjustments. No changes were required to the previously published Solvency II numbers as a result of this issue. Where information has been extracted from the consolidated financial statements of the Group, the combined historical financial information of Standard Life Assurance or the consolidated historical financial information of the ReAssure Group, as the case may be, the information is audited unless otherwise stated.

Unless otherwise indicated, financial information for the Group and Standard Life Assurance in this document and the information incorporated by reference into this document is presented in pounds sterling and has been prepared in accordance with International Financial Reporting Standards ("**IFRS**"), (i) in respect of PGH Cayman and Standard Life Assurance for the financial years ended 31 December 2018, 2017 and 2016, as issued by the International Accounting Standards Board ("**IASB**") and (ii) in respect of Phoenix for the financial year ended 31 December 2018 and six months ended 30 June 2019, as adopted by the European Union ("**EU**"). As at 31 December 2018, there were no differences between IFRS adopted by the EU and IFRS issued by the IASB in terms of its application to the Group.

For accounting purposes, it is expected that ReAssure will be consolidated into the Company's IFRS financial statements in the year ending 31 December 2020. A fair value exercise in respect of ReAssure's assets and liabilities will be conducted following Completion, resulting in ReAssure's assets and liabilities being included at fair value on the date of the Acquisition in the Enlarged Group's statement of financial position. Intangible assets will be expected to arise from the Acquisition and may include goodwill, acquired value of in-force ("**AVIF**") business, and other intangibles.

The Directors believe that the unaudited consolidated financial information relating to the ReAssure Group for the six months ended 30 June 2019 have been prepared on a basis consistent with the IFRS accounting policies of the Company.

The financial information presented in a number of tables in this document has been rounded to the nearest whole number or the nearest decimal. Therefore, the sum of the numbers in a column may not conform exactly to the total figure given for that column. In addition, certain percentages presented in the tables in this document reflect calculations based upon the underlying information prior to rounding, and, accordingly, may not conform exactly to the percentages that would be derived if the relevant calculations were based upon the rounded numbers.

Pro forma financial information

In this document, any reference to "unaudited *pro forma* information" is to information which has been extracted without material adjustment from the unaudited *pro forma* IFRS financial information contained in Part XI ("*Unaudited Pro Forma* IFRS Financial Information of the Enlarged Group") and the unaudited *pro forma* Solvency II information contained in Part XII ("*Unaudited Pro Forma* Solvency Information of the Enlarged Group") of this document.

The unaudited *pro forma* IFRS income statement and unaudited *pro forma* IFRS statement of net assets of the Enlarged Group (together, the "**Unaudited** *Pro Forma* IFRS Financial Information") contained in Part XI ("*Unaudited Pro Forma* IFRS Financial Information of the Enlarged Group") of this document have been prepared in accordance with Annex 20 of the Commission Delegated Regulation 2019/980 of 14 March 2019 supplementing the Prospectus Regulation of the European Parliament and of the Council ("**Commission Delegated Regulation (EU) 2019/980**") and on the basis of the notes set out therein. The unaudited *pro forma* IFRS income statement has been prepared to illustrate the effect on the earnings of the Company as if: (i) the proposed Acquisition (including, in respect of ReAssure, the L&G Transaction and the OMW Acquisition); (ii) the associated financing; and (iii) the SLA Acquisition had taken place on 1 January 2018. The unaudited *pro forma* IFRS statement of net assets has been prepared to illustrate the effect on the net assets of the Company as if the proposed Acquisition (including, in respect of ReAssure, the L&G Transaction and the OMW Acquisition) and the associated financing had taken place on 30 June 2019. The Unaudited *Pro Forma* IFRS Financial Information has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and does not, therefore, represent the Company's or the Enlarged Group's actual financial position or results. The Unaudited *Pro Forma* IFRS Financial Information is stated on the basis of the IFRS accounting policies adopted by the Company in preparing its consolidated financial statements for the year ended 31 December 2018 and the six months ended 30 June 2019.

The unaudited *pro forma* statement of Solvency II Surplus of the Enlarged Group (the "**Unaudited** *Pro Forma* Solvency Information") contained in Part XII ("*Unaudited Pro Forma* Solvency Information of the Enlarged Group") of this document has been prepared in accordance with Annex 20 of Commission Delegated Regulation (EU) 2019/980 and on the basis of the notes set out therein. The Unaudited *Pro Forma* Solvency Information has been prepared to illustrate the effect on the group solvency position at the level of Phoenix as if the proposed Acquisition (including, in respect of ReAssure, the L&G Transaction and the OMW Acquisition) and the associated financing had taken place on 30 September 2019. The Unaudited *Pro Forma* Solvency Information has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and does not, therefore, represent the Company or the Enlarged Group's actual financial position, results or solvency position. The Unaudited *Pro Forma* Solvency Information is stated on the basis of Solvency II reporting expected to be applied by the Company for the year ending 31 December 2019.

Presentation of certain key performance indicators and targets

Certain key performance indicators and targets referred to in this document are unaudited non-GAAP measures that are used by the Group, including those described below:

- ***Solvency II Own Funds***: Solvency II Own Funds are the aggregate of "basic Own Funds" (assets an insurer has on its balance sheet) and "ancillary Own Funds" (off-balance sheet resources that are loss absorbent, for example, unpaid share capital). All such assets are subject to eligibility criteria and weighting, as determined by reference to Articles 93 to 95 of Solvency II as well as to Articles 69 to 73, 76, 77, 79 and 82 of Commission Delegated Regulation (EU) 2015/35, as interpreted by the European Insurance and Occupational Pension Authority's ("**EIOPA**") "Guidelines on Own Funds" (BoS-14/168 EN). References to the Own Funds of a particular entity are references to the Own Funds held by an entity, whereas references to the Group's Own Funds, or the Enlarged Group's Own Funds, are references to the Own Funds within the scope of the Solvency II group.

- ***Solvency Capital Requirement ("SCR")***: This is the standard Own Funds level that a UK life insurer is required to maintain by the PRA. A separate calculation also applies to Solvency II groups. SCR is determined by reference to a basic standard formula set out in Articles 103–111 of Solvency II ("**Standard Formula**"), however, a life insurer may agree an amendment to the Standard Formula to create a bespoke calculation which more accurately reflects the risks applicable to that life insurer, that amendment is achieved by way of an Internal Model. Own funds held to meet the SCR requirement (and any additional amendment or add-on approved by the PRA) are also referred to as "regulatory capital" and any reference to an increase or decrease in a regulatory capital requirement is a reference to an increase or decrease in the amount of regulatory capital an entity has to hold. The amount by which an SCR requirement is exceeded by Own Funds is referred to as the "**Solvency II Surplus**".
- ***Solvency II Shareholder Capital Coverage Ratio ("Shareholder Capital Coverage Ratio")***: This is the ratio of Solvency II Own Funds to SCR, excluding Solvency II Own Funds and SCR of unsupported with-profit funds and the PGL Pension Scheme. Unsupported with-profit funds and the PGL Pension Scheme refer to those funds whose Solvency II Own Funds exceed their SCR. Where a with-profit fund or Group pension scheme has insufficient Solvency II Own Funds to cover its SCR, its Solvency II Own Funds and SCR are included within the Shareholder Capital Coverage Ratio calculation.
- ***Cashflows from the Acquisition 2020 to 2023***: These are equal to the net cashflows expected to be remitted by ReAssure to the Holding Companies, aggregated for the years 2020 to 2023.
- ***Cashflows from the Acquisition for 2024 onwards***: These are equal to the net cashflows expected to be remitted by ReAssure to the Holding Companies, aggregated for the years from 2024 onwards.
- ***Assets under administration ("AUA")***: These are assets managed by the Group and held: (i) in respect of actual or anticipated liabilities to policyholders under a policy; or (ii) on behalf of policyholders under the terms of a policy.
- ***Holding Companies cash***: This represents the cash and cash equivalents held in the Holding Companies and available to be used to meet future corporate expenses, pension scheme funding requirements, debt servicing and repayments, and the payment of shareholder dividends.

Currencies

In this document and the information incorporated by reference into this document: (i) references to "£", "pounds sterling" or "GBP" are to the lawful currency of the United Kingdom; (ii) references to "USD", "US dollars", "US$", "$US", "US¢" or "cents" are to the lawful currency of the United States; and (iii) references to "Euro", "euro" or "€" are to the euro, the lawful currency of the member states of the EU that adopted the Euro in Stage Three of the Treaty establishing the Economic and Monetary Union on 1 January 1999.

No profit forecast

No statement in this document is intended as a profit forecast and no statement in this document should be interpreted to mean that earnings per Share for the current or future financial years would necessarily match or exceed the historical published earnings per Share.

Notice to investors in the United States of America

The Acquisition Shares have not been and will not be registered under the US Securities Act or under any securities laws of any state or other jurisdiction of the United States and may not be offered, sold, taken up, exercised, resold, renounced, transferred or delivered, directly or indirectly, within the United States except pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States.

Currency exchange rate information

Unless otherwise indicated, the financial information contained in this document has been expressed in pounds sterling. The functional currency of the Company is pounds sterling, as is the reporting currency of the Group. Transactions not already measured in pounds sterling have been translated into pounds sterling in accordance with the relevant provisions of International Accounting Standard 21. On consolidation, income statements of subsidiaries for which pounds sterling are not the functional currency are translated into pounds sterling, the presentation currency for the Company, at average rates of exchange. Balance sheet items are translated into pounds sterling at period-end exchange rates. These translations should not be construed as representations that the relevant currency could be converted into pounds sterling at the rate indicated, at any other rate or at all.

Indicative exchange rates of the pound sterling against the euro[1]

Period	Period-end	Average	High	Low
2016	1.1731	1.2242	1.3654	1.0967
2017	1.1260	1.1415	1.1967	1.0790
2018	1.1122	1.1304	1.1582	1.1009
2019	1.1825	1.1406	1.1992	1.0742

Note:

(1) Source: Bloomberg Historical Exchange Rate Chart.

As at 5:00 p.m. on 16 January 2020 (being the Latest Practicable Date), the exchange rate of the pound sterling against the euro was £1.00 : €1.1747.

In addition to the convenience translations (the basis of which is described above), the basis of translation of foreign currency transactions and amounts contained in the audited and unaudited financial information included in this document is described therein and may be different to the convenience translations.

Third party information

The Company confirms that all third-party data contained in this document has been accurately reproduced and, so far as the Company is aware and able to ascertain from information published by that third party, no facts have been omitted that would render the reproduced information inaccurate or misleading.

Where third-party information has been used in this document, the source of such information has been identified.

SHARE CAPITAL

Acquisition

Number of Acquisition Shares to be issued	277,277,138
Number of Shares in issue immediately following Admission[1]	998,794,434
Acquisition Shares as a percentage of the Enlarged Share Capital immediately following Completion[1]	27.8%

Note:

(1) Assuming the issuance of 277,277,138 Acquisition Shares and that no additional shares are issued by the Company or options granted under the Employee Share Schemes are exercised between the Latest Practicable Date and Completion.

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

The following dates assume the satisfaction of the conditions to Completion set forth in the Share Purchase Agreement by the Long Stop Date (other than those conditions that are intended to be satisfied at or shortly prior to Completion) but are indicative only and subject to change.

	2019(1)(2)
Announcement of the Acquisition	6 December
	2020
Publication and posting of this document, the Notice of General Meeting and the Form of Proxy	17 January
Latest time and date for receipt of General Meeting forms of proxy	10.00 a.m. on 11 February
General Meeting	**10.00 a.m. on 13 February**
Expected date of Completion	Mid-2020
Admission	8.00 a.m. on the first Business Day following the date of Completion

Notes:

(1) The times and dates set out in the expected timetable of principal events above and mentioned throughout this document, by announcement through a Regulatory Information Services may be adjusted by the Company, in which event details of the new dates will be notified to the FCA and to the LSE and, where appropriate, to Shareholders.

(2) References to times in this document are to London time unless otherwise stated.

DIRECTORS, COMPANY SECRETARY AND ADVISERS

Board of Directors

A list of the current and proposed members of the Company's Board of Directors is set forth in the table below.

Name	Current position at Phoenix
Nicholas Lyons	Chairman and Nomination Committee Chairman
Clive Bannister[(1)]	Group Chief Executive Officer
Andy Briggs	Chief Executive Officer Designate and Proposed Director
James McConville	Group Finance Director
Alastair Barbour	Senior Independent Non-Executive Director and Audit Committee Chairman
Karen Green	Independent Non-Executive Director
Wendy Mayall	Independent Non-Executive Director
John Pollock	Independent Non-Executive Director and Risk Committee Chairman
Belinda Richards	Independent Non-Executive Director
Nicholas Shott	Independent Non-Executive Director
Kory Sorenson	Independent Non-Executive Director and Remuneration Committee Chairman
Campbell Fleming	Non-Executive Director, Standard Life Aberdeen Appointed Director
Michael Tumilty	Non-Executive Director, Standard Life Aberdeen Appointed Director

Note:

(1) On 8 November 2019, the Group announced the resignation of Clive Bannister from his roles as Group Chief Executive Officer and Director, effective from 10 March 2020. He will be succeeded by Andy Briggs, who was appointed as Chief Executive Officer Designate on 1 January 2020 and will be appointed to the Board on receipt of regulatory approval.

The business address of each of the Directors is Juxon House, 100 St. Paul's Churchyard, London EC4M 8BU.

Group Company Secretary:	Gerald Watson
Registered office and principal place of business of the Company:	Juxon House 100 St. Paul's Churchyard London EC4M 8BU United Kingdom
Sponsor and joint financial adviser to the Company:	HSBC Bank plc 8 Canada Square London E14 5HQ United Kingdom
Lead financial adviser to the Company:	Merrill Lynch International 2 King Edward Street London EC1A 1HQ United Kingdom
Joint financial adviser to the Company	Citigroup Global Markets Limited Canada Square London E14 5LB United Kingdom
Auditors to the Company:	Ernst & Young LLP 25 Churchill Place London E14 5EY United Kingdom
Reporting accountant to the Company:	Ernst & Young LLP 25 Churchill Place London E14 5EY United Kingdom

Legal advisers to the Company as to English law:..	Skadden, Arps, Slate, Meagher & Flom (UK) LLP 40 Bank Street Canary Wharf London E14 5DS United Kingdom
Legal advisers to the Sponsor:...................	Herbert Smith Freehills LLP Exchange House Primrose Street London E2A 2EG United Kingdom
Registrar:..	Computershare Investor Services PLC The Pavilions Bridgwater Road Bristol BS13 8AE United Kingdom

PART I — LETTER FROM THE CHAIRMAN OF PHOENIX GROUP HOLDINGS PLC

PHOENIX GROUP

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Directors:
Nicholas Lyons, Chairman and Nomination Committee Chairman
Clive Bannister, Group Chief Executive Officer
Andy Briggs, Chief Executive Officer Designate and Proposed Director
James McConville, Group Finance Director
Alastair Barbour, Senior Independent Non-Executive Director
Campbell Fleming, Non-Executive Director
Wendy Mayall, Non-Executive Director
Karen Green, Non-Executive Director
John Pollock, Non-Executive Director
Belinda Richards, Non-Executive Director
Nicholas Shott, Non-Executive Director
Kory Sorenson, Non-Executive Director
Michael Tumilty, Non-Executive Director

Registered Office:
Juxon House
100 St. Paul's Churchyard
London, EC4M 8BU
United Kingdom

17 January 2020

PROPOSED ACQUISITION OF REASSURE GROUP PLC

Dear Shareholder,

1. INTRODUCTION

On 6 December 2019, Phoenix Group Holdings plc ("**Phoenix**" or the "**Company**" and, together with its subsidiaries from time to time, the "**Group**") announced the proposed acquisition of the entire issued share capital of ReAssure Group plc ("**ReAssure**") from Swiss Re Finance Midco (Jersey) Limited ("**Swiss Re**"), an indirect subsidiary of Swiss Re Ltd ("**SRL**" and, together with its subsidiaries, the "**Swiss Re Group**") (the "**Acquisition**"). Total consideration of £3.2 billion payable to Swiss Re upon Completion will be satisfied through cash consideration of £1.2 billion, subject to certain customary adjustments, and the issuance to Swiss Re (or a nominated member of the Swiss Re Group) of Shares with a value (as determined on the date of the Share Purchase Agreement) of £2.0 billion (the "**Acquisition Shares**"), representing approximately 28 per cent. of the Company's share capital following Completion. The price of the Acquisition Shares was determined using a 30-day volume-weighted average price ("**VWAP**") up to the day before announcement of the Acquisition of 721.3 pence per Share. Completion of the Acquisition is targeted for mid-2020.

On 6 December 2019, Swiss Re entered into a separate share purchase agreement (the "**Swiss Re MS&AD SPA**") with MS&AD Insurance Group Holdings, Inc. ("**MS&AD**") that provides for the transfer to Swiss Re of MS&AD's entire shareholding in ReAssure prior to Completion in consideration for the transfer to MS&AD of part of the Acquisition Shares received by Swiss Re (or a nominated member of the Swiss Re Group) from Phoenix pursuant to the Acquisition.

Swiss Re (or a nominated member of the Swiss Re Group) will receive 277,277,138 Acquisition Shares at Completion. Pursuant to the Swiss Re MS&AD SPA, Swiss Re will transfer approximately 40 to 52 per cent. of the Acquisition Shares to MS&AD upon Completion. As a result, Swiss Re and MS&AD will hold a combined stake of approximately 28 per cent. in the Enlarged Group. The shareholding of Swiss Re (or a nominated member of the Swiss Re Group) will be in the range of 13 to 17 per cent. and the shareholding of MS&AD will be in the range of 11 to 15 per cent., depending on Phoenix's share price at Completion. Phoenix has agreed the terms of a relationship agreement to be entered into with each of Swiss Re and MS&AD, in the case of Swiss Re, upon Completion and, in the case of MS&AD, upon the transfer of Acquisition Shares that represent 10 per cent. or more of the total issued share capital of Phoenix pursuant to the Swiss Re MS&AD SPA (the "**Relationship Agreements**"). Pursuant to the Relationship Agreements, Swiss Re and MS&AD will each have the right to appoint one non-executive director to the Board (for so long as it, together with its subsidiary undertakings (excluding any member of the Group), holds at least 10 per cent. of the Shares).

For further details of the Acquisition, see paragraph 9 ("*Principal Terms of the Acquisition*") of this letter.

The Company proposes to finance the cash consideration of £1.2 billion through a combination of new or existing debt facilities and own cash resources.

The ReAssure Group is a leading life insurance closed book consolidator in the UK with approximately 3.0 million policies as at 1 November 2019, £44 billion of assets under administration as at 30 September 2019 and Solvency II Own Funds of £3.6 billion (on a shareholder capital basis and excluding capital qualifying debt) as at 30 September 2019. The ReAssure Group focuses exclusively on the acquisition and management of closed books. It does not write new business, other than offering increments on current policies to existing customers on a passive basis.

In December 2017, the ReAssure Group entered into an agreement to acquire the mature savings business of the L&G Group (the "**L&G Business**"), comprising principally retail customers who hold traditional insurance based pensions and investment products, with assets pre-completion of approximately £30 billion as at 30 September 2019. Additionally, in August 2019, the ReAssure Group announced the acquisition of Old Mutual Wealth Life Assurance Limited (together with its subsidiary Old Mutual Wealth Pensions Trustees Limited, "**OMW**") from Quilter plc ("**Quilter**"). The OMW Acquisition was completed on 31 December 2019 for a total consideration of approximately £446 million (including interest). The acquired policies and assets of the L&G Business are expected to be transferred to the ReAssure Group in the first half of 2020. Calculated on a post-transferred basis, as at 1 November 2019, ReAssure would have had approximately 4.1 million policies and, as at 30 September 2019, £84 billion of assets under administration. Completion of these two transactions would reduce the ReAssure Group's Solvency II Own Funds by £0.1 billion to £3.5 billion.

The purpose of this letter is to: (i) explain the background to, and reasons for, the Acquisition; (ii) explain why the Directors believe that the Acquisition is in the best interests of the Company and its Shareholders as a whole; and (iii) recommend that you vote in favour of the Resolutions relating to the Acquisition to be proposed at the General Meeting. In this respect, this document should be read in its entirety and you should not rely solely on the information summarised in this letter. Your attention, in particular, is drawn to the risk factors set out in the section of this document headed "*Risk Factors*".

The Board unanimously considers that the Resolutions are in the best interests of the Company and its Shareholders and recommends that Shareholders vote in favour of the Resolutions as the Board intends to do, or procure, in respect of its own shares in the Company.

2. BACKGROUND AND REASONS FOR THE ACQUISITION

2.1 Strategy

The Group is the largest specialist consolidator of life assurance and pensions funds in Europe with businesses in the UK, Germany and Ireland. It has a broad range of both Heritage and Open products and has three key business segments: UK Heritage, UK Open and Europe.

The Group's UK Heritage business comprises "capital heavy" products that are no-longer actively marketed to customers and is therefore "closed" to new business. This segment has been built through the consolidation of legacy insurance brands and represents the Group's specialism in the acquisition and management of closed life insurance and pension funds.

The UK Open business comprises "capital light" products that are actively marketed to new and existing customers primarily under the Standard Life brand through the strategic partnership with Standard Life Aberdeen entered into through the £3.0 billion acquisition of Standard Life Assurance in 2018 (the "**SLA Acquisition**").

The Group's European business segment comprises both Heritage and Open business split across Germany and Ireland.

The Group seeks to use its expertise to improve customer outcomes and deliver value for shareholders and customers. To enable this, the Group's strategy is to:

(i) act as a consolidator of life and pensions books, predominantly those that are closed to new business;

(ii) deploy its specialist skills in operational efficiency, the use of preferred strategic partnerships to reduce costs and improve efficiency; and

(iii) apply its expertise in capital management, regulation and other key areas to achieve better outcomes for customers and shareholders.

The Group has a consistent approach to the management of its £245 billion in-force business which aims to bring resilience to the capital position of the Group and therefore deliver dependable long-term cash generation.

Phoenix has a range of growth opportunities that bring sustainability to the Group's cash generation profile including growth of the Open business in both the UK and Europe, bulk purchase annuities ("**BPA**") and potential for further acquisitions. The Group's strategy includes the disciplined acquisition of companies and portfolios, using a clear set of acquisition criteria to assess opportunities.

In the normal course of business, the Group may enter into further acquisitions or execute additional bulk purchase annuity transactions in the short term that meet its acquisition criteria, but which are not expected to require the Group to enter into further funding arrangements.

2.2 **Reasons for the Acquisition**

The Directors believe the Acquisition will deliver the following strategic and financial benefits to the Group:

- **Confirms Phoenix as Europe's largest life and pensions consolidator**: The Acquisition brings additional scale to Phoenix's Heritage business, creating an Enlarged Group with £329 billion of assets under administration(1)(4) and 14.1 million policies,(3)(4) confirming Phoenix's position as the largest life and pensions consolidator in Europe.

- **Additional long-term cash generation supports increased dividend:** The Acquisition is expected to generate a total of £7.0 billion of additional aggregate cash flows taking total long-term cash generation(2) of the Enlarged Group to £19.0 billion, of which approximately £2.7 billion is expected to be generated between 2020 and 2023 and a further £4.3 billion from 2024 onwards. This additional cash generation supports a proposed 3 per cent. increase in the dividend per share, payable from and including the 2020 final dividend.

- **Maintains balance sheet strength and resilience:** The Group's estimated Solvency II Surplus as at 30 September 2019 is expected to increase from £3.0 billion(5) to £4.2 billion on a pro-forma basis(6) giving a Shareholder Capital Coverage Ratio(7) of 148 per cent. This will increase by Completion from the delivery of expected synergies and planned hedging actions.

- **Significant expected cost and capital synergies:** The integration of ReAssure is expected to create synergies net of integration costs of £800 million. These synergies include annual post-tax cost savings of £40 million per annum by 2023, expected to apply for a period in excess of ten years and valued at £400 million, and non-recurring capital synergies of £450 million. Post-tax integration costs are estimated at £50 million.

- **Attractive transaction pricing:** The total consideration payable of £3.2 billion represents 91 per cent. of ReAssure's pro-forma Solvency II Own Funds of £3.5 billion(8) as at 30 September 2019 before cost and capital synergies.

- **Efficient financing structure**: The total consideration of £3.2 billion will be financed through: (a) a cash consideration of £1.2 billion funded through a combination of new or existing debt facilities and own cash resources, and (b) the issuance to Swiss Re (or a nominated member of the Swiss Re Group) of shares in Phoenix with a value (as determined on the date of the Share Purchase Agreement) of £2.0 billion, part of which will be transferred to MS&AD pursuant to the Swiss Re MS&AD SPA. The proposed financing structure results in a pro-forma Group Fitch leverage ratio of 30 per cent., within the target range of 25-30 per cent.

- **Growth opportunities are enhanced:** Phoenix has a range of opportunities for growth including bulk purchase annuities, new Open business in the UK and Europe and further M&A in the UK, Germany and Ireland. The Acquisition brings increased cash flows, skills and scale which will benefit these growth options and bring further sustainability to Phoenix's long-term cash generation.

- **Clear and transparent transaction governance structure for all strategic shareholders:** Following the Acquisition and the transfer by Swiss Re to MS&AD of part of the Acquisition Shares, each of Swiss Re (or a nominated member of the Swiss Re Group) and MS&AD will have strategic shareholdings totalling approximately 28 per cent. of the Enlarged Group. While the aggregate shareholding of Swiss Re and MS&AD will be fixed at approximately 28 per cent. of the Enlarged Group, the anticipated shareholding of Swiss Re (or a nominated member of the Swiss Re Group) will be in the range of 13 per cent. to 17 per cent. and the anticipated shareholding of MS&AD will be in the range of 11 per cent. to 15 per cent., depending on Phoenix's share price at Completion. Each of Swiss Re and MS&AD will have the right to appoint one non-executive director to the Board for as long as their respective shareholdings are 10 per cent. or more of the share capital of the Enlarged Group and will otherwise benefit from the same governance rights as Standard Life Aberdeen. On a pro-forma basis, taking into account the shares issued as a part of the Acquisition, Phoenix's current largest shareholder, Standard Life Aberdeen, will have a strategic ownership stake of approximately 14.5 per cent. and continue to have the right to appoint one non-executive director to the Board.

Notes:

(1) ReAssure's assets under administration and number of policies as at 30 June 2019 includes OMW and assumes completion of the L&G Transaction, which is expected to occur prior to Completion of the Acquisition.

(2) Incremental cash generation arising from the Acquisition is calculated using Phoenix's assumptions and reporting bases.

(3) ReAssure's number of policies as at 1 November 2019 includes OMW and assumes completion of the L&G Transaction, which is expected to occur prior to Completion of the Acquisition.

(4) Pro-forma assets under administration and number of policies for Phoenix are calculated as at 30 June 2019.

(5) The Solvency II capital position is an estimated position and reflects a regulatory approved recalculation of transitionals as at 30 September 2019 and a £0.1 billion benefit to Solvency II Surplus from a release of longevity reserves.

(6) The 30 September pro-forma position for the Enlarged Group has been prepared using the Deduction and Aggregation method ("**Method 2**") approach for incorporating the ReAssure Group companies in the Group solvency calculation. Under this method, ReAssure Group companies will continue to calculate their solvency capital requirements in accordance with the existing ReAssure Group PIM. The use of the Method 2 approach is subject to approval at the discretion of the PRA. The 30 September 2019 pro-forma assumes the cash consideration of £1.2 billion is entirely funded by the issuance of hybrid debt under a fully underwritten facility.

(7) The Shareholder Capital Coverage Ratio excludes Solvency II Own Funds and Solvency Capital Requirements of unsupported with-profit funds and the PGL Pension Scheme.

(8) ReAssure's Solvency II Own Funds as at 30 September 2019 have been derived from ReAssure Solvency II figures and have been adjusted to be presented on a shareholder basis, excluding debt and assuming a dynamic recalculation of transitionals (subject to PRA approval), and including the *pro forma* impact of the L&G Transaction and the OMW Acquisition (both based on financial information as at 31 December 2018).

Further Details on the Financial Impact of the Acquisition

The Acquisition will bring to the Group an additional £84 billion of assets under administration and approximately 4.1 million policies, based on ReAssure's position (including OMW) and assuming the completion of the L&G Transaction. This will result in an increase in Phoenix's existing total life company assets under administration to £329 billion and create an Enlarged Group with 14.1 million policies.

In March 2019, the Company announced cash generation targets, excluding the impact of the Acquisition, of £3.8 billion for the years 2019 to 2023, with a further £8.2 billion of cash generation expected from 2024 onwards. Including ReAssure, the Group's aggregate cash generation from in-force business, after delivering cost and capital synergies and implementing certain management actions, is expected to be £19.0 billion, of which £6.5 billion is expected for the years 2019 to 2023 with a further £12.5 billion expected from 2024 onwards.

The proposed financing mix will maintain the Group's balance sheet strength, with the Fitch leverage ratio of the Enlarged Group expected to be 30 per cent. at Completion, within the Group's target range of 25-30 per cent. The estimated Solvency II Surplus as at 30 September 2019 is expected to increase from £3.0 billion to £4.2 billion, with the Shareholder Capital Coverage Ratio decreasing from 156 per cent. to 148 per cent. This will increase by Completion from the delivery of expected synergies and planned hedging actions. Implementation of Phoenix's hedging strategies is also expected to support the resilience of the Group's Solvency II capital sensitivities.

The Company expects that the integration of ReAssure will unlock significant value for Shareholders over time. The Acquisition is expected to result in recurring post-tax cost savings of £40 million per annum, expected to apply for a period in excess of ten years and valued at £400 million on a post-tax basis. Approximately 35 per cent. of the reduction in annualised operating expenses is as a result of removing the costs associated with the reorganisation completed by the ReAssure Group in June 2019 (the "**ReAssure Reorganisation**") and ReAssure Group's planned IPO (the "**ReAssure Proposed IPO**") as Phoenix's operating model is leveraged, with the remainder gained from the combination of life company management and operations. This expected cost saving is compared with the ReAssure Group's budgeted expense base of £318 million set out in the ReAssure Group's financial plan for the year ended 31 December 2019. The phased integration process is expected to take at least two to three years from Completion, with approximately 80 per cent. of the benefit achieved by 2022 and the remainder by the end of 2023. The Acquisition is also expected to create non-recurring capital synergies of £450 million, as a result of harmonising the capital framework and approach to risk management of the ReAssure Group business with that of Phoenix, by the end of 2022. As of the date of announcement of the Acquisition, the Directors expect to incur one-time post-tax expenditure of approximately £50 million to complete the integration. These synergies are incremental to the synergies that ReAssure expect to deliver from the integration of the OMW business. The Directors believe that the estimated synergies as set out above (which may be subject to the prior approval of the PRA) could not be achieved without Completion. The estimated synergies set out above reflect both the beneficial elements and relevant costs.

Further information on the expected *pro forma* impact of the Acquisition on the consolidated income statement and consolidated balance sheet of the Enlarged Group is set out in Part XI ("*Unaudited Pro Forma* IFRS Financial Information of the Enlarged Group") and Part XII ("*Unaudited Pro Forma* Solvency Information of the Enlarged Group") of this document. The financial and other benefits set out above are contingent on the Acquisition completing and could not be achieved independently.

3. SUMMARY INFORMATION ON THE GROUP

The Group is the largest specialist consolidator of life assurance and pensions funds in Europe by assets under administration ("**AUA**") and number of policies, with businesses in the UK, Germany and Ireland. As at 30 June 2019, the Group had approximately 10 million policies, £245 billion of assets under administration and Solvency II Own Funds of £10.8 billion. The Group has a broad range of both Heritage and Open products and has three key business segments: UK Heritage, UK Open and Europe.

The Group's UK Heritage business specialises in the acquisition and management of closed life insurance and pension funds.

Transactions in the bulk purchase annuity market offer a complementary source of growth for the Group and the management actions the Group delivers help increase and accelerate cash flows.

Alongside this, the Group's "Open" business manufactures and underwrites new products and policies to support people saving for their future in areas such as workplace pensions and self-invested personal pensions.

The "Open" business is supported by a strategic partnership with Standard Life Aberdeen following the SLA Acquisition. The Group also has a market leading brand – "SunLife" – which sells a range of financial products specifically for the over 50s market.

The Group's European business contains both Heritage and Open business split across Germany and Ireland.

The Group has five operating life insurance companies which hold policyholder assets: Phoenix Life Limited ("**PLL**"), Phoenix Life Assurance Limited ("**PLAL**"), SLAL, Standard Life Pension Funds Limited ("**SLPF**") and Standard Life International Designated Activity Company ("**SLIDAC**").

The Group's three principal management service companies, Pearl Group Services Limited ("**PGS**"), Pearl Group Management Services Limited ("**PGMS**") and Standard Life Assets and Employee Services Limited ("**SLAESL**") aim to provide all administrative services required by the Phoenix Life Companies (or manage the provision of such services through outsourcing arrangements), including policy administration, information technology, finance and facility management services.

Phoenix management has a proven track record of successfully integrating businesses into the Group.

On 1 November 2016, the Group acquired the SunLife Embassy Business from AXA UK for £373 million in cash. The acquisition added £12 billion of assets under administration and over 910,000 policyholders to the Group.

On 30 December 2016, the Group acquired ALAC, Abbey Life Trustee Services Limited and Abbey Life Trust Securities Limited from Deutsche Holdings No. 4 Ltd. ("**Deutsche Holdings**"), a wholly-owned subsidiary of Deutsche Bank AG for £933 million in cash. Proceeds from a rights issue of 144,727,282 new shares at 508 pence per new share, which closed on 25 October 2016 were applied towards the consideration paid for the acquisition. The acquisition added £10 billion of assets under administration and 735,000 policyholders to the Group.

The integration of the SunLife Embassy Business and Abbey Life completed ahead of plan delivering cost synergy benefits of £27 million per annum and cumulative cash generation of £968 million.

On 31 August 2018, the Group acquired Standard Life Assurance from Standard Life Aberdeen for total consideration of £2,994 million. Proceeds from a rights issue of 183,522,385 new shares of 518 pence per new share were applied towards the cash consideration of £1,971 million paid for the acquisition. The acquisition added £166 billion of assets under administration and 4.8 million policyholders to the Group. The Group remains on track to deliver its £1.2 billion total synergy target and continues to make strong progress across all aspects of our transition programme following the acquisition of the Standard Life Assurance businesses. Having achieved £115 million of capital synergies in the first half of 2019, the Group had already delivered 85 per cent. of its £720 million target.

The Group has three main staff pension schemes for its employees: the Pearl Pension Scheme, the PGL Pension Scheme and the Abbey Life Pension Scheme. For further information on the Group's pension schemes, see "*Pensions*" in Part II ("*Business Overview of the Group*") of this document.

4. SUMMARY INFORMATION ON REASSURE

The ReAssure Group is a leading life insurance closed book consolidator in the United Kingdom, with approximately 3.0 million policies as at 1 November 2019 and £44 billion of assets under administration and Solvency II Own Funds of £3.6 billion (on a shareholder capital basis and excluding capital qualifying debt) as at 30 September 2019. The ReAssure Group focuses exclusively on the acquisition and management of closed books. It does not write new business, other than offering increments on current policies to existing customers on a passive basis.

The ReAssure Group's Solvency II Own Funds of £3.6 billion at 30 September 2019 represent a £0.7 billion increase since the 31 December 2018 position. This increase was driven by £0.1 billion surplus emergence together with favourable variances from modelling and assumption changes and market movements of £0.3 billion and £0.3 billion respectively. An additional £0.2 billion benefit is attributable to the assumed dynamic recalculation of transitionals. Offsetting these positive variances are ReAssure Group costs and tax charges of £0.2 billion.

In December 2017, the ReAssure Group entered into an agreement to acquire the L&G Business, comprising principally retail customers who hold traditional insurance based pensions and investment products, with assets pre-completion of approximately £30 billion as at 30 September 2019. Additionally, in August 2019, the ReAssure Group announced the acquisition of OMW from Quilter. The OMW Acquisition was completed on 31 December 2019 for a total consideration of approximately £446 million (including interest). The acquired policies and assets of the L&G Business are expected to be transferred to the ReAssure Group in the first half of 2020. Calculated on a post-transferred basis, as at 1 November 2019, ReAssure would have had approximately 4.1 million policies and, as at 30 September 2019, £84 billion of assets under administration. Completion of these two acquisitions would reduce the ReAssure Group's Solvency II Own Funds by £0.1 billion to £3.5 billion.

ReAssure has two principal operating subsidiaries, ReAssure Limited, and Ark Life Assurance Company ("**Ark Life**"), which conduct ReAssure's UK and Irish operations respectively. ReAssure has two other key operating subsidiaries, ReAssure UK Services Limited ("**RUKSL**"), a management service company which provides administration services required by ReAssure Limited and other third party insurance companies, and OMW, the recently acquired heritage life and pensions division of Quilter (which is primarily comprised of a UK-based business and also includes Swedish, German and Norwegian-based businesses). ReAssure Limited and OMW are authorised by the PRA and are regulated by both the PRA and the FCA, RUKSL is regulated by the FCA, and Ark Life is authorised and regulated by the CBI in Ireland.

Calculated on a post-transferred OMW and L&G Business basis, for the year ended 31 December 2018, ReAssure's profit before tax would have been £208 million and its total assets would have been £56.8 billion.

5. INTEGRATION OF REASSURE

Phoenix management has a proven track record of successfully integrating businesses into the Group. The integration of the SunLife Embassy Business and Abbey Life business were completed ahead of plan, generating synergies ahead of target. Phoenix remains on track to deliver the £1.2 billion total synergy target for the transition of the Standard Life Assurance businesses, which is progressing to plan, having already delivered 85 per cent. of its £720 million capital synergy target in the first half of 2019. The Group is therefore able to draw on its skilled resource pool to execute the integration of ReAssure.

The Acquisition affirms Phoenix as Europe's largest life and pensions consolidator and is expected to realise substantial annual cost and capital synergies. The Group will apply a disciplined approach to the integration of ReAssure given the significant integration work that both Phoenix and ReAssure have to deliver over the next two to three years. Phoenix will continue to prioritise completion of the transition of the Standard Life Assurance businesses including delivering a harmonised Internal Model and migrating policy administration onto the TCS BaNCS platform. ReAssure will proceed with delivering the successful integration of the L&G Business and the OMW business including the migration of these policies onto ReAssure's ALPHA administration platform.

Phoenix will therefore follow a phased approach to the integration of ReAssure and will commence a review of the end state operating model for customer service and IT after other integration activity has completed. The cost and capital synergy targets that Phoenix has identified do not therefore assume any additional value arising from this potential integration phase.

6. FINANCING THE ACQUISITION

The total consideration of £3.2 billion payable to Swiss Re will be financed through: (a) total cash consideration of £1.2 billion, and (b) the issuance to Swiss Re (or a nominated member of the Swiss Re Group) of Shares with a value (as determined on the date of the Share Purchase Agreement) of £2.0 billion, part of which will be transferred to MS&AD pursuant to the Swiss Re MS&AD SPA. The number of Acquisition Shares has been determined using a 30 day VWAP up to and including the day before announcement of the Acquisition of 721.3 pence, representing approximately 28 per cent. of the enlarged Phoenix share capital following Completion. The Company proposes to finance the cash consideration through a combination of new or existing debt facilities and own cash resources.

7. CURRENT TRADING, PROSPECTS AND TREND INFORMATION

7.1 Phoenix Group Holdings plc

The Group published its Annual Report and Accounts for the year ended 31 December 2018 on 4 March 2019 and its unaudited half-yearly interim results for the six months ended 30 June 2019 on 6 August 2019. The Group hosted a Capital Markets Day on 28 November 2019, to provide greater insight into how the Group manages its in-force business for cash and resilience. In addition, management outlined the range of options for growth across its Open and Heritage businesses to bring increasing sustainability to long-term cash generation.

Phoenix generated a total of £707 million of cash from the Group's operating companies in 2019, exceeding the upper end of the 2019 cash generation target range of £600 million to £700 million[1]. In addition, the Group added £440 million of incremental long-term cash from new business, comprising £205 million of new Open business in the nine months ended 30 September 2019 and £235 million from £1.1 billion of bulk purchase annuity liabilities contracted in 2019.

As at 30 September 2019, Phoenix had a Solvency II Surplus of £3.0 billion[2], unchanged from 30 June 2019[3], and a Shareholder Capital Coverage Ratio of 156 per cent[4]. The Group sourced £1.1 billion of illiquid assets in 2019 with an average credit rating of A+, delivering a £116 million Solvency II benefit and taking the allocation of illiquid assets backing annuity liabilities to 25 per cent.

Phoenix remains on track to deliver the £1.2 billion total synergy target in connection with the SLA Acquisition, with the transition progressing to plan. In November 2019, the Group confirmed an enlarged partnership with technology and service provider Tata Consultancy Services, to support delivery of its Hybrid Customer Services and IT operating model, the final phase of its transition programme in connection with the SLA Acquisition.

The Group continues to meet or exceed all customer service metrics.

Details of the Group's financial performance can be found in Part V ("*Financial Information of the Group*") and Part VI ("*Operating and Financial Review of the Group*") of this document.

Notes:

(1) 2019 cash generation target is net of the £250 million cost of capitalising SLIDAC for Brexit.

(2) The Solvency II capital position is an estimated position and reflects a regulatory approved recalculation of transitionals as at 30 September 2019 and a £0.1 billion benefit to Solvency II Surplus from a release of longevity reserves.

(3) The 30 June 2019 Solvency II capital position is an estimated position and assumes a dynamic recalculation of transitionals. Had a dynamic recalculation not been assumed, the Solvency II Surplus and the Shareholder Capital Coverage Ratio would decrease by £0.2 billion and 5% respectively.

(4) The Shareholder Capital Coverage Ratio excludes Solvency II Own Funds and SCR of unsupported with-profit funds and the PGL Pension Scheme.

7.2 ReAssure

The ReAssure Group's profit after tax for the six months ended 30 June 2019 was £150.4 million, a decrease of £41.2 million, or 21.5 per cent., compared to £191.6 million for the six months ended 30 June 2018. The decrease primarily reflects the run-off of the existing insurance business, reduction in interest rates and increased liabilities to investment policyholders, offset by improved investment performance and the benefits of the risk transfer arrangements for the L&G Business.

The ReAssure Group had approximately 3.0 million policies as at 1 November 2019 and £44 billion of assets under administration as at 30 September 2019. The ReAssure Group had estimated Solvency II Own Funds of £4.6 billion (on a shareholder capital basis and including £1 billion of capital qualifying debt) and SCR of £3.1 billion as at 30 September 2019 (both on a shareholder capital basis). The estimated Solvency II Surplus of the ReAssure Group as at 30 September 2019 was approximately £1.5 billion, with a Solvency II Shareholder Capital Ratio of 148 per cent.

Details of the ReAssure Group's financial performance can be found in Part VIII ("*Financial Information of the ReAssure Group*") and Part X ("*Operating and Financial Review of the ReAssure Group*") of this document.

8. EMPLOYEES

The ReAssure Group employed 2,299 employees as at 31 December 2018. In connection with the L&G Transaction, a small number of current L&G Group employees will transfer via TUPE to the ReAssure Group. As part of the OMW Acquisition, all in-scope employees were transferred from Quilter to OMW immediately prior to completion and therefore 304 employees were acquired by the ReAssure Group at completion.

9. PRINCIPAL TERMS OF THE ACQUISITION

9.1 Share Purchase Agreement

On 6 December 2019, Phoenix (as buyer), Swiss Re (as seller) and SRL (as guarantor for Swiss Re) entered into a share purchase agreement (the "**Share Purchase Agreement**"). Under its terms, and subject to certain conditions, including the receipt of Shareholder approval and regulatory and antitrust approvals, the entire share capital of ReAssure shall transfer to the Company.

For further details of the terms of the Share Purchase Agreement, see paragraph 1 ("*Principal Terms of the Share Purchase Agreement*") of Part XIV ("*Terms of the Acquisition*") of this document.

9.2 Transitional Services Agreement

On 13 November 2019, RUKSL, on behalf of the ReAssure Group, and Swiss Re Management Limited and Swiss Re Life Capital Management Ltd, on behalf the Swiss Re Group, entered into a transitional services agreement (the "**Transitional Services Agreement**"), which was deemed to take effect from 1 July 2019. The Transitional Services Agreement is designed to ensure that both parties are able to operate their businesses with no or minimal disruption for the term of the agreement. Under the Transitional Services Agreement, certain shared functions and resources which were retained by the Swiss Re Group are provided as a service back to the ReAssure Group. Similarly, for a period of time that has now expired, certain shared functions and resources which were retained by the ReAssure Group were provided as a service back to the Swiss Re Group.

For further details of the terms of the Transitional Services Agreement, see paragraph 2 ("*Principal Terms of the Transitional Services Agreement*") of Part XIV ("*Terms of the Acquisition*") of this document.

9.3 Relationship Agreements

Phoenix has agreed the terms of a relationship agreement to be entered into with each of Swiss Re and MS&AD, in the case of Swiss Re, upon Completion and, in the case of MS&AD, upon the transfer by Swiss Re to MS&AD of Acquisition Shares that represent 10 per cent. or more of the Company's total issued share capital pursuant to the Swiss Re MS&AD SPA, to govern each of Swiss Re's and MS&AD's holdings of Shares and the continuing relationship between the Company and each of Swiss Re and MS&AD following Completion (the "**Relationship Agreements**"). The Relationship Agreements will ensure that the Enlarged Group carries on as an independent business and complies with its obligations under the Listing Rules. Under the Relationship Agreements, Swiss Re and MS&AD will each have the right to appoint one non-executive director to the Board for so long as it holds at least 10 per cent. of the Company's total issued share capital. Subject to certain exceptions, each of Swiss Re and MS&AD will agree in their respective Relationship Agreements to a 12-month lock-up and a two-year standstill following, in the case of Swiss Re, Completion, and in the case of MS&AD, the transfer by Swiss Re to MS&AD of Acquisition Shares that represent 10 per cent. or more of the Company's total issued share capital (except in respect of either of Swiss Re or MS&AD's shares under management).

For further details of the terms of the Relationship Agreements, see paragraph 3 ("*Principal Terms of the Relationship Agreements*") of Part XIV ("*Terms of the Acquisition*") of this document.

10. DIVIDENDS AND DIVIDEND POLICY

The Company's dividend per share was 23.4 pence in respect of the six months ended 30 June 2019. When taking into account the bonus adjustment associated with the rights issue completed at the time of the Abbey Life Acquisition and the SLA Acquisition, the equivalent dividend per share was 46.0 pence in respect of year ended 31 December 2018, 45.2 pence in respect of the year ended 31 December 2017 and 41.9 pence in respect of the year ended 31 December 2016.

Supported by the additional long-term cash flows arising from the Acquisition, Phoenix expects to increase its current dividend per share by 3 per cent., payable from the date of the final 2020 dividend. This will result in an increase in the annualised dividend per share from 46.8 pence to 48.2 pence. The Group intends to maintain its stable and sustainable dividend policy going forward.

The Group currently maintains a significant regulatory capital surplus that is resilient to market movements (as illustrated in the section entitled "*Capital position*" of Part VI ("*Operating and Financial Review of the Group*") of this document) and had £315 million of cash at the holding company level as at 30 June 2019, providing further support for its stable and sustainable dividend policy.

11. FURTHER INFORMATION

Your attention is drawn to the further information set out from Part II ("*Business Overview of the Group*") to Part XV ("*Additional Information*") of this document. Shareholders should read the whole of this document and not rely solely on the information set out in this letter. In addition, you should consider the risk factors in the section of this document headed "*Risk Factors*".

12. TAXATION

Certain information about UK taxation is set out in Part XIII ("*Taxation*") of this document. If you are in any doubt as to your tax position, or you are subject to tax in a jurisdiction other than the UK, you should consult your own independent tax adviser without delay.

13. GENERAL MEETING

The notice of General Meeting to be held at 10.00 a.m. on 13 February 2020 at Juxon House, 100 St. Paul's Churchyard, London EC4M 8BU is set out at the end of this document (the "**Notice of General Meeting**"). The purpose of the General Meeting is to seek Shareholders' approval to the resolutions set out in the Notice of General Meeting (collectively, the "**Resolutions**"). Each of the Resolutions will be proposed as ordinary resolutions.

Due to its size, the Acquisition constitutes a class 1 transaction under the Listing Rules and therefore requires the approval of Shareholders by ordinary resolution. Shareholders will also be asked to approve the allotment of the Acquisition Shares to be issued to Swiss Re (or a nominated member of the Swiss Re Group) in connection with the Acquisition.

The Resolutions are summarised below:

Resolution 1

Resolution 1 will be proposed as an ordinary resolution requiring a simple majority of votes in favour.

Resolution 1 proposes that the Acquisition be approved and that the Directors be authorised to take all steps and enter all agreements and arrangements necessary or appropriate to implement the Acquisition.

Resolution 2

Resolution 2 will be proposed as an ordinary resolution requiring a simple majority of votes in favour. Resolution 2 is subject to and conditional on the passing of Resolution 1.

Resolution 2 proposes that the Directors be generally and unconditionally authorised to allot and issue equity securities to Swiss Re (or a nominated member of the Swiss Re Group) in connection with the Acquisition, up to an aggregate nominal amount of £27,727,713.80 (representing 277,277,138 Shares). If granted, this authority will expire at the conclusion of the annual general meeting of the Company to be held in 2021.

14. ACTION TO BE TAKEN IN RESPECT OF THE GENERAL MEETING

A Form of Proxy for use at the General Meeting is enclosed with this document. Whether or not you intend to be present at the General Meeting, you are requested to complete and return the Form of Proxy, in accordance with the instructions printed thereon, as soon as possible and in any event so that it may be received by the Registrar not later than 10.00 a.m. on 11 February 2020. Completion and return of the Form of Proxy will not preclude Shareholders from attending and voting in person at the General Meeting should they wish to do so.

15. FINANCIAL ADVICE

The Board has received financial advice from BofA Securities, Citigroup and HSBC in relation to the Acquisition. In providing such financial advice to the Board, BofA Securities, Citigroup and HSBC have relied upon the Board's commercial assessments of the Acquisition.

16. RECOMMENDATION AND VOTING INTENTIONS

The Board believes the Acquisition and the Resolutions are in the best interests of the Group and Shareholders as a whole and, accordingly, unanimously recommend that the Shareholders vote in favour of the Resolutions as the Board intends to do, or procure, in respect of their own beneficial holdings amounting to 1,357,756 Shares representing approximately 0.19 per cent. of the Company's existing issued share capital.

Yours faithfully,

for and on behalf of Phoenix Group Holdings plc

Nicholas Lyons
Chairman

PART II — BUSINESS OVERVIEW OF THE GROUP

Business overview

The Group is the largest specialist consolidator of life assurance and pensions funds in Europe by assets under administration ("**AUA**") and number of policies, with businesses in the UK, Germany and Ireland.

As at 30 June 2019, the Group had approximately 10 million policies, £245 billion of assets under administration and Solvency II Own Funds of £10.8 billion. The Group has a broad range of both Heritage and Open products and has three key business segments: UK Heritage, UK Open and Europe.

The Group's UK Heritage business specialises in the acquisition and management of closed life insurance and pension funds.

Transactions in the bulk purchase annuity market offer a complementary source of growth for the Group and the management actions the Group delivers help increase and accelerate cash flows.

Alongside this, the Group's "Open" business manufactures and underwrites new products and policies to support people saving for their future in areas such as workplace pensions and self-invested personal pensions.

The "Open" business is supported by a strategic partnership with Standard Life Aberdeen following the SLA Acquisition. The Group also has a market leading brand – "SunLife" – which sells a range of financial products specifically for the over 50s market.

The Group's European business contains both Heritage and Open business split across Germany and Ireland.

History

PGH Cayman (the former holding company of the Group), previously named Liberty International Acquisition Company, then Liberty Acquisition Holdings (International) Company and then Pearl Group, was incorporated on 2 January 2008 under the laws of the Cayman Islands as an exempted company with limited liability, under registration number 202172. PGH Cayman was originally formed as a non-operating special purpose acquisition company by Berggruen Acquisition Holdings II Ltd and Marlin Equities IV, LLC to acquire one or more operating businesses with principal activities outside North America.

Units of PGH Cayman, comprising both the shares of PGH Cayman and the warrants in respect of such shares were initially admitted for trading on Euronext Amsterdam on 6 February 2008. However, shares of the PGH Cayman and the warrants in respect of such shares began to trade separately on 14 March 2008, following which the units ceased to exist as separate securities and were no longer listed.

On 29 June 2009, PGH Cayman announced that it had agreed to acquire PGH2 and its subsidiaries. PGH2 was established in April 2005 in connection with the £1.1 billion acquisition of HHG plc's closed life companies by, amongst others, TDR Capital Nominees Limited and certain principals of Sun Capital Partners, and was further expanded in connection with the £5 billion acquisition of Resolution plc in May 2008 and the simultaneous sale of certain assets and companies held by Resolution plc to The Royal London Mutual Insurance Society Limited for £1.3 billion. The acquisition of PGH2 completed on 2 September 2009 when PGH Cayman changed its name to Pearl Group.

On 25 March 2014, the Group agreed to dispose of the entire issued share capital of Ignis Asset Management to Standard Life Investments, in return for total consideration of £390 million which was paid in cash upon completion of the divestment. Ignis Asset Management was the Group's asset management business, providing asset management and asset and liability management services to certain of the Phoenix Life Companies as well as to a third party client base of retail, wholesale and institutional investors in the UK and overseas. Completion of the divestment occurred on 1 July 2014. A payment of £6 million was made to Standard Life Investments on 24 September 2014 in relation to certain post-closing balance sheet adjustments. PGH Cayman and Standard Life Investments also reached agreement on a long-term strategic asset management alliance. The proceeds of the divestment were used to prepay £250 million of certain of the Group's debt facilities.

On 29 June 2015, the Group entered into an agreement to divest Scottish Mutual International Limited (which had 3,000 remaining policyholders) for £14 million. This divestment was completed on 2 December 2015.

On 9 November 2015, PGH Cayman entered into an agreement with RGA International Reinsurance Company Limited ("**RGA International**"), an external reinsurer, effective from 1 November 2015, to reinsure substantively all of the PLAL annuity liabilities previously ceded to Opal Reinsurance Limited, a subsidiary undertaking of PGH Cayman. The Group paid a reinsurance premium of £1,346 million to RGA International.

On 1 November 2016, the Group acquired the SunLife Embassy Business from AXA UK for £373 million in cash. The acquisition added £12 billion of assets under administration and over 910,000 policyholders to the Group.

On 30 December 2016, the Group acquired ALAC, Abbey Life Trustee Services Limited and Abbey Life Trust Securities Limited from Deutsche Holdings, a wholly-owned subsidiary of Deutsche Bank for £933 million in cash. Proceeds from a rights issue of 144,727,282 new shares at 508 pence per new share, which closed on 25 October 2016, were applied towards the consideration paid for the acquisition.

The integration of the SunLife Embassy Business and the Abbey Life business completed ahead of plan delivering cost synergy benefits of £27 million per annum and cumulative cash generation of £968 million.

On 6 August 2015, PLL and PLAL were assigned the Insurer Financial Strength Rating of "A" with a stable outlook by Fitch Ratings Ltd. The outlook was revised to positive on 27 May 2016. On 25 July 2017, the Group announced that the Insurer Financial Strength Rating of PLL and PLAL had been upgraded to "A+" with a stable outlook.

On 31 August 2018, Phoenix completed the £3.0 billion acquisition of the Standard Life Assurance businesses and entered into a strategic partnership with Standard Life Aberdeen. This transaction established the Group as the largest life and pensions consolidator in Europe with £226 billion of AUA and 10 million policies as at 31 December 2018. Not only did the acquisition bring additional scale to the Group's heritage business, but Phoenix also acquired a significant open business in the form of Standard Life branded insurance products which the Group is committed to growing.

Under a scheme of arrangement in accordance with section 86 of the Cayman Islands Companies Law between PGH Cayman and its shareholders, all of the issued shares in PGH Cayman were cancelled and an equivalent number of new shares in PGH Cayman were issued to Phoenix in consideration for the allotment to PGH Cayman shareholders of one ordinary share in Phoenix for each ordinary share in PGH Cayman that they held on the scheme record date, 12 December 2018.

The scheme of arrangement had the effect of Phoenix being inserted above PGH Cayman in the Group legal entity organisational structure and constituted a group reconstruction. The UK listing of Phoenix Group Holdings plc as a UK-registered company in place of its former Cayman Islands registration was the final stage of regularising its legacy residency and incorporation status and followed the movement of central management and control for Phoenix from Jersey to the UK in January 2018.

Recent Developments

On 27 June 2019, Phoenix entered into a credit agreement between, among others, Phoenix and NatWest Markets Plc (as agent) (the "**Revolving Credit Agreement**"). Under the Revolving Credit Agreement, the lenders have made available a multicurrency revolving loan facility in an aggregate principal amount equal to £1.25 billion, which bears a floating rate of interest.

The Group hosted a Capital Markets Day on 28 November 2019, to provide greater insight into how the Group manages its in-force business for cash and resilience. In addition, management outlined the range of options for growth across its Open and Heritage businesses to bring increasing sustainability to long-term cash generation.

Competitive Strengths, Strategy and Market Overview

Competitive Strengths

The Group believes that its competitive strengths are as follows:

As the Group is focused on the efficient management of in-force policies, the Group has high visibility of its cashflows over the long-term due to the predictable nature of the Group's funds.

The Group's closed life funds provide predictable fund maturity and liability profiles, generating long-term cashflows supporting payment of pension obligations, distributions to shareholders and payment of outstanding debt obligations. The Group will continue to focus on the efficient management of in-force policies and, even when taking into account the Group's "open" business, the Group does not need to allocate significant capital to support the writing of new policies. Instead, the largest part of the costs of the

Group's closed life funds are recurring expenses. Further information on how the Group focuses on efficient management of in-force policies, see paragraph "*Strategy of the Group*" below.

The Group's cashflows are largely generated from the interest earned on capital, policyholder charges and participation in investment returns. Although the impact of the Group's participation in investment returns is not predictable, investment risks are mainly borne by policyholders in accordance with the terms of the relevant policies. In addition, as certain of the Phoenix Life Companies' policies run off, excess capital supporting these liabilities can be released from certain of the Phoenix Life Companies to their shareholders, the Holding Companies. The predictable stream of profits from the run-off of the closed life funds provides some certainty of tax relief on debt interest. In 2017, 2018 and 2019 £653 million, £664 million and £707 million, respectively, of cash was distributed from certain of the Phoenix Life Companies to the Holding Companies.

The Group is the largest life and pensions consolidator in Europe by AUA and number of policies, with a simplified and scalable business model, allowing it to benefit from economies of scale, diversification benefits and the ability to save costs both internally and through outsourcing arrangements.

With approximately 10 million policies and £245 billion AUA (based on figures as at 30 June 2019), the Group is the largest life and pensions consolidator in Europe by AUA and number of policies. The Group has a track record and an expertise in creating value through integration of acquisitions and financial management, including through realising synergies from acquisitions and focusing on improving outcomes for policyholders of closed life funds. The Group believes that these factors position the Group as a leading consolidator of closed life funds, resulting in a significant value creation opportunity.

The Group believes that its business model provides additional value and scalability, by using outsourced service providers to match its cost base to the run-off profile of the policies held within the Group's closed life funds, as the charges of outsourced service providers are generally based on a variable, per policy cost structure.

The Group seeks to manage the level of costs and required capital by combining life funds, allowing for greater diversification of risks.

There are a range of growth opportunities, allowing the Group to develop a sustainable business model.

The Group has a range of opportunities to grow both organically and inorganically across its heritage and open business segments. Organic growth will be driven by the sale of new business under the Standard Life and Sun Life brands in the Open business segment and through the provision of vesting annuities to existing policyholders in the Heritage business segment. Inorganic growth opportunities include bulk purchase annuities and further acquisitions. As the drivers for consolidation in the life insurance sector are increasing, the Group believes institutions will look to divest their capital intensive closed business to consolidators such as the Group. The Group has a proven track record of delivering value accretive acquisitions and is well placed to take advantage of these growth opportunities as and when they arise.

This range of growth opportunities bring sustainability to Phoenix's business model and its cash generation.

There is significant opportunity to create value and accelerate cashflows through the continued implementation of management actions.

The Group follows an approach and infrastructure for the efficient and effective structuring, integration and management and the investments they hold through a range of management actions. By applying a consistent framework across the Group, the Group believes that an efficient operating model will reduce risk, complexity and cost, deliver long-term stability of customer service through efficient cooperation with the Group's outsourcing partners, increase Solvency II Own Funds, and release capital to shareholders. An example of management actions involves the consolidation of a disparate collection of actuarial valuation models onto a single platform, the actuarial systems transformation programme, with the aim of reducing operational risk (and associated capital) of actuarial modelling, improving the quality and frequency of capital monitoring and improving cost efficiency through the simplification and standardisation of actuarial processes.

The Group believes that there are opportunities to further increase value and cashflows to the Holding Companies through additional management actions. Further actions that can create value include the investment in illiquid asset classes such as equity release mortgages.

The Group actively manages its assets and liabilities to help protect and enhance policyholder and shareholder returns.

The Group aims to manage its assets and liabilities to ensure a prudent approach to risk and to give it the ability to use capital efficiently whilst having more control over management of investment and market risk for both policyholders and shareholders. This includes the matching of asset and liability cashflows to reduce capital requirements. In particular, the release of capital through the elimination of unrewarded risk can enable the achievement of higher risk adjusted returns.

Strategy of the Group

The Group is the largest specialist consolidator of life assurance and pensions funds in Europe with businesses in the UK, Germany and Ireland. It has a broad range of both Heritage and Open products and has three key business segments: UK Heritage, UK Open and Europe.

The Group's UK Heritage business comprises "capital heavy" products that are no-longer actively marketed to customers and is therefore "closed" to new business. This segment has been built through the consolidation of many legacy insurance brands and represents the Group's specialism in the acquisition and management of closed life insurance and pension funds.

The UK Open business comprises "capital light" products that are actively marketed to new and existing customers primarily under the Standard Life brand through the strategic partnership with Standard Life Aberdeen entered into through the £3.0 billion SLA Acquisition in 2018.

The Group's European business comprises business written in Ireland, Germany and Austria and a mix of Heritage and Open products.

The Group seeks to use its expertise to deliver value for shareholders and customers and improve customer outcomes. To enable this, the Group's strategy is to:

(i) act as a consolidator of life and pensions books, predominantly those that are closed to new business;

(ii) deploy its specialist skills in operational efficiency, the use of preferred strategic partnerships to reduce costs and improve efficiency; and

(iii) apply its expertise in capital management, regulation and other key areas to achieve better outcomes for customers and shareholders.

The Group has a consistent approach to the management of its £245 billion in-force business which aims to bring resilience to the capital position of the Group and therefore deliver dependable long-term cash generation.

Phoenix has a range of growth opportunities that bring sustainability to the Group's cash generation profile including growth of the Open business in both the UK and Europe, bulk purchase annuities and potential for further acquisitions.

In the normal course of business, the Group may enter into further acquisitions or execute additional bulk purchase annuity transactions in the short term that meet its acquisition criteria, but which are not expected to require the Group to enter into further funding arrangements.

Market Overview

Closed life funds market

Changes in customer behaviour, market dynamics and the regulatory environment have resulted in insurers closing their old-style capital-heavy insurance product lines to new business, replacing them with capital-light investment style products. The Group expects to see continued consolidation in the closed life funds market in the future. This is likely to be driven by the significant capital held within closed funds that owners may wish to redeploy, more intrusive regulation leading to pressure on owners and fixed cost pressures as closed funds decline in size over time.

The Group continues to seek opportunities to acquire and manage closed life funds. The Group's scale allows the generation of capital efficiencies through the diversification of risks and the wide range of product types that the Group currently manages provides a scalable platform for integrating further closed funds. In addition, the Group benefits from a variable cost model given the Group's outsourcing model and an approved Phoenix Internal Model which provides greater clarity over capital requirements.

Bulk purchase annuities market

Many defined benefit pension schemes are now closed to new members, but have liabilities that will continue for many decades into the future. The bulk purchase annuities market offers employers the ability to mitigate the risk of their defined benefit pension liabilities whilst allowing the pension scheme trustees the ability to secure and protect their members' benefits.

The size of the bulk purchase annuities market is significant, with in excess of £20 billion of transactions completed in 2018 and approximately £40 billion of transactions completed in 2019. Demand for transactions is expected to remain high in 2020.

Having completed three bulk purchase annuity transactions in 2018 with external pension schemes and four further transactions in 2019, the Group has the acquisition experience and proven skills set to compete in this market and is targeting winning bulk purchase annuities liabilities of approximately £1.0 billion per annum.

Standard Life

Phoenix will continue to write new business under the Standard Life brand through a strategic partnership with Standard Life Aberdeen. Phoenix is committed to the development of the Standard Life proposition which holds a strong position across the following markets:

Workplace pensions

The introduction of auto-enrolment, which obliges employers to provide and contribute to a workplace scheme for all eligible members, has resulted in strong growth in the workplace pensions market with more than 9.5 million people automatically enrolled through the scheme since 2012 (*source: Office for National Statistics*). Recent trends have included scheme reviews and employers shifting from unbundled to bundled arrangements.

Continued growth is expected in the defined contribution workplace pensions market. 280,000 customers joined existing employer schemes in 2018 and the increase in mandatory contribution rates from 5 per cent. to 8 per cent. from April 2019 has contributed to the growth of this business.

Standard Life has built a strong proposition to compete in this market with 15,000 active schemes serving 1.9 million customers and harnessing the benefit of strong relationships with large employer benefit consultants and employers.

Retail pensions

The retail pensions book is in part built up by a strategic partnership with Standard Life Aberdeen selling retail pensions products via independent advisers and, as at 30 June 2019, had approximately 800,000 policies with approximately 8,000 new drawdown policies in the first half of 2019.

The retail pensions products offering has a strong digital and service offering which is critically important in this marketplace. By offering a solution for both accumulation and decumulation, customers can keep their assets in the decumulation phase of their life and consolidate pension pots with other providers into one vehicle.

This flexibility enables the Group to keep its customers in the longer term and retain AUA with the Group evidenced by the steady flow of customers moving from its workplace schemes to retail pensions when they change employer.

The Group supports the introduction of the pensions dashboard and is engaging with the Department of Workplace Pensions alongside the rest of the industry. The Group believes its business will benefit from customers' greater visibility of their retirement savings and increased engagement.

Wrap

The Wrap platform is owned and operated by Standard Life Aberdeen offering a range of Standard Life branded products provided by the Group. The Wrap platform offers a high level of functionality which differentiates it from other platforms and the strong and integrated relationship with advisers gives it a market leading position.

Whilst the platform market is very crowded and highly competitive, the SLA platform (Wrap and Elevate combined) remains number one in the market based on advised gross volumes and is well placed to grow in the future.

Europe

The Group's European businesses in Germany and Ireland sell unit linked investment style business and the international bond is sold by Standard Life Aberdeen through the retail market and investment platform. The Group's European business is specifically targeted to the more affluent population via broker distribution channels.

The strong Standard Life brand recognition and a financially strong parent support new business growth.

SunLife

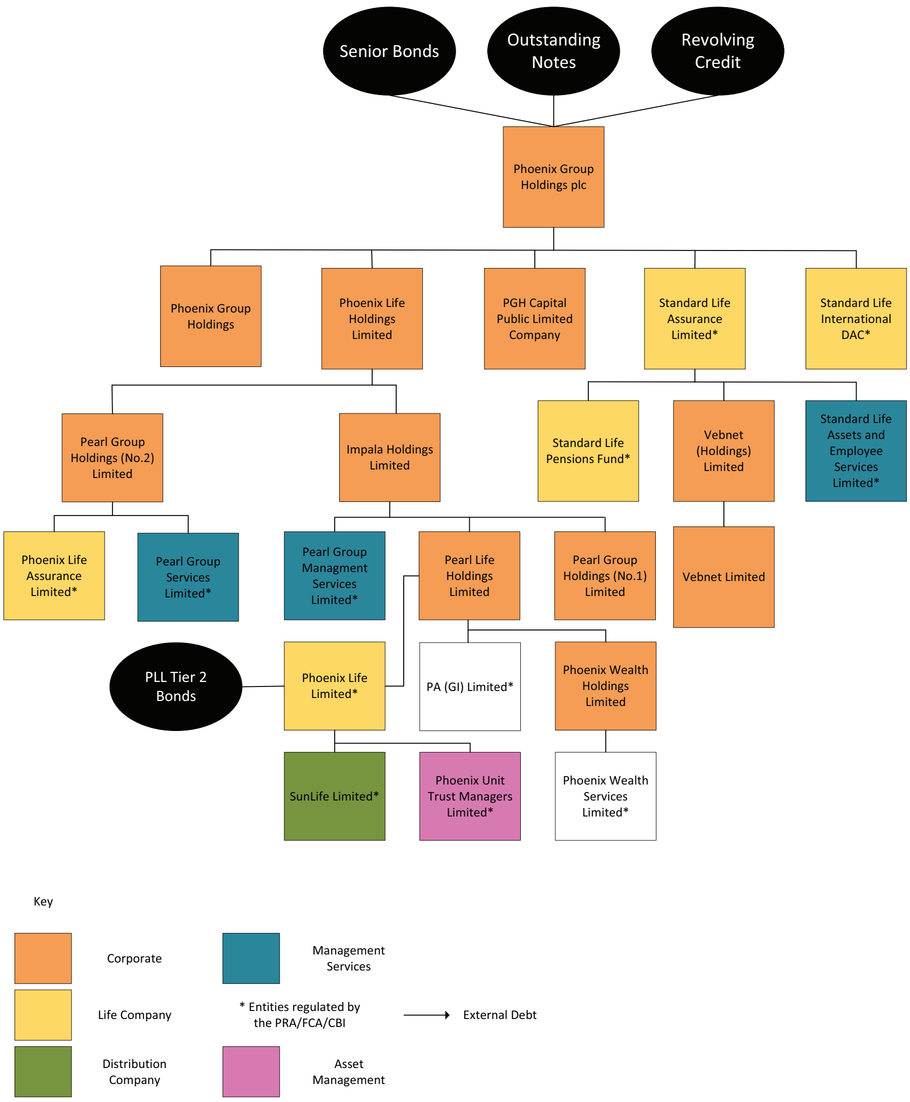
SunLife specialises in the distribution of insurance products to the over 50s. Phoenix underwrites and administers the life and pensions products within their range including life cover and funeral plans.

The Group will continue to invest in the SunLife brand and its service offering which in 2018 was awarded the Feefo Gold Trusted Service Provider for the third year running.

Structure of the Group

Current structure

The following chart gives an overview of the legal structure of the Group and its principal companies as at the date hereof.



Note:

(1) For the purposes of the structure chart above, the term 'Outstanding Notes' means the 2022 Notes, the 2025 Notes, the 2027 Notes, the 2029 Notes and the RT1 Notes.

The following table gives an overview of the Group's business segments as at the date hereof.

	UK Heritage	UK Open	Europe
In Force	With-profits Unit linked Annuities Protection	Unit linked: ● Workplace ● Retail pension ● Wrap	Ireland: ● Unit linked ● With-profits ● Annuities Germany: ● With-profits ● Unit linked
New Business	Vesting annuities Bulk purchase annuities	Unit linked	Unit linked

UK Heritage Business

In Force

The UK heritage business has been built from two decades of consolidation and comprises many legacy brands including Britannic, Pearl, Scottish Mutual, SunLife, Abbey Life and Standard Life. It has a broad range of life and pensions products which provide Phoenix with natural diversification.

The Group's strategy for its UK heritage business is to deliver value to shareholders and customers and to improve customer outcomes. Heritage business cash generation runs off at 5 to 7 per cent. per annum depending on the particular features of each legacy book. Organic cash emerges naturally from the Group's UK heritage business as it runs off over time and the Group enhances this organic cash generation through the delivery of management actions which either increase the overall cash flows from the business or accelerate the timing of these cash flows. Integral to the efficient management of the UK heritage business is ensuring that the Group's cost base reduces more quickly than the policy count runs off.

New business

The Group generates new business in the heritage business segment through vesting annuities and bulk purchase annuities, or from incremental contributions from existing pensions.

The Group offers annuities to existing policyholders when their pension policies vest. The majority of the Group's vesting annuities are from pension policies which included guaranteed annuity options on maturity.

In 2018, the Group successfully entered into the bulk purchase annuity market completing three transactions during the year and completed four further transactions in 2019. The bulk purchase annuity market is a potential source of value accretive annuity liabilities and the Group will continue to participate in this market in a proportionate and selective manner.

UK Open Business

In Force

Open business mainly relates to those products being sold under the Standard Life brand but also includes those aimed at the over 50's market distributed by SunLife. AUA in the Group's open business are held in three product lines: Workplace, Retail pensions and Wrap. These are predominantly unitised products which have no guarantees and where investment risk sits with the customer. The Group's open business therefore comprises capital-light products. The Group's strategy for its open business is shared with its heritage book as the Group aims to deliver value to shareholders and customers alike. The Group's strategic partnership is important in supporting that strategy.

New business

The Group's open business is growing through new business generated through the SLA Client Service and Proposition Agreement with Standard Life Aberdeen. Under this agreement, Standard Life Aberdeen is responsible for the distribution, branding and marketing of products. Standard Life Aberdeen does this through its existing networks of retail and independent advisors and for some products using their successful investment platform. The exception to this is Workplace pensions products where distribution is performed by the Group.

Responsibility for the Wrap platform, which hosts some of the Group's investment products such as Wrap SIPP and offshore bond also sits with Standard Life Aberdeen. Where a customer needs or wants advice it can be delivered by Standard Life Aberdeen's in house advice arm. Phoenix are responsible for providing the insurance product and the administration once the product is sold – this plays very much to the Group's strengths given its existing expertise in product administration. The relationship is built to work seamlessly for customers with the full proposition from distribution through to administration being done under the Standard Life brand.

Under the agreement, Phoenix collects product charges from customers and remits investment management fees to Standard Life Aberdeen. Where relevant, Standard Life Aberdeen may also collect platform charges directly from the customer. The SunLife business also generates new business across its range of over 50's products.

Europe

In Force

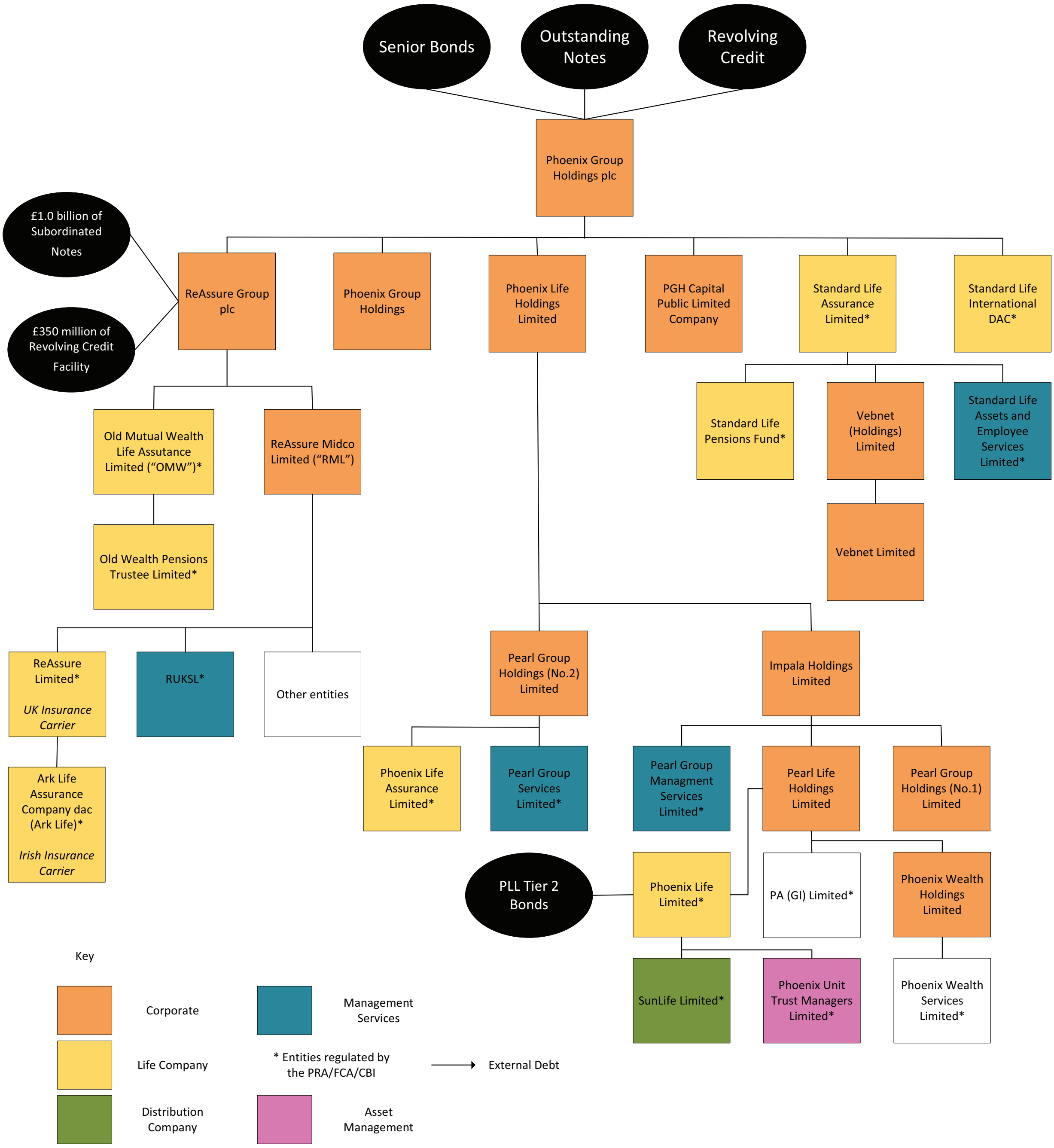
Germany closed its with-profits business to new business in 2015 and now distributes only unit linked life assurance products which have no material guarantees. These products target the over 50's market and utilise the broker distribution channels through operations in Frankfurt and Graz, Austria. The international bond business is all open business managed from the Group's Dublin office targeting customers in the UK. The international bonds are unit linked products distributed by retail advisers, banks and wealth managers. There is also a unit linked investment proposition for both the pre- and post-retirement market in Ireland. The Irish business is also capital-light in nature and is distributed through adviser channels.

New business

New business is written across all open product lines of the Group's European business. The international bond is sold by Standard Life Aberdeen through the retail market and the investment platform. All other open products are sold by the European units themselves.

Structure of the Group post-Completion

The following chart gives an overview of the legal structure of the Group and its principal companies as it will be immediately following Completion.



Management services

Each of the Phoenix Life Companies is responsible to its policyholders for the administration of its policy portfolio and the provision of policyholder services, such as the collection of premiums, the provision of policyholder statements, the settlement of claims, the provision of website access and information, and the provision of policyholder information and other related support through contact service centres.

In order to allow the Phoenix Life Companies to benefit from economies of scale, efficient and scalable outsourcing partnerships and an innovative integrated technology infrastructure, the Group's three UK management service companies, PGS, PGMS and SLAESL provide, or manage the provision of, policyholder services for certain Phoenix Life Companies under management service agreements. PGS, PGMS and SLAESL are similar in the way they operate and are managed as a single operating unit with consistent and streamlined management oversight committees. By using management service companies, the Phoenix Life Companies benefit from increased price certainty and a transfer of some operational risks to the management service companies.

If the number of policies held by the Group gradually declines over time, the fixed cost base of the Group's operations as a proportion of policies may increase. The Group's management service companies manage this risk by putting in place long-term arrangements for third party policy administration that benefit from scale. By paying a fixed price per policy to the outsourced service providers, the Group minimises the fixed cost element of its operations and allows for positive scalability following acquisitions.

Specialist roles such as finance, actuarial and risk management are retained in-house, ensuring the Group retains full control over the core capabilities necessary to manage, operate and integrate open and heritage businesses. The Phoenix Life Companies continue to retain ultimate responsibility to their policyholders, actively manage service provision and aim to achieve improvement in the quality of services delivered to policyholders.

The Directors believe that consolidating policyholder and administration services within the Group's UK management service companies delivers long-term stability for policyholders and also enables the Phoenix Life Companies to share the costs of the provision of these services and other overhead costs, thereby allowing the Group to benefit from efficiencies, reductions in operational risks and the release of risk capital.

In addition, Phoenix Life also has a management service company incorporated in Ireland, Pearl Group Management Services (Ireland) Limited, which provides policy administration services to Scottish Mutual International Limited (a former Group company) under a management services agreement and a transitional services agreement.

Capital

Solvency Capital Requirements ("SCR")

Following completion of the Onshoring of the Group, a new UK-registered holding company, Phoenix was put in place in December 2018. The new company is the ultimate parent company and the highest EEA insurance group holding company.

In accordance with EIOPA and PRA requirements, since 1 January 2016 the Group has undertaken a Solvency II capital adequacy assessment and Group supervision at the level of the highest EEA insurance group holding company, being Phoenix as at the date of this document.

Solvency II Surplus

A Solvency II capital assessment involves a valuation in line with Solvency II principles of the Group's Own Funds and a risk-based assessment of the Group's SCR. Phoenix's Own Funds differ materially from the Group's IFRS equity for a number of reasons, including the recognition of future shareholder transfers from the with-profits funds and future management charges on investment contracts, the treatment of certain subordinated debt instruments as capital items, and a number of valuation differences, most notably in respect of insurance contract liabilities and intangible assets.

The SCR is calibrated so that the likelihood of a loss exceeding the SCR is less than 0.5 per cent. over one year. This ensures that capital is sufficient to withstand a broadly '1-in-200 year event'.

In December 2015, the Group was granted the PRA's approval for use of the Phoenix Internal Model to assess capital requirements, the scope of which was extended to include the acquired SunLife Embassy Business, a pensions and investments business offering a range of propositions catering to both individual and corporate requirements, and SunLife, a leader in the over 50s protection sector (together, "**AXA Wealth**") and Abbey Life businesses in March 2017 and March 2018 respectively.

The acquired Standard Life Assurance businesses determine their capital requirements in accordance with an approved Internal Model, which was in place prior to the acquisition of those businesses. The one exception to this is Standard Life International, the Group's Irish subsidiary, which remains on Standard Formula. As a result, the Group currently uses a partial Internal Model ("**PIM**") to calculate Group SCR, aggregating outputs from the existing Phoenix Internal Model, the Standard Life Internal Model and Standard Life International's Standard Formula, without further diversification. A harmonisation programme to combine the two models into a single Internal Model is ongoing.

The consolidated Phoenix Solvency II Surplus position at 30 June 2019 is set out in the table below:

	Estimated position as at 30 June 2019
	(£bn)
Own Funds[1]	10.8
SCR[2]	(7.8)
Surplus[3]	3.0[4]

Notes:

(1) Own Funds includes the net assets of the life and holding companies calculated under Solvency II rules, pension scheme surpluses calculated on an IAS19 basis are not exceeding the holding companies' contribution to the Group SCR and qualifying subordinated liabilities. It is stated net of restrictions for assets which are non-transferable and fungible between Group companies within a period of nine months.

(2) The SCR reflects the risks and obligations to which Phoenix is exposed.

(3) The surplus equates to a regulatory coverage ratio of 139 per cent. as at 30 June 2019 (FY18:146 per cent.).

(4) The estimated Solvency II Surplus as at 30 June 2019 includes a dynamic recalculation of TMTP, in anticipation of the mandatory recalculation required as at 31 December 2019. Had the dynamic calculation not been performed, the surplus would have been £0.2 billion lower.

The Solvency II Surplus excludes the surpluses arising in the Group's unsupported with-profits funds and the PGL Pension Scheme of £2.0 billion as at 30 June 2019. In the calculation of the Solvency II Surplus, the SCR of the with-profits funds and the PGL Pension Scheme is included, but the related Own Funds are recognised only to a maximum of the SCR amount. Surpluses that arise in with-profits funds and the PGL Pension Scheme, whilst not included in the Solvency II Surplus, are available to absorb economic shocks. This means that the headline surplus is resilient to economic stresses.

Excluding the SCR and Own Funds relating to the unsupported with-profit funds and the PGL Pension Scheme, the Shareholder Capital Coverage Ratio was 160 per cent. as at 30 June 2019. The Group targets a Shareholder Capital Coverage Ratio of 140 to 180 per cent.

The sensitivity of the Group's Solvency II Surplus for a number of financial scenarios is provided below, assuming the stress occurred on 1 July 2019:

	Estimated Group Solvency II Surplus as at 30 June 2019
	(£ billion)
Base: 30 June 2019	3.0
Following a 20 per cent. fall in equity markets	3.0
Following a 15 per cent. fall in property values	2.8
Following a 60 basis points interest rates rise[1]	3.0
Following a 80 basis points interest rates fall[1]	2.9
Following a credit spread widening[2]	2.7
Following a 6 per cent. decrease in annuitant mortality rates[3]	2.5
Following a 10 per cent. increase in annuitant mortality rates	2.9
Following a 10 per cent. change in lapse rates[4]	2.6

Notes:

(1) Assumes recalculation of transitionals (subject to PRA approval).

(2) Credit stress equivalent to an average 120 basis points spread widening across ratings, and includes an allowance for defaults/downgrades.

(3) Equivalent of six months increase in longevity applied to the annuity portfolio.

(4) Assumes most onerous impact of a 10 per cent. increase/decrease in lapse rates across different product groups.

Minimum Capital Requirement

Solvency II sets out two methods for calculating Group solvency, 'Method 1' (being the default accounting based consolidation method) and 'Method 2' (a deduction and aggregation method). Method 2 is used for all entities within the Standard Life Assurance businesses acquired pursuant to the SLA Acquisition and Method 1 is used for all other entities in the Group. The Group has approval to use a combination of Methods 1 and 2 for consolidating its Group solvency results.

The SCR is an Own Funds level that an insurer is required to maintain by the PRA pursuant to Solvency II. The Group SCR requires the SCR for the Method 1 group of entities to be aggregated with the SCR of the Method 2 entities, with no allowance for further diversification. The solo minimum capital requirement ("**MCR**") is intended to be the minimum amount of capital an insurer is required to hold pursuant to Solvency II below which policyholders and beneficiaries would become exposed to an unacceptable level of risk if an insurer was allowed to continue its operations. For groups, the minimum consolidated group SCR serves as a proxy for a 'group MCR'. The minimum Group SCR of the Method 1 part of the Group is referred to below as the "**MGSCR**" and represents the sum of the underlying insurance companies' MCRs in respect of the Method 1 part of the Group. This therefore excludes the Method 2 sub-group comprising the Standard Life Assurance businesses acquired pursuant to the SLA Acquisition. While the Solvency II regime requires the aggregation of a single Group SCR, this is not the case for the Group under the Solvency II reporting requirements in the context of the MGSCR.

MCR is calculated according to a formula prescribed by the Solvency II regime and is subject to a floor of 25 per cent. of the SCR or €3.7 million, whichever is higher, and a cap of 45 per cent. of the SCR. The MCR formula is based on factors applied to technical provisions and capital at risk.

The eligible Own Funds to cover the MCR or MGSCR is subject to quantitative limits as shown below:

- the eligible amounts of Tier 1 items should be at least 80 per cent. of the MCR / MGSCR; and
- the eligible amounts of Tier 2 items shall not exceed 20 per cent. of the MCR / MGSCR.

The Group's MGSCR at 30 June 2019 was £1.2 billion (31 December 2018: £1.0 billion).

The Group's Method 1 eligible Own Funds to cover the MGSCR as at 30 June 2019 was £3.9 billion (31 December 2018: £4.2 billion) leaving an excess of eligible Own Funds over MGSCR of £2.7 billion (31 December 2018: £3.2 billion), which translates to an MGSCR coverage ratio of 334 per cent. (31 December 2018: 401 per cent.). This MGSCR coverage ratio is not expected to be impacted by the Acquisition as Phoenix will seek the approval of the PRA to aggregate the ReAssure Group under Method 2.

The aggregated minimum capital requirement for the Method 2 sub-group equated to £1.3 billion as at 30 June 2019 (31 December 2018: £1.2 billion), with eligible Own Funds for that sub-group also of £5.0 billion (31 December 2018: £4.2 billion), leaving an excess of eligible Own Funds of £3.7 billion (31 December 2018: £3.0 billion). This would translate into an aggregated MCR coverage ratio of 386 per cent. (31 December 2018: 366 per cent.) for the Method 2 sub-group and means that, if a single MGSCR for the entire Group had been required to be calculated as at 30 June 2019, the MGSCR would have been 27 percentage points higher (31 December 2018: 18 percentage points lower) than the actual reported MGSCR.

	Estimated 30 June 2019	**31 December 2018**
	(£bn)	*(£bn)*
Eligible Own Funds to cover MGSCR		
Tier 1	3.7	4.0
Tier 2	0.2	0.2
Total eligible Own Funds to cover MGSCR	3.9	4.2

Outsourcing Relationships

The Group's outsourced service providers are specialist providers of life and pensions administration services, asset management and fund administration services, with the know-how, expertise and business models that put policy administration services or asset management services at the core of their service offerings. The services provided by outsourced service providers include policy administration, human resources, financial administration, asset management and fund administration services.

The most significant outsourcing relationships for policy administration services are with Diligenta and Capita Life and Pensions. The Group intends to grow its relationship with Diligenta over the next 3 to 5 years, transferring circa 2 million legacy Phoenix policies and a further 4 million SLAL policies. For asset management services, the Group's most significant relationships are with Standard Life Aberdeen and Janus Henderson Investors. In addition, there are a number of other key outsourcing partners.

As closed life funds run-off, fees generated from the management of policies generally decrease over time. Therefore, the Group continues to benefit from these outsourcing arrangements, by aligning part of its costs with the policy run-off profile of its book. The use of outsourced service providers in both its open and heritage businesses enables the Group to better shift its cost base from a largely fixed cost base to a more variable per-policy basis. The Group's outsourced service providers are also able to offer their services at a competitive price per policy due to their larger economies of scale and infrastructure investments and furthermore, these partnerships allow for additional technical and operational expertise to be brought to bear at competitive pricing, whilst minimising any risk transfer to the Group.

In November 2019, the Group confirmed an enlarged partnership with technology and service provider Tata Consultancy Services, to support delivery of its Hybrid Customer Services and IT operating model, the final phase of its transition programme in connection with the SLA Acquisition.

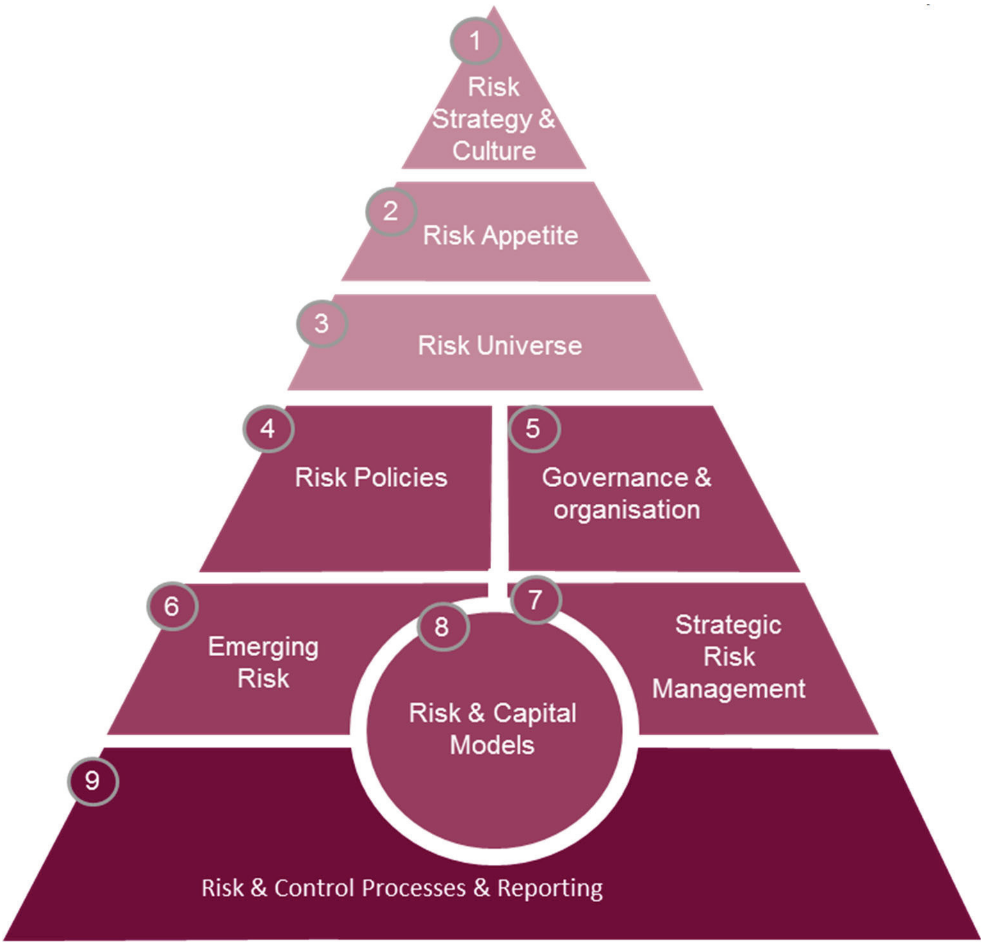
Group functions

The Group operates centralised functions that provide Group wide and corporate level services and manage corporate activity. The Group level operations include Group Finance, Treasury, Group Tax, Group Actuarial, Group Risk, Legal Services, HR, Corporate Communications, Strategy and Corporate Development, Investor Relations, Company Secretariat and Group Internal Audit.

The Group's Risk Management Framework

The Group's Risk Management Framework ("**RMF**") embeds proactive and effective risk management across the Group. It seeks to ensure that all risks are identified and managed effectively and that the Group is appropriately rewarded for the risks it takes.

Over 2019 Phoenix has progressed the roll-out of a harmonised RMF across the Group. This RMF combines the 'best of both' from the respective legacy frameworks. Further details on the nine components of the Group's harmonised RMF are provided below.



1. Risk Strategy and Culture

The Group's risk strategy provides an overarching view of how risk management is incorporated consistently across all levels of the business, from decision-making to strategy implementation.

The risk strategy is designed to assist the business in the achievement of its objectives, through supporting a more stable, well-managed business with improved customer and shareholder outcomes.

To support this goal, the Group has defined a risk culture vision to create an environment that supports informed decision-making and controlled risk-taking. Underpinning this vision are the attitudes and behaviours that the Group expects from its people, enabled by the Group's values of passion, responsibility, growth, courage and difference.

The Group measures the position against its risk culture vision using a series of metrics relating to people, governance, customers and leadership. The Group makes use of information gleaned from its bi-annual staff engagement survey as well as a mixture of other quantitative and qualitative measures.

2. Risk Appetite

Risk appetite defines the amount of risk the Board is willing to accept in the pursuit of enhancing customer and shareholder value and the attainment of the Group's strategic objectives.

The Board's risk appetite establishes the risk boundaries within which it is prepared to operate and sets the tolerance for delivery against its objectives, and is a key tool in balancing the interests of different stakeholders.

The statements below encapsulate the Group's risk appetite for policyholder security and conduct, earnings volatility, liquidity and the Group's control environment:

- *Capital*: The Group and each Life Company will hold sufficient capital to meet business requirements including those of key stakeholders in a number of Board-approved asset and liability stress scenarios.
- *Cashflow*: The Group and each Life Company will seek to ensure that it has sufficient cash flow to meet its financial obligations under a range of Board-approved scenarios.
- *Shareholder Value*: The Group only has appetite for risks that are rewarded, adequately understood and controlled and consistent with the Group's strategy. The Group will take action to grow and protect shareholder value.
- *Control*: The Group and each Life Company will, at all times, operate a strong control environment to ensure compliance with all internal policies, applicable laws and regulations, in a commercially effective manner.
- *Conduct*: The Group has no appetite for deliberate or negligent actions leading to unfair customer outcomes, poor market conduct or reputational damage. Where unfair outcomes arise, the Group has a low appetite for delays in rectification.

3. Risk Universe

A key element of effective risk management is ensuring that the business has a complete understanding of the risks it faces. These risks are defined in the Group's risk universe.

The risk universe allows the Group to deploy a common risk language, allowing for meaningful comparisons to be made across the business.

There are three levels of risk universe categories. The highest risk universe category is Level 1 and includes:

- strategic risk;
- customer risk;
- financial soundness risk;
- market risk;
- credit risk;
- insurance risk; and
- operational risk.

The Group has also defined a more granular set of 'Level 2' risk categories beneath each of the 'Level 1' risk categories. These in turn are also classified as either 'Fundamental', 'Consequential' or 'Legacy' risks to further explain the Group's attitude to them.

4. Risk Policies

The Group risk policy framework supports the delivery of the Group's strategy by establishing the operating principles and expectations for managing the key risks to the Group's business. Each Group risk policy sets the risk appetite statements and minimum control standards that the business must adhere to in order to align with each documented risk strategy and operate within the Group's agreed risk appetite. The Group risk policies are mapped to each of the Level 2 risk universe categories to ensure complete coverage of all material risks.

The Group risk policy framework further supports the Group in operating within the boundaries of its risk appetite statements by seeking to limit volatility under a range of adverse scenarios agreed with the Board. Quantitative and qualitative appetite limits are chosen which specify the acceptable likelihood for breaching the agreed appetite statements (e.g. less than x per cent. chance of a breach in regulatory capital) and assessment against the appetite targets is undertaken through scenario testing. Breaches of appetite are corrected through management actions where appropriate. The effective use of risk mitigation techniques such as reinsurance, hedging and outsourcing are key to ensuring the Group remains within risk appetite and are described in the relevant Group risk policies.

5. *Governance and Organisation*

Governance

Overall responsibility for approving, establishing and embedding the RMF rests with the Board. The Board recognises the critical importance of having an efficient and effective RMF and appropriate oversight of its operation. There is a clear organisational structure in place with documented, delegated authorities and responsibilities from the Board to the PLHL board, the Phoenix Life Company boards and the executive committee of PLHL that provides day-to-day direction (the "**Executive Committee**").

The RMF sets out a consistent three lines of defence model with clearly defined roles and responsibilities for all components. Risk accountability and ownership is embedded in Line 1.

Overall responsibility for approving, establishing and maintaining the RMF rests with the Board. The Board recognises the critical importance of having an efficient and effective RMF and appropriate oversight of its operation. There is a clear organisational structure in place with documented, delegated authorities and responsibilities from the Board to the Executive Committee.

The RMF also includes the Life Company risk committees, formal sub-committees of the Life Company boards and comprising a common membership of five non-executive directors. The primary role of each such risk committee is to advise the Life Company boards on risk appetite and tolerance in setting the future strategy, taking account of the Life Company board's overall view of the risk profile and capacity to manage and control risks.

First line: Management

Management of risk is delegated from the Board to the Chief Executive Officer, Executive Committee members and through to business managers. A series of business unit management oversight committees operate within the Group. They are responsible for ensuring the risks associated with business activities are identified, measured, monitored, managed and reported.

Second line: Risk Oversight

Risk oversight is provided by the Group risk function comprising risk and compliance functions and the Risk Committee, which is responsible for the oversight of risk management across the Group. The Group and Life Company risk committees comprise Non-Executive Directors and are supported by the Group Chief Risk Officer and the Chief Risk Officers of the respective Life Companies.

Third line: Independent Assurance

Independent verification of the adequacy and effectiveness of the internal controls and risk management is provided by the audit committee of the Board (the "**Audit Committee**"), which is supported by the Group Internal Audit function.

Oversight of the Risk Management Framework

The Chief Risk Officer manages the Group Risk function. The Group risk function mission is "to promote informed decision-making and controlled risk-taking that improves customer outcomes and delivers long-term value for shareholders".

The Chief Risk Officer has responsibility for the implementation and oversight of the Group's RMF, along with responsibility for oversight of risks across the Group's risk universe. The PRA/FCA relationship team manages the relationship and interactions with the Group's primary regulators and reports to the Group Chief Risk Officer.

6. *Emerging Risk*

An emerging risk is an event that is perceived to be potentially significant (i.e., relevant to business objectives) but may not yet be fully understood and it is uncertain as to whether it will crystallise. In many cases the potential impact is not clear and may change over time. As such it will not have been allowed for in reserving or other mitigation.

The Group has an emerging risk process to identify risks before they emerge, or substantially increase in significance, and to plan such that it is able to respond quickly as they become an active business concern.

7. *Strategic Risk Management*

Strategic risks threaten the achievement of the Group strategy through poor strategic decision-making, implementation or response to changing circumstances. The Group recognises that core strategic activity brings with it exposure to strategic risk. However, the Group seeks to proactively review, manage and control these exposures. The Group's strategy and business plan are exposed to:

- External events that could prevent or impact the achievement of the strategy;
- Events relating to how the strategy and business plan are executed; and
- Events that arise as a consequence of following the specific strategy chosen.

The identification and assessment of strategic risks is an integrated part of the RMF.

Strategic Risk should be considered in parallel with the risk universe as each of the risks within the risk universe can impact the Group's strategy.

7. Risk and Capital Models

A continuous process is followed for the identification and assessment of risk types and the corresponding resilience of the Group's capital position. The Group continually strives to enhance its internal risk and capital models and the related modelling must be sufficiently accurate to enable appropriate ranking and management of risks.

Under Solvency II, the development and production of any Internal Model output contributing to regulatory capital requirements must comply with the validation standards. This is supported by the Model Governance Policy, which sets out the standards that must be satisfied to demonstrate meeting the self-assessment tests. The output of the Internal Model is used within our Own Risk & Solvency Assessment process to provide insight into the risks to business plan objectives.

The Stress and Scenario Testing Programme uses the Internal Model to assess the capital impact of a range of plausible and extreme stresses.

8. Risk and Control Processes and Reporting

Identification, assessment, management and reporting of risks, including learning lessons from incidents, is undertaken across the three lines of defence, and reported through business and management committees to the relevant boards.

Pensions

The Group has three main staff pension schemes for its employees: the Pearl Pension Scheme, the PGL Pension Scheme and the Abbey Life Pension Scheme. For senior managers and other members of management, the Group also offers individual pension contracts.

The Pearl Pension Scheme

The Pearl Pension Scheme comprises a final salary section, a money purchase section and a hybrid section (a mix of final salary and money purchase). The final salary and hybrid sections of the Pearl Pension Scheme are closed to new members and since 1 July 2011 have also been closed to future accrual by active members. The defined benefit section of the Pearl Pension Scheme has no active members.

The PGL Pension Scheme

The PGL Pension Scheme comprises a final salary section and a defined contribution section.

The defined benefit section of the PGL Pension Scheme is a final salary arrangement which is closed to new members and since 1 July 2011 has also been closed to future accrual by active members. The defined benefit section of the PGL Pension Scheme has no active members and all liabilities are fully insured with PLL.

The Abbey Life Pension Scheme

The Abbey Life Pension Scheme is a final salary arrangement containing a small amount of defined contribution benefits, and is closed to new members and to future accruals, and contains no active members.

Employees

The Group operates across eight primary locations in Birmingham, London, Edinburgh, Glasgow, Dublin, Frankfurt, Basingstoke and Bristol. It had 4,419 employees as at 30 June 2019 of which 171 were considered to be "fixed term" employees with specified end dates.

The office in St Paul's, London is home to the Group's corporate functions and as of 30 June 2019 included 112 people across finance, actuarial, legal, tax and treasury, risk and corporate development. As of 30 June 2019, the office in Wythall, Birmingham included 717 people, including all of the Phoenix Life Company functions across finance, actuarial, legal, tax, customer and operations, as well as the risk and compliance and human resource teams. As of 30 June 2019, the Standard Life business in Edinburgh operated with 2,749 employees, with a further 349 employees in Ireland and 274 in Germany and Austria.

The following table shows the number of employees of the Group as at 30 June 2019 and 31 December 2018, 2017 and 2016:

	Number of employees
As at 30 June 2019	4,419
As at 31 December 2018	4,392
As at 31 December 2017	1,249
As at 31 December 2016	1,301

The Group has collective consultation agreements in place with Unite, the largest UK trade union, covering certain categories of employees across Wythall, Basingstoke and Bristol sites and VIVO (staff association) covering all of Edinburgh.

Properties

In the UK, the Group primarily operates from leased office premises in London, Bristol and Edinburgh, and premises owned by the Group in Wythall and Basingstoke. In Europe, the Group operates from leased premises in Frankfurt, Graz and Dublin.

PART III — BUSINESS OVERVIEW OF THE REASSURE GROUP

Overview of the ReAssure Group

The ReAssure Group is a leading closed book life insurance consolidator with 3.3 million policies, £40.4 billion of AUA and Own Funds of £3.5 billion on a shareholder capital basis as at 31 December 2018. It operates in the United Kingdom and Ireland. The ReAssure Group focuses exclusively on the acquisition and management of closed books. It does not write new business, other than offering increments on current policies to existing customers on a passive basis. Since 2012, the ReAssure Group has completed (or is in the process of completing) five acquisitions. The ReAssure Group seeks to achieve synergies from its acquisitions of closed books primarily through cost efficiencies, capital synergies and asset reallocation and is focused on achieving strong customer outcomes on its acquired policies, including via the use of its in-house operating platform, which houses the majority of its policies.

The ReAssure Group has two principal operating subsidiaries, ReAssure Limited and Ark Life, which conduct the majority of the ReAssure Group's UK and Irish operations, respectively. These two companies have diversified and balanced portfolios and their total asset portfolio mix is split as follows as at 31 December 2018: 24.1 per cent. non-linked products, 43.7 per cent. unit-linked products and 32.2 per cent. with-profit products, calculated on a Post-L&G Illustrative Basis. The ReAssure Group also has two other key operating subsidiaries, RUKSL, a management service company, which provides administration services required by ReAssure Limited and other third-party insurance companies, including policy administration, information technology and finance services, or alternatively, manages the provision of such services through outsourcing arrangements, and OMW, the recently acquired heritage life and pensions division of Quilter (which is primarily comprised of a UK-based business and also includes Swedish, German and Norwegian-based businesses). The ReAssure Group operates a hybrid model for asset management: strategic decisions on asset allocation and investment strategy are handled internally and portfolio management is outsourced to external asset managers.

In December 2017, the ReAssure Group entered into an agreement to acquire the L&G Business. See "*History*" below. The acquired policies and assets are expected to be transferred to the ReAssure Group via a Part VII Transfer in the first half of 2020. Calculated on a Post-L&G Illustrative Basis, as at 31 December 2018, the Group would have had 4.3 million policies and £68.7 billion of AUA.

On 4 August 2019, the ReAssure Group entered into an agreement to acquire OMW, the heritage life and pensions division of Quilter and the transaction was completed on 31 December 2019. See "*History*" below. As at 31 December 2018, OMW had 214,000 policies and £11.5 billion of AUA.

Following the Acquisition, certain asset management-related back office functions will continue to be provided to the ReAssure Group business by the Swiss Re Group until mid-2020 via the Transitional Services Agreement, which contains an option to extend the duration of the agreement. See paragraph 2 ("*Principal Terms of the Transitional Services Agreement*") of Part XIV ("*Terms of the Acquisition*") for further detail.

History

The ReAssure Group was founded in 1963 as the Occidental Life Insurance Company Limited and in 1966, changed its name to Life Casualty & General Insurance Company Limited. Life Casualty & General Insurance Company Limited moved in 1972 to the Royal Borough of Windsor and changed its name to Windsor Life Assurance Company Limited ("**Windsor Life**"). Throughout the 1970s, 1980s and 1990s, Windsor Life continued to grow and developed a platform and process for the successful acquisition and integration of closed life businesses.

In 2004, the Swiss Re Group acquired all the shares of Windsor Life's parent company, Life Assurance Holding Corporation, and continued to grow the ReAssure Group's business with multiple closed book acquisitions, including the acquisition of Zurich Assurance and the GE Life group of companies including the National Mutual Life Assurance Society. In 2007, the ReAssure Group entered into an agreement with Aviva to act as a third party administrator and administer certain of Aviva's policies. In 2008, Life Assurance Holding Corporation was renamed Admin Re UK Limited. In 2011, it agreed to acquire approximately 300,000 insurance policies in the United Kingdom and approximately £1.6 billion in assets from the American Life Insurance Company, which was completed via a Part VII Transfer in July 2012. In June 2014, the ReAssure Group agreed to acquire over 400,000 closed individual and group pension and related annuity policies in the United Kingdom and approximately £4.2 billion in unit-linked assets from HSBC Life (UK) Limited, which was completed via a Part VII Transfer in August 2015. The closed books that were acquired from American Life Insurance Company and HSBC Life (UK) Limited contained multiple product types, with a focus on unit-linked products.

In January 2016, the Swiss Re Group acquired 100 per cent. of the shares of Guardian Holdings Europe Limited ("**Guardian Group**") and completed the Part VII Transfer of approximately 900,000 closed annuity, life insurance and pension policies in the United Kingdom and Ireland and approximately £18.0 billion in assets to the ReAssure Group in December 2016. The Guardian Group's closed books contained multiple product types, with a significant weighting of risk towards annuities, which rebalanced the ReAssure Group's risk portfolio. In January 2017, Admin Re UK Limited was rebranded ReAssure Group Limited and renamed ReAssure Midco Limited in February 2019.

In October 2017, the Swiss Re Group reached an agreement with Japanese insurance group MS&AD Insurance Group Holdings, Inc. ("**MS&AD**") for a minority investment in the ReAssure Group of initially 5 per cent., which was subsequently increased and resulted in a shareholding of 15 per cent. and in December 2018, both parties reached another agreement for MS&AD to invest a further £315 million, which resulted in a total shareholding of 25 per cent.

In December 2017, ReAssure Limited agreed to acquire the L&G Business. As at 1 January 2018, ReAssure Limited assumed economic exposure (but not legal ownership) of the L&G Transaction via a risk transfer structure. The acquired business from the L&G Transaction consist of approximately 1.0 million policies as at 31 December 2018 and principally contain with-profit and unit-linked products and the acquired policies. The acquired policies and assets are expected to be transferred to the ReAssure Group via a Part VII Transfer in the first half of 2020. Substantially all of the policies from the L&G Transaction are expected to be transferred onto the ALPHA platform once the L&G Business is integrated.

In August 2018, SRL announced that it was exploring a possible initial public offering of ReAssure. On 11 July 2019, SRL announced the suspension of its previously communicated plans for an initial public offering of ReAssure.

In December 2018, the PRA approved the use of a PIM to calculate the ReAssure Group and ReAssure SCR with effect from 31 December 2018.

The PRA has been reviewing the ReAssure Group's treatment of expenses for future acquisitions in technical provisions since September 2017. In early 2019, the PRA cited a question raised to EIOPA in relation to reserving for expenses in closed book life insurance businesses. In light of the review, the ReAssure Group retained £100 million of the proceeds from the ReAssure Subordinated Notes to offset any potential increase in technical provisions. Following the review, the ReAssure Group increased its technical provisions on its regulatory Solvency II balance sheet by £92 million (with a consequential minor increase in capital requirements).

On 6 June 2019, ReAssure entered into a facility agreement with Barclays Bank PLC, BNP Paribas (Suisse) SA, HSBC Bank plc, Lloyds Bank plc and NatWest Markets Plc as mandated lead arrangers and as original lenders and Lloyds Bank plc as agent, which was amended on 19 August 2019, for the provision of a £350 million multicurrency revolving credit facility (the "**ReAssure RCF**"). The ReAssure RCF became available for drawing on 20 August 2019. See "*Description of Certain Indebtedness—ReAssure Revolving Credit Facility*" in Part X ("*Operating and Financial Review of the ReAssure Group*") of this document for more information on the ReAssure RCF.

On 13 June 2019, ReAssure issued (i) £500 million in aggregate principal amount of Tier 2 Subordinated Notes due 2029 ("**ReAssure Tier 2 Subordinated Notes**"); (ii) £250 million in aggregate principal amount of Fixed Rate Reset Callable Tier 2 Subordinated Notes due 2029 ("**ReAssure Fixed Rate Reset Callable Tier 2 Subordinated Notes**" and, together with the ReAssure Tier 2 Subordinated Notes, the "**ReAssure Tier 2 Notes**"); and (iii) £250 million in aggregate principal amount of Tier 3 Subordinated Notes due 2026 (the "**ReAssure Tier 3 Subordinated Notes**" and, together with the ReAssure Tier 2 Notes, the "**ReAssure Subordinated Notes**"). The ReAssure Subordinated Notes were initially purchased by Swiss Re Finance (Jersey) Limited (formerly Swiss Re ReAssure Limited) ("**SRFJL**"). ReAssure paid a dividend of £519 million to Swiss Re (the "**Swiss Re Dividend**") in connection with the issuance and settlement of the ReAssure Subordinated Notes. The purpose of the issuance of the ReAssure Subordinated Notes and the payment of the Swiss Re Dividend was to allow ReAssure, in connection with the ReAssure Proposed IPO, to achieve a flexible capital and liquidity structure. The ReAssure Subordinated Notes were subsequently sold by SRFJL in their entirety to third party investors. Following the sale, the ReAssure Tier 2 Notes were admitted to the official list of the FCA (the "**Official List**") and to trading on the London Stock Exchange plc's ("**London Stock Exchange**") Professional Securities Market (the "**PSM**") on 23 July 2019.

The ReAssure Tier 3 Subordinated Notes were subsequently admitted to the Official List and to trading on the PSM on 15 August 2019. See "*Description of Certain Indebtedness—ReAssure Tier 2 Notes and ReAssure Tier 3 Subordinated Notes*" in Part X ("*Operating and Financial Review of the ReAssure Group*") of this document for more information on the ReAssure Subordinated Notes.

On 19 June 2019, the ReAssure Group completed the ReAssure Reorganisation, pursuant to which, among other things, on 4 June 2019, ReAssure (previously incorporated as a UK private limited company) was converted into a public limited company and operationally set up as the parent of the ReAssure Group.

Following a competitive auction process, ReAssure announced on 5 August 2019 that it had agreed to acquire OMW, the heritage life and pensions division of Quilter. The acquisition was completed on 31 December 2019 for a total consideration of approximately £446 million (including interest). The acquired business from the OMW transaction consists of approximately 214,000 policies as at 31 December 2018 and is a substantially closed book of unit-linked policies. The transaction was structured as an acquisition of Old Mutual Wealth Life Assurance Limited and its subsidiary, Old Mutual Wealth Pensions Trustees Limited. As part of the OMW Acquisition, all in-scope employees were transferred from Quilter to OMW immediately prior to completion and therefore 304 employees were acquired by the ReAssure Group at completion.

On 19 August 2019, the PRA served a section 166 notice on ReAssure requiring it to carry out a skilled person review. The primary purpose of the review is to assess the effectiveness of ReAssure's Risk Function and Risk Framework, including the appropriateness of their design and operating effectiveness in relation to ReAssure's: (i) size; (ii) complexity; (iii) business model; and (iv) risk exposures. Following such review, ReAssure submitted its management responses and remedial action plan to the PRA on 4 December 2019. Since the announcement of the Acquisition, ReAssure has been reviewing the prioritisation of certain of the remedial actions and engaging with the PRA accordingly.

Insurance Business

The following table sets out further information about the ReAssure Group's owned policies in the United Kingdom as at 31 December 2018.

	As at 31 December 2018[1]
	(%)
Age Demographics (by number of policyholders)	
Under 45	9
46-55	30
56-65	20
66-75	21
Over 75	19
Total	**100.0**
Policy Split (by number of policies owned)	
Individual pensions	42.3
Annuities	34.7
Protection	11.0
Bonds and savings group	6.2
ReAssure Group Pensions	5.8
Total	**100.0**

The ReAssure Group has three business lines divided by product type: non-linked, unit-linked and with-profit. The following table sets out further information about the ReAssure Group's owned and administered policies and AUA as at 31 December 2018.

	As at 31 December 2018		
	Number of policies	**Percentage of total policies**	**Assets under administration**
		(£ thousand)	
Non-linked (including annuities)	1,359,548(1)	41.4	16,547,004
Unit-linked	1,715,458	52.2	20,051,016
With-profit	211,120	6.4	3,819,678
Total	**3,286,126**	**100.0**	**40,417,699**

Note:

(1) Includes policies administered by RUKSL on a third-party basis. See "*Policy Administration*" below for more information.

Calculated on a Post-L&G Illustrative Basis, as at 31 December 2018, the ReAssure Group would have had 4.3 million policies and £68.7 billion AUA, comprising £16.5 billion, £30.1 billion and £22.1 billion of non-linked AUA, unit-linked AUA and with-profit AUA, respectively. With-profit AUA includes the £18.3 billion L&G With-Profit Fund, which had £8.8 billion and £0.1 billion of unit-linked and non-linked AUA, respectively as at 31 December 2018.

As at 31 December 2018, OMW had 214,000 policies and £11.5 billion AUA, including £7.9 billion relating to retail business (comprised of £4.4 billion of unit linked products, £3.2 billion of savings and investments and £0.3 billion of protection), £3.4 billion of institutional pensions business and £0.2 billion of cross-border business. The OMW retail platform is highly fragmented, offering in excess of 600 funds from 75 asset managers covering all major asset classes.

Non-linked Products

The ReAssure Group's non-linked products are mainly annuities, which provide a specified income stream over the life of the policyholder or protection policies, which pay out lump sums on death. Policyholders are only entitled to the guaranteed benefits under their policy and are not entitled to participate in any surplus that may arise from advantageous investment performance of the underlying assets or demographics. All surplus and the release of capital as the business runs off is available for the sole account of the ReAssure Group.

Unit-linked Products

The value of benefits payable from a unit-linked policy is directly linked to the value of an underlying ring-fenced portfolio of assets (unit-linked funds). Policyholders are able to choose from a number of different unit-linked funds, which have differing investment objectives. A policy may be split across multiple unit-linked funds. Policyholders bear the investment risk of the invested assets and the ReAssure Group deducts fees from unit-linked policies, which comprise of a combination of annual management charges for investment management and fees for general policy administration. The structure and level of the fees that are collected vary by unit-linked fund, policy type and the insurance company that originated the policy. Certain policies may have further fees deducted to meet the cost of additional insurance benefits, for example, life insurance. The value that the ReAssure Group receives from its unit-linked products is comprised of the excess of the value of future charges over the associated expenses, and the value of charges depends on the period over which the policy is held and underlying investment performance, as many charges are expressed as a percentage of the value of the policy.

With-profit Products

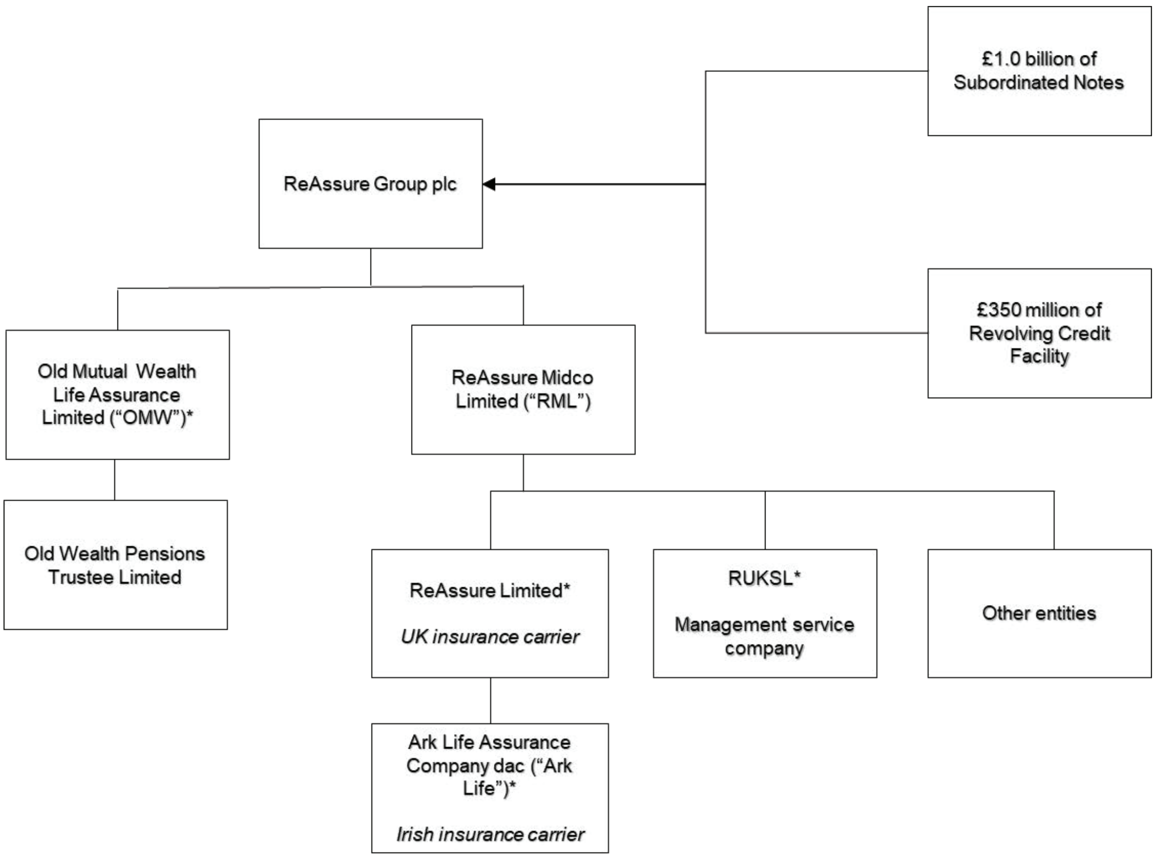
Most with-profit products offer a guaranteed minimum benefit. The policies and the assets backing those policies are held in a ring-fenced with-profit fund and, accordingly, the assets in each with-profit fund support solely the liabilities and capital requirements of that particular fund. Profits that emerge from the with-profit fund are used to increase the value of benefits payable to policyholders above the guaranteed minimum and the policy value is increased via the addition of annual or reversionary bonus. Once added to the policy, a reversionary bonus cannot be removed. In addition, a final or terminal bonus may be payable at the point the policyholder claims the policy benefit. The rate of the final bonus is not guaranteed and will vary reflecting the underlying performance of the fund. Bonus rates are smoothed to avoid too significant a change in policy values at each declaration and the aim is for the cost of smoothing over time to be neutral. The primary product types within the with-profit funds are pension savings, endowments and annuities. Some of the pension saving products include an underlying guaranteed annuity option.

The ReAssure Group currently has three with-profit funds, the Windsor Life With-Profit Fund (the "**Windsor Life With-Profit Fund**"), the National Mutual With-Profit Fund (the "**National Mutual With-Profit Fund**") and the Guardian Assurance With-Profit Fund (the "**Guardian Assurance With-Profit Fund**"). The ReAssure Group is entitled to one ninth of the cost of the total with-profit bonus declarations from both the Windsor Life With-Profit Fund and the Guardian Assurance With-Profit Fund. The ReAssure Group is not entitled to any distributions from the National Mutual With-Profit Fund. Each fund pays specified fees indirectly to RUKSL for administration services. The bonus transferred from the funds can vary and the ReAssure Group could be required to support the with-profit fund if the resources of a fund are insufficient to meet its liabilities and capital requirements. See "*Risk Factors—Risks Relating to the Group—Economy and Financial Markets—The Group's business is subject to risks arising from economic conditions in the United Kingdom and other markets in which it operates or in which its and its policyholders' investments are invested and from risks arising from the vote by the United Kingdom to leave the European Union (the "EU"), also known as "Brexit", and any possible future further referendum on Scottish independence*".

As part of the L&G Transaction, the ReAssure Group will establish the L&G With-Profit Fund. The L&G With-Profit Fund which comprises the with-profit business originally written by the L&G Group (mainly mortgage endowment, pension and investment policies) with a significant number of unit-linked products, will be transferred via a Part VII Transfer (currently expected to occur in the first half of 2020). Similar to the three other with-profit funds, the L&G With-Profit Fund will also pay specified fees indirectly to RUKSL for administration services. The transaction also includes a significant block of unit-linked business outside the L&G With-Profit Fund, which will transfer to the ReAssure Group's fund containing non-linked and unit-linked products that are not ring-fenced (the "**ReAssure Non-Profit Fund**"). Once the L&G Transaction is completed, the ReAssure Group will generally receive one ninth of the cost of the total with-profit bonus declarations of the L&G With-Profit Fund.

Overview of the ReAssure Group's Structure

The following chart provides a summary overview as at 31 December 2019 of the legal structure of the ReAssure Group and the key entities that comprise the ReAssure Group since completion of the ReAssure Reorganisation and the OMW Acquisition:



*Principal regulated entities

ReAssure Limited, OMW and Ark Life are regulated entities that hold the ReAssure Group's insurance and investment policies. ReAssure Limited and OMW are authorised by the PRA and are regulated by both the PRA and the FCA, RUKSL is regulated by the FCA, and Ark Life is authorised and regulated by the CBI. The ReAssure Group's regulatory supervision by the regulators is performed at the ReAssure level, as ReAssure is the highest EEA insurance holding company within the ReAssure Group's corporate structure.

Policy Administration

The ReAssure Group operates a hybrid administration model pursuant to which it directly administers the majority of its policies while outsourcing administration in certain circumstances.

To allow the ReAssure Group to benefit from the economies of scale, an information technology system, see "*Information Technology—ALPHA*" below, has been developed internally which allows the ReAssure Group's policy administration service company, RUKSL, to provide all policyholder services for the ReAssure Group under a management service agreement. Under this management service agreement, RUKSL charges ReAssure Limited a fixed fee per policy tariff for the delivery of core services though it may, depending on the nature of the change, contract separately for the delivery of specific projects when new requirements arise. RUKSL also generates additional income through the administration of policies owned by third parties, principally Aviva.

The ReAssure Group also outsources the administration of some of its policies. The majority of such arrangements were inherited with the acquisition of particular closed books. If the ReAssure Group were to include the policies acquired from the L&G Group then as at 31 December 2018, the ReAssure Group would have 14 per cent. of ReAssure's policies administered on other platforms.

Also, pursuant to the OMW Transitional Services Agreement, Quilter will continue to administer the acquired OMW policies for a specified period of time following the completion of the OMW Acquisition, which occurred on 31 December 2019. For further information, see paragraph 12.2.9 ("*OMW Transitional Services Agreement*") of Part XV ("*Additional Information*") of this document. It is intended that the acquired OMW policies will be migrated onto the ALPHA platform within two years of the completion of the OMW Acquisition.

Asset Management

Asset management is central to the ReAssure Group's business model and generates value for in-force policies. The ReAssure Group's assets are managed according to the objectives, restrictions and risk limits set out in its investment guidelines and strategic asset allocation targets. The ReAssure Group operates an outsourced portfolio management model and uses carefully selected external asset managers capable of providing a broad range of capabilities, to execute its investment strategy and for security selection and oversight in line with defined investment mandates through investment management agreements. Investment mandates implement the ReAssure Group's investment guidelines and strategic asset allocation through mandate objectives, risk limits and mandate capacity amounts proposed by the ReAssure Group's asset management team and approved by either ReAssure Limited's board investment committee or Ark Life's board of directors which acts as its investment committee (together, the "**ReAssure Investment Committees**"). In cases where proposed investments fall outside of the ReAssure Group's investment guidelines, formal waivers can be obtained from the appropriate parties depending on the parameters involved. For example, any deviation from the ReAssure Group's private debt core investment parameters requires a waiver from the ReAssure Investment Committees. External asset managers are put through a rigorous selection process before they are selected to manage the ReAssure Group's assets. Actual performance of and risk taken by the external asset managers are monitored by the ReAssure Group's asset management team against the objectives and risk limits stipulated by the applicable mandate.

The ReAssure Group's asset management segment is focused on strategic asset allocation, asset class selection, asset liability matching, manager selection, portfolio rotation and ongoing monitoring and performance oversight. Following the Acquisition, certain asset management-related back office functions will continue to be provided to the ReAssure Group business by the Swiss Re Group until mid-2020 via the Transitional Services Agreement, which contains an option to extend the duration of the agreement. For further information, see paragraph 2 ("*Principal Terms of the Transitional Services Agreement*") of Part XIV ("*Terms of the Acquisition*") of this document.

The ReAssure Group carefully outsources its portfolio management to external asset managers in order to access the entire market and best-in-class investment products where its scale provides the ReAssure Group with purchasing power. External asset managers are selected based on their ability to assist the ReAssure

Group in delivering risk-adjusted returns and good customer outcomes for its policyholders. The portfolio management of the ReAssure Group's unit-linked and with-profit assets are managed by external asset managers such as Aberdeen Standard Investments Limited, HSBC Global AM (UK) Ltd. and BlackRock. The ReAssure Group's other non-linked assets are mostly managed by external asset managers Aberdeen Standard Investments Limited, BlackRock and a variety of private debt managers. The ReAssure Group also outsources the management of Ark Life's assets to Irish Life Investment Ltd. As part of the L&G Transaction, the ReAssure Group has signed an investment management agreement, pursuant to which Legal & General Investment Management Limited and Legal & General Property Limited will provide the ReAssure Group with asset management services over a period of seven years from the effective date of the policy transfers for assets associated with the L&G Transaction, which is expected to occur in the first half of 2020. Environmental, social and governance ("**ESG**") considerations are also incorporated into ReAssure Limited's investment process and the ReAssure Group utilises its asset scale in voting and engagement with companies on ESG matters via its external asset managers.

Custody services are currently provided by HSBC Bank plc for the ReAssure Group's assets associated with its unit-linked and with-profit products and by JP Morgan for its assets associated with its non-linked products. Management of certain of the ReAssure Group's back office asset management service, including accounting and other support and operational functions will be provided by the Swiss Re Group pursuant to the Transitional Services Agreement after the Acquisition, which will be provided for the length of time it is expected to complete the separation exercise (the completion of which is expected to take place in mid-2020).

The ReAssure Group's investments are generally tailored to match market risk sensitivities of liabilities, with the objective to reduce the volatility of the capital position on a regulatory basis and surplus generation capability of the ReAssure Operating Subsidiaries. The average duration of the ReAssure Group's best estimate liabilities is approximately ten years and assets backing best estimate liabilities are invested with a matching duration profile. The ReAssure Group 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. The ReAssure Group also employs a range of hedging strategies to manage such market risk exposures. See "*Risk Management*" below. The use of derivative instruments in furtherance of the ReAssure Group's hedging strategies is conducted by external parties upon instruction by the ReAssure Group's asset management team. The ReAssure Group's investment guidelines and strategic asset allocation are reviewed and confirmed at least annually by the ReAssure Investment Committees.

As at 31 December 2018, the ReAssure Group's total AUA (including cash and cash equivalents) was £40.4 billion. The following tables set out the components of the ReAssure Group's AUA as at 31 December 2018:

	As at 31 December 2018	
	Unit-linked products(1)	**With-profit products(2)**
	(£ billion)	
Equity Securities	12.8	0.4
Collective Investment Scheme	3.6	1.0
Debt Securities	1.8	2.1
Short-term investments	1.2	0.1
Investment property	0.6	0.2
Total	**20.1**	**3.8**

Notes:

(1) Comprises the assets located in the ReAssure Group's unit-linked funds.

(2) Comprises of all the assets in the with-profit funds, including any surplus and assets backing the regulatory capital requirement for the with-profit funds.

	As at 31 December 2018
	Non-linked products[1]
	(£ billion)
Debt Securities	15.3
Short-term investments	0.5
Mortgage loans	0.5
Loans	0.3
Derivatives	—
Total	16.5

Note:

(1) Comprises all of the ReAssure Group's assets, except for the assets located in the ReAssure Group's unit-linked and with-profit funds, including assets backing the regulatory capital requirement for unit-linked and non-linked products.

Calculated on a Post-L&G Illustrative Basis, as at 31 December 2018, the ReAssure Group's total AUA (including cash and short-term investments) was £68.7 billion (excluding the impact of the OMW Acquisition) and it is expected that the ReAssure Group's assets (excluding the impact of the OMW Acquisition) will run-off at approximately 6 per cent. per annum over the next few years.

As at 31 December 2018, OMW's total AUA (including cash and short-term investments) was £11.8 billion backing technical provisions and other liabilities. This excludes £394 million eligible Own Funds backing the SCR and buffer. It is expected that the business will run-off at approximately 10-15 per cent. per annum over the next few years, with the exception of the institutional business that is expected to run off more quickly.

The ReAssure Group's non-linked investment portfolio is invested in high quality fixed income products as well as private debt assets and there are no equity investments. As at 31 December 2018, approximately 70 per cent. of the ReAssure Group's non-linked assets and approximately 90 per cent. of its non-linked credit assets were held in the ReAssure Group's Matching Adjustment portfolio. The ReAssure Group's non-linked assets are invested across a range of industries and have a weighted average rating of A-, which is in line with the ReAssure Group's investment guidelines that stipulate counterparty and rating limits.

The following table sets out the rating composition of the ReAssure Group's non-linked investment portfolio as at 31 December 2018 (which has been adjusted to reflect the ReAssure Group's current methodology for rating composition). As at 31 December 2018, the ReAssure Group's methodology for rating composition was based on taking the worst-case rating when multiple ratings were applicable. The ReAssure Group's current methodology for rating composition is based on taking the median rating when multiple ratings are applicable, which, in the event there are only two ratings, would take the lower rating, and would otherwise take the middle rating or average of two middle ratings.

	As at 31 December 2018
	(%)
AAA	5.4
AA	33.0
A	27.6
BBB	32.0
BB	0.8
Not rated	1.2
Total	**100.0**

The following table sets out the sector composition of the ReAssure Group's non-linked investment portfolio as at 31 December 2018:

	As at 31 December 2018
	(%)
Financials	29.9
Sovereign	24.1
Utilities	12.6
Cyclical Services	9.2
Non-Cyclical Services	5.1
Other[(1)]	19.1
Total	**100.0**

Note:

(1) Includes the following sectors: resources, agency bonds, non-cyclical consumer goods, general industrials, supranational, basic industries, asset backed securities, commercial mortgage backed securities, cyclical consumer goods, information technology, cash securities, and regional government.

In 2015, the ReAssure Group modified its investment strategy to include private debt assets to its non-linked investment portfolio. As at 31 December 2018, 7.0 per cent. of its non-linked investment portfolio consisted of private debt assets with a focus on commercial mortgage and infrastructure loans and it continues to actively monitor other private debt asset classes.

Risk Management

The ReAssure Group's risk management principles and function are central to its business model and strategy. Risk management is a fundamental part of the daily operations and ongoing performance of the ReAssure Group and is embedded in the principles conveyed to its employees through training and incentive structures.

The ReAssure Group faces several key risks and has a robust risk management strategy in place that identifies, reports and actively manages risks—clear mitigants are identified and risk management processes are put in place. Emerging risks are assessed at least twice a year and there are daily, monthly and quarterly processes of risk monitoring, reporting (including an annual own risk solvency assessment ("**ORSA**") report) and escalation, a well-established stress testing process as well as a PIM to ensure that the regulatory capital held remains consistent with the ReAssure Group's risk profile. In addition, the ReAssure Group's risk culture is supported by four guiding principles: open risk culture, controlled risk taking, clear accountability and an independent risk function.

The ReAssure board has overall responsibility for the risk and control environment in the ReAssure Group, including setting the ReAssure Group's risk appetite, risk strategy, and risk management and internal control systems. The ReAssure board is supported by the ReAssure Group's risk committee, as well as the risk functions. The ReAssure Group maintains a dedicated risk function led by the Chief Risk Officer and supported by experienced industry professionals in the key areas of operational risk, financial and insurance risk, investment oversight and information security, including cyber risk. The ReAssure Group has active strategies in place to mitigate its key risks and all key ReAssure Group decisions, including acquisitions, are subject to risk management oversight. The risk functions support the business by maintaining the risk management framework and defining the associated processes.

When actively taking on risks in the insurance and financial markets, the ReAssure Group will have to identify, manage and accept up to a specified degree, the operational risks inherent in the risk-taking activities. Operational risks are to be, where possible, avoided or where unavoidable, mitigated to the extent that it is cost effective to do so, balancing the anticipated costs of the mitigation activities against the corresponding reduction in expected losses, capital costs and any reputational risk that might manifest.

Risk Management Framework

The ReAssure Group's risk management framework sets out how it organises and applies its risk management practices to ensure that all activities are conducted according to its risk appetite. The PIM was approved for use by the PRA in December 2018 and will assist the ReAssure Group in identifying and managing risks. As the ReAssure Group went through an extensive process with the PRA ahead of approval, the PIM reflects the latest PRA views at the time. The PIM allows the ReAssure Group to hold regulatory capital that reflects the specific risk profile of its business, in particular the diversification benefits achieved from its in force business and from various past acquisitions as well as providing an appropriate reflection of the ReAssure Group's asset portfolio risk.

The ReAssure Group has a development plan in place to address outstanding PRA feedback and other business priorities. The plan addresses known future developments, such as the Part VII Transfer of the L&G Business, the integration of OMW into the internal model component of the PIM and increased exposure to private debt assets.

The major elements of the ReAssure Group's risk management framework are its risk appetite framework, risk management standards, and risk control framework. The ReAssure Group has adopted a three-tier approach to its risk appetite framework which establishes preference and practices in terms of controlled risk taking. The first tier consists of high-level statements that are defined and approved by the ReAssure board and represent core elements that are fundamental to the way the ReAssure Group's business operates such as Solvency, Liquidity, Credit Rating, Conduct and Dividend Volatility. The second tier gives specific risk limits that are allocated by risk type in order to ensure the ReAssure Group continuously meets the requirements of the first tier. These risk limits are reviewed and updated when new acquisitions are undertaken. The third tier contains further granular risk limits for how the ReAssure Group operates, which cover all types of insurance, operational and financial risks. Aspects of these risk limits are monitored by the Risk function daily and are intended to help the ReAssure Group control its risk exposure, including asset and liability matching. The ReAssure Group's risk limits outline the maximum extent to which the ReAssure board has authorised senior management to assume risk given its financial resources.

The ReAssure Group employs a well-established and rigorous stress and scenario testing process that considers a variety of potential macro risks, developed from for example, recent external market developments, scenarios internally generated via the Emerging Risk Panel, investment manager presentations, or certain key risk themes that interest the board of directors of ReAssure to ensure strong solvency resilience. The scenarios employed also support the ReAssure Group's dividend process. The ReAssure Group's governance is applied throughout the process and the ReAssure Group engages in regular supervision of its risk management framework, producing quarterly reports, engaging in monthly dashboard monitoring, providing regular updates to the ReAssure board as well as engaging in external review such as annual PRA/ORSA processes and EIOPA stress tests (as of 2018).

The ReAssure Group's risk management standards outline the fundamental risk governance, risk roles and the responsibilities for the delegation of risk taking. The ReAssure Group has adopted a "three lines of defence" (sometimes also referred to as "three lines of control") risk management operating model, a widely used industry approach as its risk management standard. The first line of defence is represented by risk control activities performed by front-line employees such as the use of authority limits and risk taking. In the context of managing operational risks, first line of defence tasks are performed by any employee, no matter whether belonging to a front, middle or back-office. The second line of defence is independent risk oversight. This is principally provided by the risk management team, although independent risk oversight and control tasks are also performed by the compliance team. The third line of defence is provided by the internal audit function. The main task of the third line of defence is to provide independent assurance to the ReAssure board regarding the effectiveness of the first and second lines of defence.

The ReAssure Group's risk control framework represents the risk management element of the ReAssure Group's internal control system. It comprises of actions to control risks originated by any of the ReAssure Group's business activities or operations and requires that such actions are discharged using a defined, auditable process.

Outsourcing arrangements

The ReAssure Group's outsourced service providers are specialist providers of policy administration, asset management services and other services, with the requisite know-how and expertise. In addition to outsourcing policy administration, see "*Policy Administration*" above, and asset management, see "*Asset Management*" above, the ReAssure Group also has arrangements with a range of other service providers for other services. Such services include human resources services (including payroll), policyholder investment accounting services, annuity payment services, mailing services, telephony services, information technology application and management services (including cloud services), property investment services, storage and hardware services (including data centre provision), and facilities management services.

Information Technology

The ReAssure Group operates a product focused IT operational model (ALPHA platform, financial and accounting report systems and digital workplace platform) with internal system architects, infrastructure and functional management teams, which is supplemented with third party services, including data centres, cloud platforms, managed services and software as a service (on-demand software). The ReAssure Group has recently migrated its internal data centres to NTT Europe managed data centres, which are located in the United Kingdom.

The ReAssure Group has detailed system recovery and IT service continuity management plans, and three primary recovery sites provided by Sungard Availability Services.

ALPHA

The ALPHA platform is the ReAssure Group's in-house policy administration system, which has been developed internally using third-party technology, and for which it owns the intellectual property. Built on an Oracle database framework, the ALPHA platform has also been designed to connect to or interface with certain third-party systems, such as insurance workflow software systems.

With its initial development period taking place between 1994 – 2000, and the broadening of its capabilities between 2000 – 2015 in parallel with transactions, the ALPHA platform was substantially upgraded from 2015 – 2019, at a cost of approximately £37.0 million. The ALPHA user interface was redeveloped to improve functionality and make it more user centric, which was underpinned with data services that support portal development. Legacy programming languages were removed resulting in speed improvements, the platform was renewed to deliver an industry standard operating system and cloud platform, internal data centres were migrated to Tier 3+ data centres such that planned maintenance will not disrupt operations and support systems, including letter and projection engines were replaced. These improvements created a scalable, modern, user-focused product that provides end-to-end administration and will preserve the ALPHA platform's operational life and enhance its capabilities, thus offering a holistic solution to insurers looking to dispose of their legacy businesses through the simplification of ongoing administration and operational infrastructure.

The ALPHA platform has proven to be flexible, scalable and resilient. It currently supports more than 25,000 different product variants that have been assimilated through its historical acquisitions and caters to all main facets of the UK life insurance market, addressing life, health, individual and group pensions, as well as annuity products and has the capacity to administer at least five times the number of current policies (calculated prior to the migration of the acquired policies from the L&G Group and the policies acquired as a result of the acquisition of OMW). The ReAssure Group's ALPHA platform has substantial supporting resources including dedicated teams, and the ReAssure Group also procures contract staff and other third-party resources from time to time to assist with the support and maintenance of the ALPHA platform.

The ALPHA platform consists of a single, easy to use platform that consolidates disparate legacy policies, providing an integrated solution which aids in the reduction of end-to-end process times, allows for the provision of unified processes and procedures and is easy to control and monitor. The ALPHA platform is intuitive and user friendly, enabling employees to handle a wide variety of products and has a high degree of automation, enabling transactions to be processed electronically without the need for manual intervention, which among other things lowers the cost of claims processing and shortens the turnaround time for claims.

Pensions

The ReAssure Group operates a defined contribution ReAssure Group Personal Plan ("**ReAssure GPP**") and two defined benefit pension schemes, the ReAssure Staff Pension Scheme ("**RSPS**") and the Private Retirement Trust ("**PRT**"). As at 31 March 2019, there were 2,407 active members in the ReAssure GPP. In addition, as at 31 March 2019, 36 employees were active members of the Swiss Re Life Capital defined contribution scheme and a further 22 employees were active members in an ex-Guardian defined contribution scheme. The ReAssure GPP's contribution rates by the ReAssure Group are generally 5 per cent. and vary based on a number of factors (including whether an individual member has opted into auto-enrolment or is a member of a legacy arrangement), and the ReAssure Group will further match relevant employee contributions made via salary sacrifice up to a maximum of an additional 5 per cent.

The ReAssure Group's defined benefit pension schemes are closed to new members. See "*Risk Factors—Risks relating to the Group—Internal Operations and Management—The Group may be required to make further contributions, in addition to those already agreed, to its defined benefit pension schemes for employees if the value of or cashflows from pension fund assets is not sufficient to cover future obligations* *under the schemes*" for a further discussion on the ReAssure Group's defined benefit pension schemes and see "*Liquidity and Capital Resources—Retirement benefit schemes*" of Part X ("*Operating and Financial Review of the ReAssure Group*") of this document for the discussion of the funding requirements for the RSPS.

As part of the OMW Acquisition, the ReAssure Group acquired the defined contribution scheme operated by OMW and OMW will administer the scheme for a period of time following the completion of the OMW Acquisition, which occurred on 31 December 2019.

Employees

The ReAssure Group employed 2,299 employees as at 31 December 2018. In addition, as at 31 December 2018, the ReAssure Group employed 257 contractors or temporary staff to cover flexible resource requirements.

The following table shows the number of employees of the ReAssure Group as at 31 December 2018, 2017 and 2016:

	Number of Employees
As at 31 December 2018	2,299
As at 31 December 2017	2,039
As at 31 December 2016	2,157

The ReAssure Group's employees are spread across five locations in the United Kingdom and one location in Ireland. See "*Properties*" below. As at 31 December 2018, the ReAssure Group's UK offices in Telford, Hitchin, Norwich, Preston and London employed 1,453, 608, 429, 23 and 11 employees respectively and the ReAssure Group's Dublin office employed 32 employees. As part of the ReAssure Reorganisation, 27 employees transferred from the Swiss Re Group to the ReAssure Group via a Transfer of Undertakings (Protection of Employment) regulation ("**TUPE**") transfer. These employees historically operated as advisers to the ReAssure Group and were employed by the Swiss Re Group's asset management, mergers and acquisitions and various corporate teams (such as finance and legal).

As part of the L&G Transaction, only a small number of current L&G Group employees indicated that they would transfer from the L&G Group to the ReAssure Group via a TUPE. The ReAssure Group has recruited people to fill the majority of vacant positions and is in the process of filling in any remaining positions.

As part of the OMW Acquisition, all in-scope employees were transferred from Quilter to OMW immediately prior to completion and therefore 304 employees were acquired by the ReAssure Group at completion.

The ReAssure Group has a collective consultation agreement in place with ReAssure Companies Services Limited, covering approximately 23 legacy employees, who are members of Unite the Union that joined the ReAssure Group as a result of the Guardian Group Acquisition.

Properties

The ReAssure Group primarily operates from its registered and main office premises owned by the ReAssure Group in Telford, United Kingdom. The majority of the ReAssure Group's central functions, including a customer call service centre are located at the Telford location. The ReAssure Group also has other operations at UK premises leased by the ReAssure Group in Hitchin, London, Preston and Hove and occupied under a license in Norwich. Various support and back office functions are in Hitchin while Preston also accommodates part of the ReAssure Group's actuarial team. The ReAssure Group's London site is occupied by its central corporate teams, such as actuarial, finance and legal, and its Norwich site is occupied by RUKSL staff that are dedicated to managing the policy administration services that the ReAssure Group provides to Aviva. The ReAssure Group also leases premises in Dublin, Ireland, which accommodates its Ark Life business.

Additionally, as part of the OMW Acquisition, the ReAssure Group sub-leased two floors of a OMW property located in Southampton for two years.

PART IV — REGULATORY OVERVIEW

Overview

The Group's operations are, and the Enlarged Group's operations will be, subject to extensive government regulation, including FSMA and other United Kingdom laws, including, for example, the Data Protection Act 2018 in relation to the processing of customer data. Some of these laws require, and will require, the relevant Group entity to be authorised, licensed or registered. Below is an overview of the regulatory framework for the insurance industry in the United Kingdom. While the bulk of the Group's activities are, and the Enlarged Group's will be, carried out in the UK, reference is also drawn to non-UK laws and regulation where appropriate.

The Phoenix Life Companies

The Phoenix Life Companies (other than SLIDAC) are currently dual-regulated by the FCA (for conduct matters) and the PRA (for prudential matters). SLIDAC is authorised and regulated solely by the CBI. Other companies in the Group are solely regulated by the FCA (for both conduct and prudential matters). In addition, certain of the Group's subsidiaries are, authorised by the FCA to carry on investment business. These entities are subject to regulation and supervision by the FCA and must comply with the FCA's conduct of business and prudential rules made under FSMA.

ReAssure Life Companies

The ReAssure Life Companies and OMW are currently authorised and dual-regulated by the FCA (for conduct matters) and the PRA (for prudential matters). Ark Life is authorised and regulated solely by the CBI. Other companies in the ReAssure Group are solely regulated by the FCA (for both conduct and prudential matters).

Regulators and approach to regulation

The FCA employs a risk-based and proportionate approach to supervision comprising a firm systemic framework, which focuses on the continuous assessment of how firms manage the risks they create and identifying the root causes of risk.

The PRA employs a judgement-based, forward-looking and focused approach to regulation using a proactive intervention framework to identify and respond to risks at an early stage. The position of each insurer is reviewed regularly to ensure that the PRA's level of supervision is appropriate.

The FCA and PRA expect firms to avoid actions that jeopardise compliance with their statutory objectives. When the FCA and PRA are concerned that a firm may present a risk this may lead to negative consequences, including the requirement to maintain a higher level of regulatory capital (via capital "add-ons" under Solvency II) to match the higher perceived risks, and enforcement action where the risks identified breach the FCA and PRA's high-level principles or more prescriptive rules.

Overview of FSMA regulatory regime: dual regulators

The FCA and PRA regulate persons carrying out the regulated activities prescribed in the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001, as amended, in the financial services sector. In this regard, the FCA and PRA are authorised to make rules and issue guidance in relation to a wide sphere of activities encompassing the governance of a firm, the way it conducts its business and the prudential supervision of firms. The FCA regulates the conduct of every authorised firm (including firms who are also regulated by the PRA). The PRA has responsibility for carrying out the prudential regulation of banks, insurance companies and systemically important designated investment firms. These firms are referred to as "dual-regulated" because they are authorised and regulated by the PRA (for prudential matters) and also regulated by the FCA (for conduct matters).

Permission to carry on "Regulated Activities"

Under FSMA, no person may carry on or purport to carry on a regulated activity by way of business in the United Kingdom, in respect of a specified investment or property, unless he is an authorised or exempt person. A firm that is authorised by the FCA (and PRA, if relevant) to carry on regulated activities becomes an authorised person for the purposes of FSMA. "Regulated activities" are currently prescribed in the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (as amended) and include insurance-related activities and investment activities (which includes managing investments), as well as certain other activities such as establishing, operating and winding up stakeholder pension schemes, the mediation of general insurance and certain mortgage mediation and lending activities. Where an entity is domiciled outside the UK (and wishes to transact business in the UK), other regulatory authorities' authorisation may need to be sought. See "*Other regulatory systems*" below.

Authorisation procedure

In granting a UK firm's application for authorisation, the FCA and PRA (if applicable) may delineate the scope of, and include such restrictions on, the grant of permission as the relevant regulator deems appropriate. Dual-regulated firms must apply to the PRA for authorisation, whilst solo-regulated firms (i.e., firms regulated solely by the FCA) must apply to the FCA. In granting or varying the terms of a firm's permissions, the FCA and PRA must ensure that the firm meets certain threshold conditions, which, among other things, require the firm to have adequate resources for the carrying on of its business, and to be a fit and proper person, having regard to all the circumstances.

Once authorised, and in addition to continuing to meet the threshold conditions for authorisation, firms are obliged to comply (as relevant) with the FCA Handbook and the book of rules and guidance, including as to regulatory capital requirements, maintained by the PRA (the "**PRA Rulebook**") which contain detailed rules covering, among other things, systems and controls, conduct of business and prudential (i.e., capital) requirements.

Principles for Businesses

The FCA Handbook and the PRA Rulebook contain high-level standards for conducting financial services business in the United Kingdom, known as the Principles for Businesses (in the case of the FCA Handbook) and the Fundamental Rules (in the case of the PRA Rulebook). All firms are expected to comply with these standards, which cover matters including the maintenance of adequate systems and controls, treating customers fairly, communicating with customers in a manner that is clear, fair and not misleading and being open and co-operative with the FCA and PRA.

Application of FSMA regulatory regime to the Enlarged Group

Each of the Group's principal United Kingdom insurance and investment businesses is, and each of the Enlarged Group's principal UK insurance and investment businesses will be, subject to regulation and supervision by the FCA (and additionally, for dual-regulated firms, the PRA) in the carrying-on of the Enlarged Group's regulated activities. The discussion below considers the main features of the regulatory regime applicable to the Enlarged Group's insurance and pensions business in the United Kingdom.

Regulation applicable to the Enlarged Group's UK insurance business

Supervision of management and change of control of authorised firms

One of the methods by which the FCA and PRA supervise the management of authorised firms is through the Senior Managers & Certification Regime ("**SMCR**").

The SMCR, which previously applied to deposit-takers and PRA-designated investment firms, was extended to apply to all authorised firms, including insurers, from 10 December 2018. The SMCR replaced the previous regime applicable to insurers, known as the senior insurance managers regime.

The SMCR comprises the following elements:

- a senior managers' regime, which applies to individuals performing a senior management function ("**SMF**"). A SMF is a function that requires the person performing it to be responsible for managing one or more aspects of the relevant firm's affairs (so far as such affairs relate to regulated activities) and those aspects involve, or may involve, a risk of serious consequences for the relevant firm, or for business or other interests of the United Kingdom. Firms must ensure that every activity, business area and management function has an SMF with overall responsibility for it. Appointment of an individual performing an SMF requires regulatory approval;
- a certification regime, which applies to employees of relevant firms who could pose a risk of significant harm to the firm or to any of its customers ("**Certified Persons**"). Such employees are not pre-approved by the PRA or FCA. Rather firms are required to certify that such employees are fit and proper to perform their roles on at least an annual basis. Insurers were required to have identified and

trained the individuals performing certification functions by the commencement date of the SMCR, with fitness and propriety assessments required to be completed from 10 December 2019. Every Certified Person will receive one certificate which covers FCA functions and any PRA functions; and

- conduct rules, which are high level requirements that apply to most employees (other than ancillary staff) of an insurer. The conduct rules applicable to SMFs and Certified Persons have applied since 10 December 2018 whilst other employees became subject to the relevant conduct rules from 10 December 2019.

Change of control of authorised firms

The FCA and PRA also regulate the acquisition and increase of control over authorised firms. Under FSMA, any person proposing to acquire control of, or increase (or decrease) control over, an authorised firm must first obtain the consent of the FCA and, if necessary, the PRA. In relation to dual-regulated firms, such as the Phoenix Life Companies (other than SLIDAC), approval to the change of control is sought from the PRA who will consult with the FCA. In considering whether to grant or withhold its approval to the change of control, the FCA and PRA must be satisfied both that the acquirer is a fit and proper person and that the interests of consumers would not be threatened by its acquisition of, or increase in, control.

A person ("**A**"), will acquire control (in accordance with Section 181 FSMA, and be a "controller") of an authorised person ("**B**") if they hold:

(a) 10 per cent. or more of the shares in B or a parent undertaking of B ("P");

(b) 10 per cent. or more of the voting power in B or P; or

(c) shares or voting power in B or P, as a result of which A is able to exercise significant influence over the management of B.

In order to determine whether person A or a group of persons is a controller, the holdings (shares or voting rights) of A and other persons acting in concert with A (pursuant to an explicit or implicit agreement between them), if any, are aggregated.

A person ("**A**") will be treated as increasing (or decreasing) his control over an authorised firm ("**B**"), requiring prior approval from the FCA (and PRA, if appropriate) if:

(a) the level of his percentage shareholding or voting power in B or P crosses the 10 per cent. (in the case of decreasing control), 20 per cent., 30 per cent. or 50 per cent. threshold; or

(b) if A becomes a parent undertaking of B.

Intervention and enforcement

The FCA and PRA have extensive powers to intervene in the affairs of an authorised firm and monitor compliance with their objectives, including withdrawing a firm's authorisation, prohibiting individuals from carrying on regulated activities, suspending firms or individuals from undertaking regulated activities and fining firms or individuals who breach their rules.

The FCA can also sanction persons who commit market abuse. In addition to its ability to apply sanctions for market abuse and other civil penalties, the FCA has the power to prosecute criminal offences arising under FSMA, insider dealing under Part V of the Criminal Justice Act 1993, market misconduct under the Financial Services Act 2012 and breaches of the Money Laundering Regulations. The FCA has indicated that it is prepared to prosecute more cases in the criminal courts where appropriate.

The FCA and PRA may also vary or revoke a firm's permission to carry on regulated activities for reasons including (i) if it is desirable to protect the interests of consumers or potential consumers; (ii) if the firm has not engaged in regulated activity for 12 months; or (iii) if it is failing to meet the threshold conditions for authorisation. The FCA and PRA have further powers to apply to the High Court in England and Wales (the "**Court**") for injunctions against authorised persons and to impose or seek restitution orders where persons have suffered loss. Once the FCA and PRA have made a decision in respect of an authorised firm or an individual, the person affected may refer the matter to the Upper Tribunal (Tax and Chancery Chamber). Breaches of certain FCA and PRA rules by an authorised firm may also give a private person, who suffers loss as a result of the breach, a right of action against the authorised firm for damages.

The FCA and PRA, although not creditors, may seek administration orders under the Insolvency Act 1986 (as amended), present a petition for the winding-up of an authorised firm or have standing to be heard in the voluntary winding-up of an authorised firm. It should be noted that insurers carrying on long-term insurance business cannot voluntarily be wound up without the consent of the PRA. The FCA also has the ability to issue fines against firms who breach relevant competition laws.

FCA Conduct of Business Rules

The FCA's Conduct of Business Rules (the "**Conduct of Business Rules**") apply to every authorised firm carrying on regulated activities in the United Kingdom and regulate the day-to-day conduct of business standards to be observed by authorised persons in carrying on regulated activities. Whilst the FCA is primarily responsible for conduct regulation, the PRA will also seek to ensure that firms that it regulates conduct their business in a safe and sound manner.

The scope and range of obligations imposed on an authorised firm under the Conduct of Business Rules vary according to the nature of its business and the range of its clients. Generally speaking, however, the obligations imposed on an authorised firm by the Conduct of Business Rules will include the need to classify its clients according to their level of sophistication, provide them with information about the firm, meet certain standards of product disclosure, ensure that promotional material which it produces is clear, fair and not misleading, assess suitability when advising on certain products and managing portfolios, manage conflicts of interest and report appropriately to its clients.

The FCA's Supervision Manual contains specific requirements for insurers that have ceased to take on new business and are in run-off. Equally some of the FCA Conduct of Business Rules, for example in relation to the sale of new policies, have no relevance to such companies.

FCA "Outcomes"

The FCA has three operational objectives: (i) to secure an appropriate degree of protection for consumers; (ii) to protect and enhance the integrity of the United Kingdom financial system; and (iii) to promote effective competition in the interests of consumers.

The first objective is central to the FCA's expectation of a firm's conduct and is underpinned by six Treating Customers Fairly outcomes: (i) consumers can be confident that they are dealing with firms where the fair treatment of customers is central to the corporate culture; (ii) products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly; (iii) consumers are provided with clear information and are kept appropriately informed before, during and after the point of sale; (iv) where consumers receive advice, the advice is suitable and takes account of their circumstances; (v) consumers are provided with products that perform as firms have led them to expect, and the associated service is of an acceptable standard and as they have been led to expect; and (vi) consumers do not face unreasonable post-sale barriers imposed by firms to change product, switch provider, submit a claim or make a complaint.

Prudential supervision

As set out above, in order to maintain authorised status under FSMA, a firm must continue to satisfy the threshold conditions for authorisation, which, among other things, require the firm to have adequate resources for the carrying on of its business. The FCA and PRA have published detailed rules relating to the maintenance of minimum levels of regulatory capital for insurance and investment businesses in the Prudential Standards section of their FCA Handbook and PRA Rulebook, respectively. For further information, see "*Solvency II*" below.

The FCA's and PRA's regulatory capital rules for insurers and investment firms are primarily contained in the Solvency II prudential framework.

The Financial Ombudsman Service

Authorised firms must have appropriate complaints handling procedures. However, once these procedures have been exhausted, qualifying complainants may turn to the FOS which is intended to provide speedy, informal and cost effective dispute resolution of complaints made against authorised firms by individuals, small and medium-sized business customers and some charities and trusts. The FOS is empowered to order firms to pay fair compensation for loss and damage and may order a firm to take such steps as it determines to be just and appropriate to remedy a complaint.

The Financial Services Compensation Scheme ("FSCS")

The FSCS is intended to compensate individuals, small businesses and certain other categories of customer for claims against a UK authorised firm where the authorised firm is unable or unlikely to be able to meet those claims (generally, when it is insolvent or has gone out of business). The scheme is also intended to promote confidence in the financial system by limiting the systemic risk that the failure of a single firm might trigger a wider loss of confidence in the relevant financial sector. The scheme covers banking, insurance, investment business and mortgage advice, reflecting the different kinds of business undertaken by authorised firms. It is funded primarily by levies on participating firms that consist of: (i) a management expenses levy comprising a base costs levy that relates to the cost of running the FSCS each year and a specific cost for the running costs attributable to a specific funding class; and (ii) a compensation costs levy which relates primarily to the costs incurred by the FSCS in paying compensation. Note that, in respect of SLIDAC and Ark Life, there is not an equivalent Irish compensation scheme for life insurers authorised in Ireland.

Insurance Guarantee Schemes

Currently there are no rules at the EEA level requiring the member states of the EU to adopt insurance guarantee schemes such as that established by the FSCS. The European Commission published a white paper in 2010 discussing the necessity of insurance guarantee schemes and indicated that it is considering proposing a directive with regard to such schemes. As at the date hereof, no proposals for this directive have been published. It is possible that if such a directive were introduced, it may affect the operation of the FSCS.

Conduct of Business requirements for insurance business

The Conduct of Business Rules issued by the FCA apply differing requirements to the sale of: (i) general insurance contracts; and (ii) long-term insurance contracts. Within (ii), more stringent requirements apply where the contract has an investment value or otherwise is a product which historically gave rise to mis-selling problems. Authorised firms which advise and sell packaged products (such as life insurance policies) are subject to detailed conduct of business obligations relating to product disclosure, assessment of suitability for private customers, the range and scope of the advice which the firm provides, and fee and remuneration arrangements.

Gender discrimination issues

In 2011, the Court of Justice of the European Communities ruled against the use of gender in setting premiums or benefits under insurance contracts. The decision of the Court of Justice was implemented into United Kingdom law by the Equality Act 2010 (Amendment) Regulations 2012, which amends the Equality Act 2010. The amendments to the Equality Act 2010, which took effect on 21 December 2012, remove a provision in the Equality Act 2010 which had previously allowed gender-sensitive pricing of insurance premiums and benefits. It affects, among other things, the pricing of annuities, life insurance policies and the annuity rates which may be offered when pension policies mature.

With-profits business

The FCA and PRA have published a Memorandum of Understanding which sets out how the two regulators will co-operate in their supervision of insurers with policyholders who hold with-profits insurance policies. The FCA is responsible for satisfying itself that firms are behaving fairly in relation to the exercise of discretion whilst the PRA's focus is on ensuring that discretionary increases in liabilities do not adversely affect the insurer's ability to meet, and continue to meet, the PRA's standards for safety and soundness.

Actuarial functions

Every insurance company that is regulated under Solvency II must appoint one or more actuaries (external or in-house) to perform the "actuarial function" in respect of all classes of its long-term insurance business. In addition, if it is regulated by the PRA and has any with-profits business, it must appoint one or more actuaries to perform the "with-profits actuary function" in respect of its with-profits business.

The PRA Rulebook requires that an actuary appointed to perform the with-profits actuary function must, among other things: (i) advise the firm's management, at the level of seniority that is reasonably appropriate, on key aspects of the discretion to be exercised affecting those classes of the with-profits insurance business of the firm in respect of which the actuary has been appointed; (ii) advise the firm's governing body as to whether the assumptions used to calculate the future discretionary benefits within the firm's relevant technical provisions are consistent with the firm's Principles and Practices of Financial Management ("**PPFM**") in respect of those classes of the firm's with-profits insurance business; and (iii) at least once a year, report to the firm's governing body on key aspects (including those aspects of the firm's application of its PPFM on which the advice described has been given) of the discretion exercised in respect of the period covered by his report affecting those classes of with-profits insurance business of the firm. The FCA Handbook additionally requires that the firm's with-profits committee work closely with the with-profits actuary and obtain his input as appropriate, as well as assess his performance at least annually and report on the same to the Board.

Distribution of profits and with-profits business

The PRA Rulebook requires firms carrying on with-profits business to ensure that their distribution strategies are affordable and sustainable and cannot reasonably be expected to have an adverse impact on the safety and soundness of the firm as a whole or on the benefit security of all policyholders of the firm. For further information, see "*Solvency II*" below.

The FCA Handbook also contains provisions that are relevant to the distribution of profits particularly geared toward the need to treat policyholders fairly. It also mandates that firms carrying on with-profits business must:

- define and make publicly available the PPFM applied in their management of with-profits funds;
- ensure their governance arrangements offer assurance that they have managed their funds in line with the PPFM they have established and published;
- produce annual reports for with-profit policyholders on how they have complied with this obligation, including how they have addressed any competing or conflicting rights, interests or expectations of policyholders and, if applicable, shareholders;
- comply with: (i) modified regulatory reporting requirements designed to achieve the PRA's objective of making directors and senior management more explicitly responsible for setting up technical provisions and other decisions taken on actuarial advice; and (ii) new audit requirements for liabilities; and
- comply with consequential changes to certification in the insurance returns.

Transfers of insurance business

Any transfer of United Kingdom insurance business (as defined under FSMA) must be effected in accordance with Part VII of FSMA and relevant secondary legislation, which requires a scheme of transfer to be prepared and approved by the Court. Amongst other things, a report of an independent expert is required on the terms of the scheme, which would consider whether the proposed transfer would be prejudicial to policyholders. The regulators also have an important role in a transfer under Part VII of FSMA, including in relation to certain approvals for specific steps in the transfer process (such as the approval by the PRA (in consultation with the FCA) of the appointment of the independent expert and the form of the independent expert's report) and in advising the Court whether a transfer should be approved. A Part VII scheme of transfer enables direct insurers and reinsurers to transfer all or part of their books of business to another approved insurer by operation of law without the need for individual policyholder consents, although policyholders have the right to object to the proposed scheme at the Court hearing. A scheme of transfer may also allow for the transfer of assets and other contracts related to the business so as to give proper effect to the transfer. A transfer of insurance business means a transfer of insurance policies and should be distinguished from the change of control of a business effected by a transfer of shares in an insurance company.

Solvency II

Solvency II has applied since 1 January 2016.

The Solvency II prudential framework updated, among other things, the EU life, non-life, reinsurance and insurance groups directives. The main aim of the framework is to protect policyholders through establishing prudential requirements better matched to the true risks of the business, taking into account other regulatory objectives of ensuring the financial stability of the insurance industry and stability of the markets. Like the Basel III reforms introduced in relation to banks in 2014, the approach is based on the concept of three pillars: (i) quantitative requirements (the amount of regulatory capital an insurer should hold); (ii) qualitative requirements on undertakings such as risk management as well as supervisory activities; and (iii) enhanced disclosure and transparency requirements. It is also directionally consistent with Pillar 2, being on an economic capital basis.

Solvency II contains rules covering, among other things:

- technical provisions against insurance and reinsurance liabilities;
- the valuation of assets and liabilities;
- the maintenance of an MCR and a higher and more risk sensitive SCR;
- what regulatory capital is eligible to cover technical provisions, the MCR and the SCR, and to what extent specific tiers of capital may so count;
- what regulatory capital or assets are to be treated as being restricted to specific uses and not therefore fungible or transferable across the firm's entire operations;
- to what extent a firm's internal regulatory capital models may be used to calculate the SCR;
- governance requirements including risk management processes;
- considerably expanded reporting requirements covering: (i) matters to be reported privately to the firm's supervisor leading to a full supervisory review process; and (ii) matters to be published in a "Solvency and Financial Condition Report";
- rules providing for the SCR to be supplemented by a "regulatory capital add-on" in appropriate cases, the add-on to be imposed by the relevant supervisor (the PRA in the case of United Kingdom firms and the CBI in the case of SLIDAC and Ark Life);
- rules on insurance products which are linked to the value of specific property or indices; and
- the application of the above requirements across insurance groups, including a specific regime for insurance groups with centralised risk management and an enhanced role for the "group supervisor" of international groups, who will be required to work in conjunction with a "college of supervisors" responsible for specific solo members of the group.

The PRA rules contain a requirement (which came into effect on 1 January 2016) that firms hold, within each of their with-profits funds, assets that are sufficient to meet the with-profits liabilities of such funds. The rules use a definition of "with-profits fund surplus" in relation to Solvency II firms' with-profits business, being, in summary, the difference between the assets in the fund and the liabilities in the fund. Only the with-profits fund surplus may be distributed to policyholders and shareholders. The PRA has also stated in a supervisory statement that restrictions on assets and Own Funds resulting from the nature of, and regulatory regime for, with-profits insurance business in the United Kingdom will generally mean that each with-profits fund displays the characteristics of a ring-fenced fund for the purposes of Solvency II. In the same supervisory statement, the PRA also notes that firms sometimes have support arrangements in place which seek to provide support to a with-profits fund from financial resources outside that fund; the final rules require that the terms of any such support arrangement be clarified and codified. In addition, depending on the facts or circumstances, the Board may apply capital management policies to control the distribution of capital.

Insurance companies and insurance groups require supervisory approval to use Internal Models to calculate their SCR (or specific risks or major business units within the SCR), as the PRA wants to ensure ongoing compliance with the Solvency II Internal Model requirements. The process of obtaining that approval is a rigorous one involving a full review of the firm's governance arrangements and proof that the internal modelling is fully used within the firm's business. Once a firm's Internal Model has been approved, it must report Internal Model outputs using the PRA's templates, so that the PRA can supervise Internal Models on an ongoing basis. The PRA may also impose regulatory capital add-ons if it considers that the resultant regulatory capital requirement does not reflect the risk exposures of the relevant firm or insurance group. On 7 December 2015, PGH Cayman announced that the PRA had approved the Group's Solvency II Internal Model application for the PLHL group and its subsidiaries. Since such announcement, the Group has received approvals to extend its model to include the ultimate parent company Phoenix and to include the acquired businesses of AXA Wealth, ALAC and SLAL. The Group expects to apply for further changes in future to harmonise the methodologies between the Group Solvency II Internal Model and the Internal Model in respect of SLAL and SLPF. The ReAssure Group has adopted a PIM for the purpose of determining its capital under Solvency II. For a further discussion on the ReAssure Group's use of a PIM, please see "*Liquidity and Capital Resources—Regulatory Capital Requirements—Long Term Guarantee Measures under Solvency II*" in Part X ("*Operating and Financial Review of the ReAssure Group*").

The Group notes that the technical implementation of Solvency II resulted in a significant increase in the technical provisions and regulatory capital requirements of the Phoenix Life Companies (other than SLIDAC). However, these increases were mitigated to an extent by the introduction of transitional provisions, included in the Solvency II Directive, which are designed to ensure a smooth transition to the new regime. On 17 December 2015, the PRA confirmed that it had approved an application by PLL and PLAL to apply Transitional Measures on Technical Provisions ("**TMTP**"). On 22 December 2015, the PRA confirmed that it had approved an application by ReAssure Limited to apply TMTP. On 24 December 2019, the PRA approved ReAssure Limited's application to undertake a recalculation of TMTP with effect from 31 December 2019. This recalculation is designed to apply at the end of every 24 months following the commencement of the transitional measures on 1 January 2016. On 23 February 2016, the PRA confirmed that it had approved an application by SLAL to apply TMTP. This allows for a transitional deduction on technical provisions which is the difference between the net technical provisions calculated in accordance with the Solvency II rules and the net technical provisions calculated in accordance with the previous regime, subject to a constraint that the total Solvency II required financial resources should not become lower than those under Solvency I as a result. The benefit of the transitional provisions will be phased out over a 16 year period. There remains some uncertainty over the pace of run-off within that period. If the pace of run-off is faster than expected then this may defer the amount or timing of future cash releases from PLL, PLAL, SLAL and the ReAssure Life Companies.

It should be noted that SLIDAC and Ark Life are authorised and regulated by the CBI. Consequently, Solvency II (and any relevant Irish implementing provisions) are applied by the CBI, not the UK regulators. More generally, the prudential regulation of SLIDAC and Ark Life is a matter for the CBI, although Solvency II is a European directive and therefore many of the same principles and rules outlined above apply, notwithstanding the fact that certain discrete matters remain the subject of national discretion and therefore variation.

For further information, see also the risk factor entitled "*Risks Relating to the Group—Regulatory Risks—Regulatory capital and other requirements may change*".

UK pensions reform and related initiatives

Since 2014 there have been a number of wide-ranging changes to the legislative framework surrounding pension and annuity products in the UK life insurance sector. These developments are targeted at increasing customer choice and flexibility, reducing the cost to the UK government and increasing the level of savings for retirement, particularly for lower income earners. The most notable of these developments include:

- tax reforms on pension savings;
- publication in March 2015 of the FCA's final report on its retirement income market study (which reinforced the importance of consumer choice); and
- the implementation of caps on exit charges.

The UK Pensions Reform has increased the flexibility provided to pensioners (with new options from April 2015 to provide more choice and flexibility on when and how pension savings can be accessed) and, in practice, abolished for those with larger (i.e., non-"trivial") defined contribution schemes the need to buy an annuity (or enter a drawdown arrangement) at retirement. The UK Pensions Reform which was not anticipated prior to its announcement had a significant impact on annuity sales, with a 61 per cent. decrease in the first three months after the reforms were introduced, compared to the second quarter of 2014, according to the Association of British Insurers ("**ABI**"). In addition, according to the ABI there has been an increase in the withdrawals from pension pots since the reforms were introduced although annuity sales are reported to have been recovering since the beginning of the reforms, with the ABI predicting that there will be a steady increase in annual annuity sales into the 2020s.

The UK government has also implemented a number of reforms aimed at boosting workplace engagement with pensions and gradually increasing the minimum contribution rates to these, which is generally referred to as auto enrolment. These changes have been effective in boosting participation rates in pensions and the median level of contribution but have driven increasing volumes of business to a small number of scale products and providers.

Ireland

The ReAssure Group has an Irish-domiciled life insurance company, Ark Life, and the Group has SLIDAC.

The Irish legal framework governing insurance business is set out in pre-existing domestic legislation, as amended and supplemented by national laws which implement EU legislative provisions. Solvency II is implemented in Irish law by the European Union (Insurance and Reinsurance) Regulations 2015, which came into effect on 1 January 2016. The framework is further supported by regulatory codes, guidance notes and policy papers issued by the CBI.

A life insurer operating in Ireland must be authorised by the CBI (which is the competent authority responsible for the regulation and supervision of regulated financial services providers in Ireland), or by the competent national authority in its home member state. Ark Life and SLIDAC currently hold an authorisation granted by the CBI.

Life insurers in Ireland are also required to have a board of directors whose members have individually met the CBI's fitness and probity requirements and must have at a minimum both an audit and a risk committee, (each with documented terms of reference evidencing all functions delegated to them), a Chief Executive Officer dedicated on a full time basis with clear delegated powers and reporting obligations, a Chairperson, a Head of Actuarial Function, a Head of Compliance and a Chief Risk Officer and four key internal functions: actuarial; internal audit; compliance; and risk. Any person carrying out a controlled function under the CBI's fitness and probity regime including all directors, senior executives, the Head of Internal Audit, the Head of Compliance, the Head of Actuarial Function and the Chief Risk Officer are subject to the requirements of the CBI's fitness and probity regime and any appointments to such positions which are designed as pre-approval controlled functions require the prior approval of the CBI. Although ordinarily, the majority of the board of directors of an insurer are to be independent non-executive directors, in the case of insurers that are subsidiaries of a group, the majority of the board may also be composed of group directors or a combination of group directors and independent non-executive directors, provided that in all cases the subsidiary insurer has at least two independent non-executive directors or such greater number as may be required by the CBI. A subsidiary insurer which is a High Impact designated insurance undertaking shall have at least three independent non-executive directors or such greater number as required by the CBI. Group directors are required to act critically and independently so as to exercise objective and independent judgment in the discharge of their duties.

Under Part IIIC of the Central Bank Act 1942, the CBI has the power to impose sanctions for prescribed contraventions of legislation or regulatory rules ("prescribed contraventions") under its administrative sanctions regime. If the CBI has reasonable cause to suspect that an insurer and/or person concerned in its management has committed or is committing a prescribed contravention it may commence an investigation or examination, potentially leading to an enquiry and sanctions being applied. At any time up to the conclusion of an inquiry, the CBI may enter into a binding settlement agreement with the undertaking and/ or a person concerned in its management to resolve the matter. Sanctions that the CBI has the power to impose under the administrative sanctions regime include but are not limited to: cautions or reprimands; a direction disqualifying a person from being concerned in the management of a regulated financial service provider; suspension or revocation of authorisation; and monetary penalties (for a company, up to €10 million or 10 per cent. of annual turnover in the previous financial year (whichever is greater), or for a natural person, an amount not exceeding €1 million).

In addition, the European Union (Insurance and Reinsurance) Regulations 2015 provide for the stages of increasing intervention, which the CBI can implement if they are concerned that an insurer is not complying with either its SCR, or indeed its MCR. Further, the CBI has significant powers under the Insurance (No. 2) Act, 1983 to seek the appointment of an administrator to an insurer who can, upon court appointment, take over the management of the business of an insurer with a view to placing it on a sound commercial footing. The CBI may petition for the winding up of a life company on the grounds of it being unable to pay its debts under the European Union (Insurance and Reinsurance) Regulations 2015. The CBI can also withdraw an authorisation granted to an insurer where the insurer ceases to pursue business for more than six months, no longer fulfils the conditions for authorisation or fails seriously in its obligations under financial services legislation.

Solvency II places additional reporting obligations on insurance undertaking in Ireland. Insurers are required to submit an ORSA, annual and quarterly quantitative reporting templates ("**QRTs**") and regular supervisory reports to the CBI, who determines what (if any) actions are to be taken and ensures that any such actions are carried out. In addition to these requirements, insurers must prepare an annual Solvency and Financial Condition Report, which is a publicly disclosed, narrative report that supports the annual QRTs.

The acquisition or disposal of a "qualifying holding" in an Irish insurer is subject to prior approval of the CBI. A "qualifying holding" is the direct or indirect holding of 10 per cent. or more of the share capital or voting rights of an insurer or a lesser holding, which allows the acquirer to exercise a significant influence over the insurer. Where an existing shareholder proposes to increase or decrease its holding over or below certain thresholds of 20 per cent., 33 per cent. and 50 per cent., a further notification requirement is triggered.

The Irish Consumer Protection Code incorporates both a rigorous set of common rules applicable to most entities regulated by the CBI and other sector specific rules relevant to firms offering certain products and services to Irish consumers. Where applicable, these rules must be reflected in customer insurance contracts and the manner in which insurers interact with their customers.

Irish pensions reform

The Irish government announced in 2018 major changes to pensions in Ireland in the publication titled "Roadmap for Pensions Reform 2018-2023". The six strands of reform include: (i) a "total contributions approach" to the state pension; (ii) automatic enrolment to address Ireland's pension savings gap; (iii) improvements to the sustainability of defined benefit pension schemes and protections for members; (iv) changes to public sector pension rules; (v) the implementation of EU Directive 2016/2341 (IORP II); and (vi) new flexibilities to allow people to work past their default retirement age. While it remains to be seen what measures will be introduced in Ireland as part of pension reform, such reforms could impact future persistency and strategic risk in the Irish market.

Passporting and Brexit

The Phoenix Life Companies and the ReAssure Life Companies currently passport their services on a cross-border basis in each EEA member state in which they operate. It is expected that Brexit will result in a loss of current EEA passporting rights for UK authorised firms, including PLL and ReAssure. The UK was originally scheduled to leave the EU on 29 March 2019. Following political disagreement in the UK, that date was put back three times and now stands at 31 January 2020, in order to allow for the approval by the UK parliament of the legislation required to implement the withdrawal agreement (and related political declaration) on the future relationship between the UK and the EU. Subject to ratification by the EU Parliament, expected on 29 January 2020, Brexit is expected to occur at 11 p.m. (UK time) on 31 January 2020. The withdrawal agreement provides for a 'standstill' implementation period until 31 December 2020, subject to agreed extension mechanisms. During this period, the UK will effectively remain in the EU's customs union and single market. Upon expiration of the implementation period, unless passporting rights have been agreed to as part of the ongoing relationship, a UK insurer may no longer be able to continue to write new insurance business into an EEA member state or service existing business in those states (e.g., receipt of premium or payment of claims). To benefit from passporting access within the EEA, an insurer would need to establish an appropriately licensed EEA base, which would be subject to the laws and regulation of the EEA state of establishment. It may not be possible for such an insurer to retain the present level of UK operations with respect to that establishment, as the relevant EEA member state regulator may insist that sufficient management oversight, capital, support-staff and business be based at the EEA insurer.

Should the UK become a "third country" upon expiry of the implementation period then, in respect of the insurance sector, it is possible that the EU will grant the UK equivalency under Solvency II. This should be distinguished from equivalence under other directives in the financial sector since the effects vary across directives. Under Solvency II, equivalence is not a single determination in relation to a third country's regime and does not provide for passporting rights.

Both the Group and the ReAssure Group continue to consider the potential implications of Brexit and have taken steps such as seeking legal advice, engaging in resource planning and ensuring that appropriate procedures are in place while the uncertainty continues. For further information, see "*Risk Factors—Risks relating to the Group—Economy and Financial Markets—The Group's business is subject to risks arising from economic conditions in the United Kingdom and other markets in which it operates or in which its and its policyholders' investments are invested and from risks arising from the vote by the United Kingdom to leave the European Union (the "EU"), also known as "Brexit", and any possible future further referendum on Scottish independence.*"

Conduct of Business requirements for investment businesses and MiFID II

MiFID II, which came into force on 3 January 2018, provides for the regulation of EU securities and derivatives markets. MiFID II is comprised of: (i) a substantially revised Markets in Financial Instruments

Directive (2014/65/EU); (ii) the Markets in Financial Instruments Regulation ((EU) No 600/2014); and (iii) secondary legislation in the form of Delegated Acts made thereunder.

MiFID II, sets out detailed and specific requirements in relation to organisational and conduct of business matters for investment firms and securities and derivatives trading venues. In particular, MiFID II makes specific provision in relation to, among other things, organisational requirements, outsourcing, customer classification, conflicts of interest, best execution, client order handling, suitability and appropriateness, product governance, telephone taping, investment research and financial analysis, pre- and post-trade transparency obligations, transaction reporting, commodity derivative position limits and reporting, and the ability of MiFID investment firms authorised in one EU member state to use 'passports' to conduct MiFID investment services in other EU member states.

MiFID II is more wide-ranging than the previous MiFID regime (under the EU Markets in Financial Instruments Directive (2004/39/EC)) and has direct impact on MiFID investment firms and indirect impact on non-MiFID financial services firms who deal in EU securities and derivatives markets.

Data protection

On 25 May 2018, the GDPR replaced the regime set out in Directive 95/46/EC on the protection of individuals with regard to the processing of personal data and on the free movement of such data. The regulation contains measures that seek to harmonise data protection procedures and enforcement across the EEA. It binds on data controllers in all member states directly without the need for implementation by the member states. Importantly, the penalties for breach of the new regime are much more substantial.

Regarding national laws supplementing the GDPR, the UK Data Protection Act 2018 updates and replaces the Data Protection Act 1998 and came into effect on 25 May 2018. In Ireland, the Data Protection Act 2018 was signed into law on 24 May 2018, replacing its previous data protection framework established under the Data Protection Acts 1988 and 2003. Germany adopted national legislation in response to the GDPR in a new version of the Federal Data Protection Act in late April 2017, which has become effective together with the GDPR on 25 May 2018. The German legislator has used the "opening clauses" that allow member states discretion to customise certain provisions to tighten the rules over personal data of German citizens above and beyond what is required by the GDPR.

Thematic reviews

The PRA and FCA regularly carry out thematic reviews and consultations on market activities which are relevant to the business of the Enlarged Group. The PRA, the FCA and the CBI carry out formal "thematic reviews" which are sector-wide reviews or other informal sector-wide inquiries in respect of a theme or common issue or a particular type of product. Historically, these have not been expressly targeted at the Group or the ReAssure Group. However, the Group and the ReAssure Group have participated in (primarily by providing information to the relevant regulator about its products, operations or customers), and expect to continue to participate in, such reviews from time to time.

The FCA's approach to undertaking thematic reviews may result in a further change in law, regulation and/ or regulatory emphasis, changes in the Enlarged Group's practices and/or prompt future regulatory interventions. In addition, the FCA may require affected firms to carry out remediation in respect of detriment suffered by customers as a result of historic practices. The FCA may also decide to impose financial penalties or compulsory customer remediation (depending on circumstances and its findings). It is not currently possible to assess what further actions the FCA may require affected firms to take or the effect such actions, if required, may have on the business of affected firms.

Thematic reviews that the Group or the ReAssure Group have participated in, include:

- On 11 December 2014, the FCA published the findings of its thematic review into annuity sales practices, which concluded that firms need to improve the way in which they communicate with their customers, particularly during the period when customers are coming up to retirement and making their choices as to their retirement income provision. The FCA published a further report (TR16/7) in October 2016 and a policy statement in May 2017 (PS17/12), which contained final rules requiring firms to inform consumers, by providing an information prompt, how much they could gain from "shopping around" and switching provider, before they buy an annuity. Firms were required to comply with these rules by 1 March 2018. ALAC and SLAL were participants in this review and were each required to undertake a "past business review", both of which are now materially complete. In July 2019, the FCA fined SLAL £30,792,500 for failures related to non-advised sales of annuities.

- On 3 March 2016, the FCA published a thematic review report on the fair treatment of long-standing customers in the life insurance sector. This was followed by final guidance in December 2016, in which the FCA set out its expectations on life insurance firms to ensure that their closed-book customers are treated fairly. This guidance applies to customers and policies of the Group and the ReAssure Group. ALAC agreed to a number of actions with the FCA to address the findings from the thematic review. ALAC was also subject to FCA investigation (i) to explore whether remedial and/or disciplinary action was necessary or appropriate in respect of "exit charges" upon change of provider and "paid up charges" upon cessation of payment of regular premia being applied and (ii) for potential contravention of regulatory requirements across a number of other areas assessed in the review. On 19 September 2018, PGH Cayman was informed by the FCA that it had closed its investigation into ALAC, having found that the conduct of ALAC did not warrant enforcement action.

- In 2017, the FCA published a consultation paper detailing the findings of its retirement outcomes review, which examined the evolution of the retirement income market since the pensions reforms were introduced in April 2015. The FCA's review was primarily focused on non-advised drawdown market following an increase in non-advised sales of these products (to consumers who do not take regulated advice) since the implementation of the pensions reform in 2015 and on the basis that those taking regulated advice receive support already. The ReAssure Group was involved in this review and has received feedback on its sale of non-advised drawdown products (the Group's flexible retirement product launched as a result of the 2015 pensions reforms), with no significant findings raised by the FCA.

- In March 2018, the FCA issued a summary of its findings following the review of non-advised drawdown pension sales. The FCA incorporated actions into the Retirement Outcomes Review which resulted in changes to 'wake-up' packs, retirement risk warnings and reminders changes. Annuity information prompts requiring health and lifestyle information were also mandated. A consultation paper was published in June 2018, with final rules produced on 30 January 2019 and implementation occurred in November 2019. In addition, within the consultation paper published in June 2018, the FCA issued a discussion chapter outlining proposals for customers entering into flexible drawdown. Proposals included the introduction of investment pathways, preventing cash being the default option, requiring warnings before cash is selected and the development of a drawdown comparator tool to help customers to shop around and switch providers. A consultation paper was published in January 2019, with final rules produced on 30 July 2019 and implementation is expected to occur in August 2020.

- Following the FCA's Market Asset Study, the Group and the ReAssure Group have been included in the FCA's multi-firm project looking at the governance that exists for existing unit-linked funds and products. A particular area of focus is the ongoing oversight of charges at a fund level and how these are managed to help ensure value for money for investors.

- The ReAssure Group was included in the FCA's market-based supervisory review of "Effectiveness of Firms' Governance arrangements in ensuring fair outcomes for customers" in 2017. Feedback has been received and there were no significant findings.

- In April 2019, the FCA published the findings of its thematic review into the fair treatment of with-profits customers (TR19/03). The FCA found that in general firms are taking reasonable care to manage the risk of customer harm in its with-profits business. The Group considered the detailed findings of the review and do not believe this will result in any material changes to the way its with-profits funds operate.

Moreover, while not necessarily comprising formal consultations or reviews at present, the PRA and FCA have identified a number of areas of interest relevant to their statutory objectives which may lead to future developments relevant to the Group's and the ReAssure Group's business.

Key current areas of focus of the FCA include the following:

(i) Firms' culture and governance:

- Culture and governance continues to be a strong area of focus and the requirement for firms to display a customer centric culture that produces good customer outcomes runs throughout all of the areas identified by the FCA. Firms should be able to evidence the culture in their firm, the drivers behind it and how it is measured, managed and monitored.

(ii) Tackling financial crime (fraud & scams) & anti-money laundering:

- The FCA has a continuous programme of work to ensure firms have appropriate controls in place. It will continue random sampling of firms, including small and lower risk firms, to ensure high standards are being maintained.

(iii) Data security, operational resilience and outsourcing:

- Since technology plays a pivotal role in delivering financial products/services and cyber-attacks are becoming increasingly prevalent, particularly in legacy systems or data is transferred between firms or outsourced, the regulators are focusing on the data security and resilience of firms.
- The FCA will conduct thematic work based on harms they have identified in each sector. This includes supervisory assessment of firms' operational resilience.

(iv) Fair treatment of existing customers:

- The FCA continues work to ensure that existing customers do not get less attention or receive poorer outcomes than new customers. For example, the FCA published a discussion paper on Fair Pricing in Financial Services in October 2018 which addresses variations in pricing between new and existing customers. The FCA want to ensure customers in 'closed books' still receive the appropriate level of service and information to help them make decisions about a product's ongoing suitability.

(v) Pensions and retirement income products:

- The FCA has published findings following its review of the pensions and the retirement income sector which found that whilst customers have welcomed pension freedoms, many are not engaging with their pensions and as a result, customers are not making good decisions. The FCA is consulting on a number of key changes to addresses this.

(vi) Regulatory focus on "Value for Money" continues with attention now on non-workplace pension charges.

(vii) A continued focus on consumer vulnerability and access to financial services, which underlines the challenge the FCA faces in successfully regulating in a more digital world.

(viii) FCA focus on its response to the EU withdrawal and preparations forms a significant part of its activity over the coming year.

The PRA activities (according to their annual report and accounts for the year ended 28 February 2018 and other sources) focus on the following:

(i) Solvency II improvements:

- The PRA intends to continue with its programme of improvements for Solvency II implementation in the United Kingdom.

(ii) Ensuring that firms are adequately capitalised, and have sufficient liquidity, for the risks they are running or planning to take:

- The PRA will monitor insurers' business models and the effects they have on firms' safety and soundness. It will also conduct asset reviews (including of illiquid assets), business model analysis and reviews of capital management, focusing on Solvency II capital regeneration.

(iii) Developing supervision of operational resilience in order to mitigate the risk of disruption to the provision of critical economic functions:

- Resilience is a top priority for the PRA and it will develop its supervisory approach to operational resilience.

Other regulatory systems

While most of the Group's activities are, as the Enlarged Group's will be, in the UK (and therefore solely within the scope of the UK regulatory system), the Group includes, and the Enlarged Group will include, entities which operate outside the UK in a regulated environment. In particular, SLIDAC and Ark Life are authorised and regulated by the CBI. As previously stated, the prudential and conduct regulation of SLIDAC and Ark Life is a matter for the CBI and Irish law and regulation.

When policies are sold to policyholders situated in an EU state the regulation of that state may apply to the sale and administration of such policies, even though the transacting Group entity may be authorised and regulated in another jurisdiction. Members of the Group and the Enlarged Group carry on business in other EU member states under EU-wide passporting rights. Of particular note is SLIDAC, which writes new business in Germany and Austria via its German branch and Austrian sales office. As a result, the Group may be subject to greater regulatory oversight by German and Austrian regulators in respect of its activities even though the Group does not have an authorised subsidiary in Germany or Austria. Although those entities using passporting rights do not need to be authorised in each of the EU member states in which they carry on activities within the scope of those rights, such entities are required to comply with certain local laws and regulatory requirements, for example in respect of conduct of business rules, in relation to certain activities carried on in those countries. As a result, the law and regulation of various EU member states applies to the activities of certain members of the Group and the ReAssure Group when they are dealing with customers in EU states.

PART V — FINANCIAL INFORMATION OF THE GROUP

The unaudited half-yearly consolidated financial statements of the Group for the six months ended 30 June 2019 are incorporated by reference into this document as set out in Part XVI ("*Documents Incorporated by Reference*").

The audited consolidated financial statements of the Group for the financial years ended 31 December 2018, 2017 and 2016 prepared in accordance with IFRS, together with the audit reports and notes in respect of each such year are incorporated by reference into this document as set out in Part XVI ("*Documents Incorporated by Reference*").

The consolidated financial statements of Standard Life Assurance for the financial years ended 31 December 2017 and 2016 are incorporated by reference into this document as set out in Part XVI ("*Documents Incorporated by Reference*").

PART VI — OPERATING AND FINANCIAL REVIEW OF THE GROUP

The following operating and financial review is intended to convey the Directors' perspective on the operating performance and financial condition of the Group from 1 January 2016 to 30 June 2019. The discussion should be read in conjunction with the rest of this document, the Group's Annual Report and Accounts for the years ended 31 December 2018, 2017 and 2016, and the Group's unaudited half-yearly interim results for the six months ended 30 June 2019 and 2018, which are incorporated by reference into this document as described in Part XVI ("Documents Incorporated by Reference"). The following discussion contains forward-looking statements that involve risks and uncertainties that could cause the actual results of the Group to differ from those expressed or implied by such forward-looking statements. These risks and uncertainties are discussed in the section of this document headed "Risk Factors" and elsewhere in this document. See "Cautionary note regarding forward-looking statements" in the section of this document headed "Important Information".

The discussion contained herein relates to, and all financial information has been extracted without material adjustment from, the historical financial information incorporated by reference into this document, which has been prepared in accordance with IFRS, (i) in respect of PGH Cayman for the financial years ended 31 December 2018, 2017 and 2016, as issued by the IASB and (ii) in respect of Phoenix for the financial year ended 31 December 2018 and six months ended 30 June 2019, as adopted by the EU. The Group's Annual Report and Accounts for the years ended 31 December 2018, 2017 and 2016 and the unaudited half-yearly interim results for the six months ended 30 June 2019 and 2018, have each been prepared on a historic cost basis except for investment property, owner-occupied property, and those financial assets and financial liabilities and investment contracts without discretionary participation features that have been measured at fair value.

This section also includes a discussion of the Group's liquidity and capital resources.

Key factors affecting the Group's results of operations and comparability

The following paragraphs describe the key factors which have affected the results of operations of the Group during the period from 1 January 2016 to 30 June 2019 and/or which may affect the results of operations of the Group in subsequent periods.

Market update

In 2016, uncertainty prior to and following the referendum on 23 June 2016 on the UK's membership of the EU contributed to increased market volatility in the period. The initial reaction to the vote to leave the EU increased volatility in exchange rates between sterling and the dollar and euro and resulted in significant falls in interest rates. Gilt yields fell across all durations during the year, with benchmark 15-year gilt yields falling by 70 basis points compared to the 31 December 2015 level. Credit spreads narrowed across all ratings during the year.

The FTSE All Share index increased by 12 per cent. during 2016, increasing to 3,873 as at 31 December 2016.

2017 saw further rises in equity markets, with the FTSE All Share index increasing by 9 per cent. to 4,222 as at 31 December 2017 from 3,873 as at 31 December 2016. Interest rates were more stable during 2017, with the benchmark 15-year gilt yield falling by 8 basis points compared to the 2016 closing level. Credit spreads also narrowed across all ratings during the year.

The FTSE All Share index decreased by 13 per cent. during 2018, decreasing to 3,675 as at 31 December 2018 from 4,222 as at 31 December 2017. All credit spreads were ahead of their 2017 closing year end position with AAA, AA, A and BBB rated spreads ahead by 9, 16, 44 and 66 basis points respectively. Gilt yields were also slightly ahead of their 2017 closing year end positions with the 10-year and 15-year gilt yields 4 and 6 basis points ahead respectively.

The FTSE All Share index as at 30 June 2019 of 4,095 was 11 per cent. above the 31 December 2018 year end position of 3,675. Gilt yields were below their 2018 year end closing positions and credit spreads narrowed across the ratings.

The Group's results and financial condition can be affected by changes in market levels, including risk-free rates, corporate bond credit spreads, equity values and property values. The Group undertakes hedging activity to manage its exposure to market risks; however its hedging strategy is calibrated to protect the regulatory capital position and cash generation capability of the operating companies. This can create additional volatility in the IFRS results resulting from measurement and recognition differences between the

Solvency II and IFRS bases. For example, the Group hedges its exposure to equity movements arising from future profits in relation to with-profit bonuses and unit-linked charges to benefit the regulatory capital position. The impact of equity market movements on the value of hedging instruments is reflected in the IFRS results, but the corresponding change in the value of future profits is not.

The Group's 2016 results were adversely impacted by falling gilt yields, losses on equity hedging positions on an IFRS basis that reduced in value following equity market gains and the widening of credit spreads. The Group's 2017 results were also adversely impacted by losses on equity hedging positions on an IFRS basis that reduced in value following equity market gains and losses on swaption positions held to hedge the impact of interest rate risk on the Group's regulatory position as a result of reduced volatility and expected option expiry. The Group's 2018 results were positively impacted by gains on equity hedging positions on an IFRS basis that increased in value following equity market losses on swaption positions, together with losses on derivative positions held to hedge the Group's exposure to pre-completion equity risk arising from the SLA Acquisition, reflecting equity market gains in the pre-completion period. The Group's 2019 interim results were adversely affected by losses on equity hedging positions on an IFRS basis that reduced in value following equity market gains, partly offset by positive impacts from narrowing credit spreads and falling yields.

The long-term nature of much of the Group's operations means that the effects of short-term economic volatility are treated as non-operating items. In calculating the Group's IFRS operating profit, the Group incorporates expected returns on investments supporting its long-term business. Changes due to economic items, for example market value movements and interest rate changes, which give rise to variances between actual and expected investment returns, and the impact of changes in economic assumptions on liabilities, are disclosed separately outside operating profit as investment variances and economic assumption changes. The Group's investment return variances and economic assumption changes on long-term business and owners' funds on an IFRS basis were a negative £81 million for the six months ended 30 June 2019, compared with a positive £27 million for the six months ended 30 June 2018. It was a positive £283 million for the year ended 31 December 2018, compared with a negative £6 million for the year ended 31 December 2017 and a negative £207 million for the year ended 31 December 2016. These items are detailed further in the section entitled "*Operating profit for the Group for the six months ended 30 June 2019 and 2018"* and *"Operating profit for the Group for the years ended 31 December 2018, 2017 and 2016*" below.

Implementation of Solvency II

In accordance with EIOPA and PRA requirements, from 1 January 2016, the Group has undertaken a Solvency II group regulatory capital calculation and a solo assessment for each Phoenix Life Company.

From 1 January 2016 to 30 June 2017, the Solvency II capital assessment and the Group's regulatory supervision was performed at the PLHL level, as the ultimate EEA insurance holding company within the Group. As ultimate insurance holding company, PGH Cayman would have been subject to the same Solvency II requirements as PLHL upon the regime's introduction, however the PRA granted a waiver that permitted Group supervision to take place at the level of PGH Cayman via other methods. This waiver expired on 30 June 2017.

From 1 July 2017, regulatory supervision and SCR reporting were performed at both PGH Cayman and PLHL levels. This "dual reporting" continued until 31 January 2018 when PGH Cayman's head office was moved to the United Kingdom from Jersey and the PRA agreed to treat PGH Cayman as the ultimate EEA insurance holding company of the Group until the insertion of a new UK holding company. During this period, the Group's SCR reporting was carried out at the PGH Cayman level only. Accordingly, from 1 July 2017, the PLHL Solvency II Surplus has not been reported. For further information, see "*Solvency II*" in Part IV ("*Regulatory Overview*") of this document.

Calculation of the Solvency II Group regulatory capital calculations involves a valuation in line with Solvency II principles of the Group's Own Funds and a risk based assessment using an Internal Model of the Group's SCR. For further information, see "*Solvency II*" in Part IV ("*Regulatory Overview*") of this document.

The Group SCR is calibrated so that the likelihood of a loss exceeding the Group SCR is less than 0.5 per cent. over one year. This is meant to ensure that capital is sufficient to withstand a broadly '1 in 200 year event' and is calculated in accordance with the Group's Solvency II Internal Model. Management actions which could be undertaken to restore the Own Funds level above SCR in a stress scenario include market risk hedging, further longevity swaps, reinsurance, issuance of hybrid debt, deferral or reduction in shareholder dividends, sale of business lines and/or portfolios, review of future planned management actions, review of outsourcing arrangements and equity issuance.

The Group's Own Funds differ materially from IFRS equity for a number of reasons, including the recognition of future shareholder transfers from the with-profit funds and future management charges on investment contracts, the treatment of certain subordinated debt instruments as capital items, and a number of valuation differences, most notably in respect of insurance liabilities and intangible assets.

Mortality, longevity and persistency

The Group's results of operations and cashflows may be affected by increased mortality and longevity rates and by variances between assumed and actual experience in factors such as persistency levels. As the Group's term and annuity businesses are inversely related, fluctuations in mortality and longevity rates will positively impact one business while negatively impacting the other, with the Group's exposure to longevity rates having a more pronounced effect on the Group than the Group's exposure to mortality rates. Increased mortality rates increase death claims on the Group's term insurance products, while increased longevity rates result in pay-outs to holders of annuities over a longer period. The Group manages its exposure to changes in mortality and longevity rates by holding prudent reserves based on assumptions that reflect past experience and anticipated future trends.

In addition, the Group maintains reserves to compensate policyholders who choose to surrender their respective policies, the amount of such reserves being based on the assumed level of surrenders. Variances between the assumed level of surrenders and the actual level of surrenders expose the Group to persistency risk. In the case of policies providing a guaranteed payment at a future date, if the amount of surrenders falls below expectations, the Group will need to provide for the cost of the additional future payments. On the other hand, in the case of policies providing no guaranteed payment, if the amount of surrenders exceeds expectations, the anticipated future profits to be obtained from these policies could be curtailed.

The Group's IFRS insurance liabilities increased by £22 million as a result of changes in assumptions with regard to mortality, longevity, persistency and expenses for the six months ended 30 June 2019 (2018: decreased by £224 million; 2017: decreased by £92 million; 2016: increased by £52 million).

Acquisition of SunLife Embassy Business

On 1 November 2016, the Group completed the AXA Transaction for a total cash consideration of £373 million.

The AXA Transaction comprised the acquisition of the SunLife Embassy Business, a pensions and investments business offering a range of propositions catering to both individual and corporate requirements, and SunLife, a leader in the over 50s protection sector (together, "**AXA Wealth**"). On completion, the AXA Transaction increased assets under management by approximately £12 billion and added over 910,000 policies to the Group.

The Group has generated significant diversification benefits as a result of the AXA Transaction, with the mortality exposure of the SunLife business offsetting the Group's existing longevity exposure from its annuity liabilities. Access to transitional capital benefits arising as a result of the implementation of Solvency II was achieved by the reinsurance of the SunLife Embassy Business and SunLife into PLL in November 2016, and subsequent transfer via a formal scheme under Part VII of FSMA effective from 30 September 2017. Approval was received from the PRA in March 2017 to include the acquired businesses within the scope of the Group's Solvency II Internal Model. These factors facilitated the delivery of £282 million of cash from the acquisition within six months of completion, exceeding the £250 million target. This included £117 million of cash in the year ended 31 December 2016 and £165 million in the year ended 31 December 2017.

Transaction costs of £12 million were recognised in the year ended 31 December 2016 in connection with the AXA Transaction. Integration and restructuring costs of £30 million were recognised in the year ended 31 December 2016, with a further £9 million of such costs recognised in the year ended 31 December 2017.

Definite life intangible balances totalling £38 million were recognised on acquisition and are being amortised over their estimated useful life.

Integration of the AXA Wealth business was completed in the first half of 2018, ahead of plan and targets.

Acquisition of Abbey Life

On 30 December 2016, the Group completed the Abbey Life Acquisition for a total consideration of £933 million. The acquired Abbey Life business predominantly comprises unit-linked life and pensions policies and annuities in payment, together with two small with-profit funds. Abbey Life added 735,000 policyholders and £10 billion of assets under management to the Group. Abbey Life closed to new retail business in 2000.

The application to move Abbey Life onto the Group's Solvency II Internal Model was submitted during the fourth quarter of 2017 and approval was received from the PRA in March 2018. As with the AXA Transaction, transitional benefits have been accessed through the reinsurance of the acquired Abbey Life business into PLL, which was effective from 29 December 2017. This reinsurance was replaced by a transfer via a formal scheme under Part VII of FSMA, which became effective at the end of 2018.

During the year ended 31 December 2017, £236 million of cash was generated from the acquired Abbey Life business (which includes a £74 million cash receipt in connection with the transfer of the Abbey Life Pension Scheme from the operating company to a holding company).

Transaction costs of £19 million incurred in connection with the Abbey Life Acquisition were recognised in the year ended 31 December 2016. Integration and restructuring costs of £12 million were recognised in the year ended 31 December 2017.

Definite life intangible assets of £180 million were recognised on acquisition and are being amortised over their estimated useful life.

Integration of the Abbey Life business was completed in the first half of 2018, ahead of plan and targets.

Acquisition of Standard Life Assurance businesses

On 31 August 2018, PGH Cayman completed the SLA Acquisition for total consideration of £2,994 million. The consideration consisted of £1,971 million of cash funded by a fully underwritten rights issue of £950 million, with the remaining balance of £1,023 million funded by a mix of new debt and Phoenix's own resources. In addition, Standard Life Aberdeen took a 19.98 per cent. equity stake in the Group on completion of the SLA Acquisition valued at £1,023 million, based on the share price as at 31 August 2018.

Standard Life Assurance is a leading provider of long-term savings and investment propositions. It is primarily based in the United Kingdom, with further operations through branches in Ireland, Austria and Germany. The SLA Acquisition increased assets under management by £166 billion and added approximately 4.8 million policyholders to the Group on a *pro forma* basis as at 31 December 2017.

Transaction costs of £43 million incurred in connection with the SLA Acquisition were recognised in the income statement for the year ended 31 December 2018.

Definite life intangible assets of £2,967 million were recognised on acquisition and are being amortised over their estimated useful life.

On announcement of the acquisition in February 2018, the Group entered into derivative instruments in order to hedge shareholder exposures to equity risk from the Standard Life Assurance business. Following equity market gains in the period post announcement, the IFRS results for the year ended 31 December 2018 were adversely impacted by unrealised losses of £143 million recognised on these instruments, together with option premiums of £22 million.

Bulk purchase annuity transactions

Many defined benefit pension schemes are now closed to new members but have liabilities that will continue for many decades into the future. The bulk purchase annuity market offers employers the ability to mitigate the risk of their defined benefit pension liabilities whilst allowing the pension scheme trustees the ability to secure and protect their members' benefits.

The Group successfully entered the bulk purchase annuity market in 2018, completing three transactions in the period with total contracted liabilities of £0.8 billion. A further four transactions were completed in 2019, with total contracted liabilities of £1.1 billion.

Restatement and presentation of information following the SLA Acquisition and Onshoring

Following the acquisition of the Standard Life Assurance businesses, the Group has chosen to revise the presentation of its 2018 consolidated income statement to aid understanding of the Group's results. Where necessary, 2017 comparative amounts and accompanying notes have been restated to reflect line item reclassifications. As a consequence, where necessary the comparative information for the half year ended 30 June 2018 and accompanying notes have been restated in the 2019 Interim Report to reflect line items reclassifications.

The Group has reassessed its operating segments to reflect the way in which the business is now being managed following the SLA Acquisition. Comparative segmental performance information has been restated in line with the revised segments.

The Group now has four reportable segments comprising:

- The UK Heritage segment which contains UK businesses which no longer actively sell products to policyholders and which therefore run-off gradually over time. These businesses will accept incremental premiums on in-force policies, and will provide annuities to existing policyholders with vesting products. Bulk purchase annuity contracts are included in this segment.
- The UK Open segment which includes new and in-force life insurance and investment policies in respect of products that the Group continues to actively market to new and existing policyholders. This includes products such as workplace pensions and Self-Invested Personal Pensions ("**SIPP**") distributed through the Group's Strategic Partnership with Standard Life Aberdeen, and also products sold under the SunLife brand.
- The Europe segment which includes business written in Ireland and Germany. This will include products that are actively being marketed to new policyholders, and legacy in-force products that are no longer being sold to new customers.
- The Management Services segment which comprises income from the life and holding companies in accordance with the respective management service agreements less fees related to the outsourcing of services and other operating costs.

Previously the Group had one operating segment being Phoenix Life which included the Group's operating insurance entities and the Management Services entities in the Group. Comparative segmental information for the half year ended 30 June 2018 has been presented on a basis consistent with the current period and the year ended 31 December 2018.

Under a scheme of arrangement in accordance with section 86 of the Cayman Islands Companies Law between PGH Cayman, the former ultimate parent company of the Group, and its shareholders, all of the issued shares in PGH Cayman were cancelled and an equivalent number of new shares in PGH Cayman were issued to Phoenix in consideration for the allotment to PGH Cayman shareholders of one ordinary share in Phoenix for each ordinary share in PGH Cayman that they held on the scheme record date, 12 December 2018.

The scheme of arrangement had the effect of Phoenix being inserted above PGH Cayman in the Group legal entity organisational structure and constitutes a group reconstruction. It has been accounted for in accordance with the principles of a reverse acquisition (IFRS 3 – Business Combinations).

In applying the principles of reverse acquisition accounting, the consolidated financial statements have been presented as a continuation of PGH Cayman's business and the Group is presented as Phoenix had always been the ultimate parent company. The comparative equity structure has been restated to reflect the difference between the par value of shares issued by Phoenix (£39 million) and the shares issued by PGH Cayman (£nil) prior to the share for share exchange, with a corresponding adjustment to share premium. In addition, the presentation within the consolidated statement of changes in equity of the impact of shares issued during the year by PGH Cayman up to the date of the share for share exchange reflects the par value of the shares issued by Phoenix.

This impacts the statement of consolidated financial position and the statement of consolidated changes in equity.

In addition, the presentation of gross premiums written, premiums ceded to reinsurers, policyholder claims and reinsurance recoveries in respect of certain corporate pension de-risking transactions has been updated in the 2017 comparative amounts to better reflect the underlying structure of the transactions.

None of the restatements of prior period information have impacted the profit or loss or total equity attributable to the owners of the parent.

Equity raise and debt refinancing

The Group has undertaken a number of refinancing actions during the period covered by this operating and financial review. These refinancing actions have been designed to reduce the level of the Group's leverage and to better align debt repayments with the emergence of surplus from the business. In 2017, refinancing actions were also undertaken to support the strengthening of the Group's capital position at the PGH Cayman level. This involved the issuance of £450 million of Tier 3 notes (the 2022 Notes) in two tranches in January and May 2017, and a further US$500 million of Tier 2 notes issued in July 2017 (the 2027 Notes). The proceeds were used to repay senior bank debt and redeem a portion of the Senior Bonds that did not count as regulatory capital in the PGH Cayman's Solvency II capital calculation.

Furthermore, the Group raised both debt and equity to support acquisition activity in 2016 and, in April 2018, issued £500 million of the RT1 Notes in connection with the SLA Acquisition. Details of relevant transactions that have impacted the results during the period covered by this operating and financial review are included below.

On 21 March 2016, the Group agreed an amendment of its £900 million five year unsecured bank facility into a £650 million unsecured revolving credit facility (pursuant to a credit agreement dated 23 July 2014, as amended/or restated from time to time, the "**2014 Revolving Credit Agreement**"), maturing in June 2020. There are no mandatory or target amortisation payments associated with the facility but prepayments are permissible.

In May 2016, the Group entered into a £220 million short-term debt facility as part of the AXA Transaction.

On 1 June 2016, the Group completed an equity placing of 22.5 million new ordinary shares in connection with the AXA Transaction. The placing raised net proceeds of £190 million, after deduction of applicable commissions and expenses.

On 31 October 2016, £182 million was drawn down from the short-term debt facility for the AXA Transaction.

On 9 November 2016, the Group issued 144.7 million new ordinary shares in connection with the Abbey Life Acquisition, where 7 rights issue shares were issued at 508 pence per share for every 12 existing PGH Cayman shares held. The rights issue raised gross proceeds of £735 million and proceeds, net of deduction of commission and expenses, were £717 million.

On 9 November 2016, the £650 million unsecured revolving credit facility under the 2014 Revolving Credit Agreement was fully repaid using proceeds from the rights issue, before being fully drawn down again on 28 December 2016. On the same date, the Group drew down a further £250 million tranche of this facility to finance part of the Abbey Life Acquisition, increasing borrowing on the revolving credit facility to £900 million.

On 20 December 2016, the short-term debt facility for the AXA Transaction was fully repaid.

On 29 December 2016, £50 million of the unsecured revolving credit facility was repaid.

On 20 January 2017, PGH Capital P.L.C. (formerly PGH Capital Limited) ("**PGH Capital**") issued £300 million of Tier 3 subordinated notes due 2022 (the 2022 Notes), the proceeds from which were used to repay £300 million of the revolving credit facility under the 2014 Revolving Credit Agreement.

On 27 January 2017, £17 million of the £428 million subordinated notes (the 2025 Notes) held by the Group were sold to third parties and a further £15 million were sold to third parties on 31 January 2017, thereby increasing external borrowings by £32 million.

On 28 February 2017, PGH Cayman became an additional borrower under the unsecured revolving credit facility. On 20 March 2017, PGH Capital repaid its outstanding borrowings under the unsecured revolving credit facility of £550 million, whilst PGH Cayman drew down an equivalent amount.

On 20 March 2017, PGH Cayman was substituted in place of PGH Capital as issuer of a £300 million senior unsecured bond at a coupon of 5.75 per cent. per annum (the "**Senior Bonds**"), the 2025 Notes and £300 million in aggregate principal amount of the 2022 Notes.

On 30 March 2017, the final maturity date of the unsecured revolving credit facility was extended to 30 June 2021, following the exercise of one of the extension options.

On 5 May 2017, PGH Cayman completed the issue of a further £150 million in aggregate principal amount of 2022 Notes (bringing the total outstanding principal to £450 million). On the same date, PGH Cayman completed the purchase of £178 million of the Senior Bonds at a premium of £25 million in excess of the principal amount.

On 6 July 2017, PGH Cayman issued US$500 million Tier 2 notes due 2027 (the "**2027 Notes**"). The proceeds from the note issuance were used to repay £384 million of the unsecured revolving credit facility.

On 8 August 2017, PGH Cayman repaid the remaining principal outstanding on the unsecured revolving credit facility of £166 million.

On 23 February 2018, PGH Cayman entered into the Backstop Revolving Credit Agreement for the purposes of the SLA Acquisition. Under the Backstop Revolving Credit Agreement, the lenders made available a multicurrency revolving loan facility on a customary certain funds basis in an aggregate principal amount equal to £900 million, which bears a floating rate of interest and which was only intended to be utilised if the Revolving Credit Agreement had been cancelled. On 23 February 2018, PGH Cayman also entered into the SLA Acquisition Facility Agreement. Under the SLA Acquisition Facility Agreement, the lenders made available a sterling term loan facility on a customary certain funds basis in an aggregate principal amount equal to £600 million, which bears a floating interest rate and which is currently undrawn.

On 27 February 2018, the final maturity date of the unsecured revolving credit facility under the 2014 Revolving Credit Agreement was extended to 30 June 2022 following the exercise of the second of the two extension options.

On 26 April 2018, PGH Cayman issued the RT1 Notes, the proceeds from which were used to fund a portion of the cash consideration for the SLA Acquisition. The RT1 Notes have no fixed maturity date and interest is payable only at the sole and absolute discretion of PGH Cayman; accordingly the RT1 Notes meet the definition of equity for financial reporting purposes and are disclosed as such in the Group's consolidated financial statements for the year ended 31 December 2018.

On 2 May 2018, the 2014 Revolving Credit Agreement was amended to (among other matters) permit the SLA Acquisition and provide that the unsecured revolving credit facility made available under the 2014 Revolving Credit Agreement is available on a customary certain funds basis in connection with the SLA Acquisition. As a result of the amendments to the 2014 Revolving Credit Agreement becoming effective on 2 May 2018, the commitments under the Backstop Revolving Credit Agreement were cancelled on 2 May 2018.

On 18 July 2018, the SLA Acquisition Facility Agreement was amended and restated to (among other matters) provide that, in addition to the term loan facility under the SLA Acquisition Facility Agreement being made available on a customary certain funds basis in connection with the SLA Acquisition, the term loan facility would also be available for utilisation on a customary (but not certain funds) basis for general corporate purposes until 30 June 2019.

On 24 September 2018, PGH Cayman issued €500 million Tier 2 notes due 2029 (the "**2029 Notes**"), part of the proceeds from which were used to repay the borrowings under the 2014 Revolving Credit Agreement.

On 12 December 2018, the Company was substituted in place of PGH Cayman as the issuer of the RT1 Notes, the 2022 Notes, the 2025 Notes, the 2027 Notes and the 2029 Notes. On the same date, the Company became an additional borrower and guarantor under the 2014 Revolving Credit Agreement and the SLA Acquisition Facility Agreement.

On 18 June 2019, Phoenix was substituted in place of PGH Cayman as issuer of the Senior Bonds.

On 27 June 2019, the Group cancelled the SLA Acquisition Facility Agreement and replaced the 2014 Revolving Credit Agreement with a new £1.25 billion unsecured Revolving Credit Agreement, maturing in June 2024.

As a result of the refinancing actions and acquisitions undertaken by the Group, total shareholder borrowing on an IFRS basis has increased to £2,530 million (including the RT1 Notes classified as equity) as at 30 June 2019 from £1,701 million as at 31 December 2016.

As at 31 December 2019, the unsecured revolving credit facility under the Revolving Credit Agreement was undrawn.

PA (GI) Limited creditor insurance

In 2015, PA (GI), a subsidiary of the Group, was subject to a Companies Court judgment that directed that PA (GI) is liable to claimants for redress relating to creditor insurance policies within a book of insurance underwritten by PA (GI) until 2006. As a consequence, PA (GI) is liable for complaint handling and redress with regard to the complaints.

In the year ended 31 December 2016, an expense of £33 million was recognised in respect of the costs for providing for associated claims and costs arising from this exposure. In the year ended 31 December 2017, a further £21 million expense was recognised in this regard, however this was offset by reimbursements of £39 million that were recognised by PA (GI) in respect of recoveries due or received from third parties in connection with the Group's exposure to these complaints. This represents recoveries due from third parties under contractual arrangements. Recoveries of £7 million were received during the year ended 31 December 2017. In the year ended 31 December 2018, £8 million of the provision was released, and a further £18 million of recoveries were received. In the six months ended 30 June 2019, further recoveries from third parties were received of £4 million.

The FCA introduced a deadline for creditor insurance claims of August 2019. The FCA also commenced a publicity campaign, the purpose of which was to ensure persons with a right of claim were aware of their rights prior to the deadline. An increased number of complaints compared to previous experience were received. A £20 million increase in the provision was recognised pending completion of the processing of those complaints to confirm their validity. The provision as at 30 September 2019 was £29 million. Additional reimbursements due under contractual arrangements with third parties of £13 million were recognised as a result of the strengthening in the provision. The total reimbursement asset recognised as at 30 September 2019 is £17 million.

FCA thematic reviews provision – Abbey Life

On 3 March 2016, the FCA published a thematic review report on the fair treatment of long-standing customers in the life insurance sector. Following completion of the review, Abbey Life was subject to additional investigations. Specifically, the FCA explored whether remedial and/or disciplinary action was necessary or appropriate in respect of exit or paid-up charges being applied. Additionally, Abbey Life was investigated for potential contravention of regulatory requirements across a number of other areas assessed in the thematic review.

In addition, on 14 October 2016, the FCA published its thematic review of non-advised annuity sales. In its findings, the FCA identified concerns in a small number of firms relating to significant communications that took place orally, usually on the telephone. The FCA also identified other areas of possible concern, including in relation to the recording and maintenance of records of calls. The FCA encouraged all firms to consider its feedback and take appropriate action to address the points raised. The Group has recognised provisions in respect of its best estimate of the likely costs associated with its obligations in this regard.

On acquisition of Abbey Life and as at 31 December 2016, a provision of £25 million was recognised on a fair value basis in respect of exposures arising from the thematic review activity identified above. In the year ending 31 December 2017, an expense of £29 million was recognised with regard to providing for further costs associated with the reviews.

On 18 December 2018 the Group was informed by the FCA that it had closed its investigation into Abbey Life following completion of the thematic review into the fair treatment of long standing customers in the life insurance sector, having found that the conduct of Abbey Life did not warrant enforcement action. Accordingly £10 million of the provision remaining at 31 December 2017 was released in 2018.

In respect of the non-advised annuity sales, £10 million of the provision was utilised and £7 million was released in 2018. In the six months ended 30 June 2019, £8 million of the provision was utilised and a further £8 million was released.

Under the terms of the Abbey Life Acquisition, Deutsche Bank provided Phoenix Life Holding Limited ("**PLHL**") with an indemnity, with a duration of up to eight years, in respect of exposures that may arise in Abbey Life as a result of the FCA's final thematic review findings. The maximum amount that can be claimed under the indemnity is £175 million and it applies to all regulatory fines and to 80 per cent. to 90 per cent. of the costs of customer remediation. The indemnity would be expected to mitigate any additional costs not covered by the existing provision, arising in the event of a crystallisation of exposures deemed not to trigger the recognition of a provision based on current information, or a deterioration in management's estimate of the liabilities associated with present obligations. In the year ending 31 December 2017, reimbursements of £23 million were recognised, net of associated tax relief received on the redress expenses. Recoveries of £9 million were received in the year ended 31 December 2018.

FCA thematic reviews provision – SLAL

Standard Life Assurance was also a participant in the thematic review of non-advised annuity sales issued by the FCA on 14 October 2016.

On acquisition of the Standard Life Assurance businesses on 31 August 2018, obligations arising as a result of past practices in the area described above were assessed. As a result, it was determined appropriate to recognise a provision of £225 million in respect of SLAL on a fair value basis in this regard. Any resultant outflow of economic benefits was subject to uncertainty given the absence of final findings from the FCA review procedures, which would determine the extent to which the FCA may require SLAL to carry out remediation activities or impose financial penalties.

The FCA's review completed in July 2019 and SLAL received a final notice which imposed a financial penalty on the entity of £31 million, the cost of which was provided for in the six months ended 30 June 2019.

In the year ended 31 December 2018, £44 million of the provision was utilised. In the six months ended 30 June 2019, £54 million of the provision was utilised and £25 million was released.

Under the terms of the SLA Acquisition, Standard Life Aberdeen provided the Company with a deed of indemnity (the "**SLA Deed of Indemnity**"), with a duration of up to four years from the date of completion of the SLA Acquisition, in respect of certain liabilities arising out of the FCA-mandated, and Standard Life Aberdeen's voluntary, review and redress programme in respect of SLAL's historical non-advised sales of pension annuities, and the FCA's ongoing investigation of historical non-advised annuity sales practices. To the extent that total costs post 31 August 2018 exceed £225 million, such amounts will be recoverable under the SLA Deed of Indemnity and related caps up to a maximum of £155 million. To the extent that total costs are less than £225 million, PGH Cayman is required to pay the balance to Standard Life Aberdeen, together with any interest that may have accrued on such sum. The net amount receivable under the indemnity was £11 million as at 30 June 2019 (2018: nil).

Reduction in shareholding in UK Commercial Property REIT Limited, formerly UK Commercial Property Trust Limited ("UKCPT")

In March 2016, the Group reduced its holding in the issued share capital of UKCPT below 50 per cent. to 48.9 per cent. and subsequently to 44.6 per cent. as at 30 June 2019.

The Group deemed that from March 2016 it no longer exercised control over UKCPT. The reduction in its ownership percentage below 50 per cent caused the Group to determine that it no longer controlled its investment in in UKCPT as it no longer held a unilateral power of veto in general meetings and also because the group was restricted by the terms of the relationship agreement it has with UKCPT. Consequently, UKCPT has been deconsolidated from the effective date of this loss of control. The Group's remaining interest in UKCPT is now treated as an associate and held at fair value.

The Group's interest in UKCPT continues to be held in the with-profit funds of the Phoenix Life Companies. Therefore the shareholder exposure to fair value movements in the Group's investment in UKCPT continues to be limited to the impact of those movements on the shareholder share of distributed profits from the relevant fund.

On 29 May 2018, shareholders of UKCPT voted in favour of the Company converting to a UK REIT and changing its name to UK Commercial Property REIT Limited. These changes took effect from 1 July 2018. Following UKCPT's conversion to a REIT, the Group restructured its holding in UKCPT, but this did not result in any consolidation of the Group's interest in UKCPT.

There was no gain or loss recognised in the results on reduction of the holding in UKCPT.

Recent developments, current trading and outlook

Cash generation

In March 2019, the Company announced cash generation targets, excluding the impact of the Acquisition, of £3.8 billion for the years 2019 to 2023, with a further £8.2 billion of cash generation expected from 2024 onwards.

Phoenix generated a total of £707 million of cash from the Group's operating companies in 2019, exceeding the upper end of the 2019 cash generation target range of £600 million to £700 million.

The resilience of the cash generation target is demonstrated by the following stress testing:

	1 January 2019 to 31 December 2023
	(£ billion)
Illustrative stress testing[(1)]	
Base case five-year target	3.8
Following a 20 per cent. fall in equity markets	3.8
Following a 15 per cent. fall in property values	3.6
Following a 60 basis points interest rates rise[(2)]	3.9
Following a 80 basis points interest rates fall[(2)]	3.6
Following credit spread widening[(3)]	3.6
Following a 6 per cent. decrease in annuitant mortality rates[(4)]	3.3
Following a 10 per cent. increase in assurance mortality rates	3.7
Following a 10 per cent. change in lapse rates[(5)]	3.4

Notes:

(1) Assumes stress occurs on 1 July 2019.

(2) Assumes recalculation of TMTP (subject to PRA approval).

(3) Credit stress equivalent to an average 120 basis points spread widening across ratings and includes an allowance for defaults/downgrades.

(4) Equivalent of six months' increase in longevity applied to the annuity portfolio.

(5) Assumes most onerous impact of a 10 per cent. increase/decrease in lapse rates across different product groups.

The Group's cash generation targets exclude any additional value from future new business written post 1 January 2019. The Group added £205 million of incremental long-term cash from new business arising from its Open business segment in the nine months ended 30 September 2019. In addition, the Group added £235 million of incremental long-term cash from £1.1 billion of bulk purchase annuity liabilities contracted in 2019.

Capital position

As at 30 June 2019, the Group reported a Group Solvency II Surplus of £3.0 billion.

As part of the Group's internal risk management processes, the regulatory capital requirements are tested against a number of financial scenarios. The results of that stress testing are provided below and demonstrate the resilience of the Group Solvency II Surplus:

	As at 30 June 2019
	(£ billion)
Illustrative stress testing[(1)]	
Base: 30 June 2019	3.0
Following a 20 per cent. fall in equity markets	3.0
Following a 15 per cent. fall in property values	2.8
Following a 60 basis points interest rates rise[(2)]	3.0
Following a 80 basis points interest rates fall[(2)]	2.9
Following credit spread widening[(3)]	2.7
Following a 6 per cent. decrease in annuitant mortality rates[(4)]	2.5
Following a 10 per cent. increase in assurance mortality rates	2.9
Following a 10 per cent. change in lapse rates[(5)]	2.6

Notes:

(1) Assumes stress occurs on 1 July 2019.

(2) Assumes recalculation of TMTP (subject to PRA approval).

(3) Credit stress equivalent to an average 120 basis points spread widening across ratings and includes allowance for defaults/downgrades.

(4) Equivalent of six months' increase in longevity applied to the annuity portfolio.

(5) Assumes most onerous impact of a 10 per cent. increase/decrease in lapse rates across different product groups.

Description of key line items

The following descriptions of key line items in the Group's 2019 Interim Report and Annual Report and Accounts for the years ended 31 December 2018, 2017 and 2016 are relevant to the discussion of the Group's results of operations.

Gross premiums written

Although the Group, as a consolidator of closed funds, is primarily focused on the efficient management of in-force policies, it receives premiums in connection with its in-force policies. In addition, the Group allows the proceeds of certain policies, such as pension savings plans, to be reinvested at maturity into annuities with a Phoenix Life Company.

The relative levels of gross written premiums therefore largely depend on the persistency of products sold in previous years, particularly annual premium products.

For insurance contracts and investment contracts with discretionary participation features, premiums are accounted for on a receivable basis and exclude any taxes or duties based on premiums. The above mentioned reinvestments of proceeds (received at maturity) into annuities are classified as new business single premiums and, for accounting purposes, are included in both claims incurred and as single premiums within gross premiums written.

Receipts and payments on investment contracts without discretionary participation features are accounted for using deposit accounting, under which the amounts collected and paid out are recognised in the consolidated statement of financial position as an adjustment to the liability to the policyholder.

Premiums ceded to reinsurers

As part of its risk mitigation strategy, the Group reinsures certain policies with reinsurers. The premiums associated with such reinsurance are accounted for when they become payable.

Fees

Fees are primarily composed of: (i) fund management fees; and (ii) investment contract income.

Fund management fees are recognised as services provided and, for each fund, are typically calculated as a percentage of the fair value of the investments managed by that fund.

Investment contract income is received from investment contract policyholders and is composed of charges for administration services, investment management services, surrenders and other contract fees. This income is recognised as revenue over the period in which the related services are performed. If the income relates to services to be provided in future periods, such income is deferred and recognised when such services are actually performed. In addition, the Group charges 'front end' fees in relation to some non-participating investment contracts. Where the non-participating investment contract is measured at fair value, fees relating to the provision of investment management services are deferred and are only recognised when such services are provided.

Net investment income

Net investment income comprises interest, dividends, rents receivable, net interest income/expense on defined benefit pension schemes, fair value gains and losses on financial assets and investment property and impairment losses on loans and deposits.

Net investment income includes both shareholder and policyholder income. Income attributable to policyholders is offset by increases in policyholder liabilities, which are reflected as expenses in the Group's 2019 Interim Report and Annual Report and Accounts for the years ended 31 December 2018, 2017 and 2016.

Interest income is recognised as it accrues using the effective interest method. Dividend income is recognised on the date the right to receive payments is established, which, in the case of listed securities, is the ex-dividend date.

Rental income from investment property is recognised on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

Realised and unrealised gains and losses on financial assets designated at fair value through profit or loss are recognised in the consolidated income statement. Realised gains and losses reflect the difference between the net sale proceeds and the original cost. Unrealised gains and losses reflect the difference between the valuation at the period end date and their valuation at the previous period end or purchase price, if acquired during the year.

Policyholder claims

Policyholder claims on insurance contracts and on investment contracts with discretionary participation features reflect the cost of all claims arising during the period, including policyholder bonuses allocated in anticipation of a bonus declaration.

Claims payable on maturity are recognised when the claim becomes due for payment, and claims payable on death are recognised on notification of the death. Surrenders are accounted for at the earlier of the payment date or when the policy ceases to be included within insurance contract liabilities. Where claims are payable and the contract remains in force, the claim instalment is recognised when it becomes due for payment. Claims payable include the costs of settlement.

Reinsurance recoveries

Reinsurance recoveries are recognised when the related gross insurance claim is recognised, according to the terms of the relevant contract.

Change in insurance contract liabilities

The change in insurance contract liabilities typically reflects the reduction in the Group's liabilities from claims paid during the year. Such a movement is equivalent to the amount the Group previously allocated (in preceding financial years) for policyholder claims that were paid during the present year (which are reflected in the Group's income statement under "policyholder claims"). Since the Group is closed to new business, the settlement of liabilities is not offset by new liabilities associated with new business. The change in insurance liabilities also reflects increases or decreases in the liabilities due to changes in assumptions, discount rates and other methodology changes.

Transfer from unallocated surplus

The unallocated surplus comprises the shareholders' future share of with-profit bonuses (including associated tax balances). When transfers are made from the unallocated surplus, the amounts to be received by such shareholders in the future decrease accordingly.

Change in investment contract liabilities

The change in investment contract liabilities reflects the fluctuations in the fair value of the assets underlying the Group's investment contract liabilities.

Amortisation of acquired in-force business

Acquired in-force business represents the fair value of acquired insurance and investment contracts at the time of their acquisition (less the liabilities associated with those contracts measured in accordance with the Group's accounting policies for such contracts) and is recorded in the acquirer's balance sheet. Such amount is amortised over the estimated life of the contracts on a basis that recognises the emergence of the economic benefits.

Total administrative expenses

Total administrative expenses comprise primarily expenses relating to salaries for employees, depreciation on property and equipment, amortisation and impairment of intangible assets other than acquired in-force business.

Net (income)/expense attributable to unitholders

In accordance with IFRS, the Group consolidates the financial results of the unit trusts and collective investment schemes deemed to be controlled by the Group. Net (income)/expense attributable to unitholders represents the share of such unit trusts' and collective investment schemes' losses/gains that belong to the non-controlling interests in such unit trusts and collective investment schemes.

Consequently, if unit trusts and collective investment schemes in which the Group holds a controlling stake collectively incur an investment loss, the Group will record a credit under "net expense attributable to unitholders". Alternatively, if such unit trusts and collective investment schemes collectively record an investment gain, the Group will record a charge under "net income attributable to unitholders".

Other operating expenses

Other operating expenses comprise "Acquisition costs", "Change in present value of future profits" and "Amortisation of acquired in-force business".

Finance costs

Finance costs comprise interest owed to banks and other credit institutions and other interest expenses due to financing arrangements during the period.

Results of operations for the Group for the six months ended 30 June 2019 and 2018

The table below sets forth the Group's results of operations for the six months ended 30 June 2019 and 2018. Given the SLA Acquisition completed on 31 August 2018, the results for the six months ended 30 June 2019 include the contribution of the acquired Standard Life Assurance businesses, whereas the results for the six months ended 30 June 2018 do not. The inclusion of the acquired Standard Life Assurance businesses is therefore a significant driver of a number of the period on period variances described below.

	Six months ended 30 June	
	2019	**2018 (restated)**
	(£ million)	**(unaudited)**
Gross premiums written	1,856	1,089
Premiums ceded to reinsurers	(273)	(247)
Net premiums written	**1,583**	**842**
Fees and commissions	343	103
Total revenue, net of reinsurance payable	**1,926**	**945**
Net investment income/(expense)	18,438	(56)
Other operating income	47	—
Net income	**20,411**	**889**
Net policyholder claims and benefits incurred	(8,424)	(436)
Change in investment contract liabilities	(10,387)	(96)
Total administrative expenses(1)	(655)	(292)
Net expense under arrangements with reinsurers	(200)	—
Net (income)/expense attributable to unitholders	(261)	4
Other operating expenses(2)	(188)	(44)
Profit before finance costs and tax	**296**	**25**
Finance costs	(79)	(67)
Profit/(loss) for the period before tax	**217**	**(42)**
Tax (charge)/credit attributable to policyholders' returns	(268)	4
Tax credit attributable to owners	90	14
Tax (charge)/credit	(178)	18
Profit/(loss) for the period attributable to owners of the parent	**39**	**(24)**

Notes:

(1) Total administrative expenses comprises "Administrative expenses" and "Amortisation of other intangibles".

(2) Other operating expenses comprises "Change in present value of future profits" and "Amortisation and impairment of acquired in-force business".

Net premiums written

The Group's net premiums written increased by £741 million, or 88 per cent., to £1,583 million for the six months ended 30 June 2019 from £842 million for the six months ended 30 June 2018. This increase principally reflects the impact of including net premiums written by the acquired Standard Life Assurance businesses.

Fees and commissions

The Group's fees and commissions increased by £240 million to £343 million for the six months ended 30 June 2019 from £103 million for the six months ended 30 June 2018. This increase principally reflects the impact of the SLA Acquisition.

Total revenue, net of reinsurance payable

As a result of the foregoing factors, the Group's total revenue, net of reinsurance payable increased by £981 million to £1,926 million for the six months ended 30 June 2019 from £945 million for the six months ended 30 June 2018.

Net investment income/(expense)

The Group's net investment income increased to £18,438 million for the six months ended 30 June 2019 from an expense of £56 million for the six months ended 30 June 2018. This increase in net investment income principally reflects the impacts of equity market gains and falling yields in the period, which generated fair value gains on the Group's investment portfolio. This compares to more modest equity gains and predominantly rising yields in the comparative period, which generated fair value losses. The SLA Acquisition has increased the size of the Group's assets under management which has also impacted the quantum of fair value gains recognised in the period.

Other operating income

The Group's other operating income increased to £47 million for the six months ended 30 June 2019 from £nil in the six months ended 30 June 2018. The increase reflects the impact of the SLA Acquisition.

Net income

As a result of the foregoing factors, the Group's net income increased by £19,522 million to £20,411 million for the six months ended 30 June 2019 from £889 million for the six months ended 30 June 2018.

Net policyholder claims and benefits incurred

The table below sets forth a breakdown of the Group's net policyholder claims and benefits incurred for the six months ended 30 June 2019 and 2018.

	Six months ended 30 June	
	2019	**2018 (restated)**
	£ million (unaudited)	
Policyholder claims	(3,870)	(1,971)
Reinsurance recoveries	587	368
Net policyholder claims	**(3,283)**	**(1,603)**
Change in insurance contract liabilities	(5,074)	915
Change in reinsurers' share of insurance contract liabilities	(7)	273
Transfer to unallocated surplus	(60)	(21)
Net change in insurance contract liabilities	**(5,141)**	**1,167**
Net policyholder claims and benefits incurred	**(8,424)**	**(436)**

Net policyholder claims

The Group's net policyholder claims increased by £1,680 million to £(3,283) million for the six months ended 30 June 2019 from £(1,603) million for the six months ended 30 June 2018. The change principally reflects the impact of the SLA Acquisition, with remaining claims decreasing slightly as a result of run-off of the existing business.

Net change in insurance contract liabilities

The net change in insurance contract liabilities was an increase by £6,308 million to £(5,141) million for the six months ended 30 June 2019 from £1,167 million for the six months ended 30 June 2018. The change principally reflects the impact of economic factors, notably the fall in yields in the first half of 2019, compared to an increase in yields in the first half of 2018. This has been partly offset by the larger claims paid in the period. The SLA Acquisition has increased the size of the Group's insurance liabilities which has in turn increased the quantum of liability movements as a result of economic factors.

Change in investment contract liabilities

The change in the Group's investment contract liabilities was an increase in the expense of £10,291 million to an expense of £10,387 million for the six months ended 30 June 2019 from an expense of £96 million for the six months ended 30 June 2018. The increase principally reflects economic factors, notably the impact of equity market gains and falling yields in the first half of 2019, together with the impact of new business written in the Group's Open business segment. In addition to increasing the amount of new business written by the Group, the SLA Acquisition has also increased the quantum of the Group's investment contract liabilities and the related movements.

Total administrative expenses

The table below sets forth a breakdown of the Group's total administrative expenses for the six months ended 30 June 2019 and 2018.

	Six months ended 30 June	
	2019	**2018 (restated)**
	£ million (unaudited)	
Administrative expenses	(645)	(284)
Amortisation of other intangibles	(10)	(8)
Total administrative expenses	**(655)**	**(292)**

The Group's total administrative expenses increased by £363 million to £655 million for the six months ended 30 June 2019 from £292 million for the six months ended 30 June 2018. The principle driver of the increase was the inclusion of the administrative expenses arising from the acquired Standard Life Assurance businesses. Excluding these expenses, there was an underlying reduction in the expenses, principally reflecting the recognition of one-off costs associated with the move to a single, digitally enhanced outsourcer platform recognised in the six months ended 30 June 2018.

Net (income)/expense attributable to unitholders

The Group's net income attributable to unitholders increased by £265 million to income of £261 million for the six months ended 30 June 2019 from an expense of £4 million for the six months ended 30 June 2018. This increase reflects positive investment returns as a result of equity market gains and falling yields, which increased the minority share of the results of consolidated collective investment schemes.

Other operating expenses

Other operating expenses, which include changes in present value of future profits and amortisation of acquired in-force business, increased by £144 million, or 77 per cent., to £188 million for the six months ended 30 June 2019 from £44 million for the six months ended 30 June 2018. This increase is mainly due to the recognition of the amortisation of acquired in-force business recognised on completion of the SLA Acquisition in the second half of 2018.

Profit before finance costs and tax

As a result of the foregoing factors, the Group's profit before finance costs and tax increased by £271 million to £296 million for the six months ended 30 June 2019 from £25 million for the six months ended 30 June 2018.

Finance costs

The Group's finance costs increased by £12 million, or 18 per cent., to £79 million for the six months ended 30 June 2019 from £67 million for the six months ended 30 June 2018. The increase principally reflects interest charges on the 2029 Notes issued in September 2018.

Profit/(loss) for the period before tax

As a result of the foregoing factors, the Group's profit for the period before tax increased by £259 million, to a profit of £217 million for the six months ended 30 June 2019 from a loss of £42 million for the six months ended 30 June 2018.

Tax (charge)/credit

In addition to paying tax on their profits ("**Owners' Tax**"), the Group's life businesses pay tax on policyholders' investment returns on certain products at policyholder tax rates ("**Policyholder Tax**"). Policyholder Tax is included in the total tax charge.

The table below sets forth a breakdown of the Group's tax charge between Owners' Tax and Policyholder Tax for the six months ended 30 June 2019 and 2018.

	Six months ended 30 June	
	2019	**2018 (restated)**
	£ million (unaudited)	
Owners' Tax	90	14
Policyholder Tax	268	(4)
Tax (charge)/credit	**(178)**	**18**

For the six months ended 30 June 2019, the Group had a tax credit attributable to owners of £90 million based on a loss before the tax attributable to owners of £51 million. The tax credit is different from the expected tax credit (based on the UK corporation tax rate of 19 per cent.) due to the impacts of a prior year credit for shareholders of £30 million, the recognition of previously unrecognised deferred tax assets and a deferred tax rate change of £46 million, principally arising as a result of the Part VII Transfer of the SLAL European business to the Group's Irish domiciled subsidiary, Standard Life International Designated Activity Company.

For the six months ended 30 June 2018, the Group had a tax credit attributable to owners of £14 million based on a loss (after policyholder tax) of £38 million. The tax credit is different from the expected tax credit (based on the UK corporation tax rate of 19 per cent.) due to the impacts of a prior year credit for shareholders of £4 million, profits that are non-taxable or taxed at a rate other than the statutory rate of £9 million, partly offset by the impact of disallowable expenses of £6 million.

Profit/(loss) for the period

As a result of the foregoing factors, the Group's profit for the period increased by £63 million to a profit of £39 million for the six months ended 30 June 2019 from a loss of £24 million for the six months ended 30 June 2018.

Operating profit for the Group for the six months ended 30 June 2019 and 2018

Operating profit as presented by the Group is a non-GAAP financial performance measure based on expected long-term investment returns and is not a measure of financial performance under IFRS. It is stated before amortisation and impairment of intangibles, other non-operating items, finance costs and tax.

The Group presents operating profit because it is less affected by short-term external market impacts than IFRS measures of financial performance and therefore in the Group's view it provides a better basis for assessing trends in the operational performance of the Group over time. Operating profit represents the normalised long-term investment return in that it excludes short-term fluctuations in investment returns and other items considered to be non-operating by the Group's management. Operating profit should not be considered in isolation as an alternative to profit or loss for a period before tax or other data presented in the Group's financial statements as indicators of financial performance. As it is not determined in accordance with IFRS, operating profit as presented by the Group may not be comparable to other similarly titled measures of performance of other companies.

Operating profit is based on expected investment returns on financial investments backing owners and policyholder funds over the reporting period, with allowance for the corresponding expected movements in liabilities. Variances between actual and expected investment returns, and the impact of changes in economic assumptions on liabilities, are disclosed separately outside operating profit. Operating profit is stated before tax attributable to owners and non-operating items, including amortisation and impairments of intangibles, finance costs attributable to owners and other non-operating items which in the Group's view should be excluded by their nature or incidence to enable a full understanding of the Group's financial performance.

For a reconciliation of operating profit to IFRS profit/(loss) for the period, see "*Reconciliation of the Group's operating profit for the six months ended 30 June 2019 and 2018*" below.

Analysis of the Group's operating profit

The following table is an analysis of the Group's operating profit for the six months ended 30 June 2019 and 2018.

	Six months ended 30 June	
	2019	**2018**
	£ million (unaudited)	
Profit/(loss) after tax		
UK Heritage	257	214
UK Open	43	6
Europe	28	—
Management Services companies	13	8
Group costs	(16)	(12)
Operating profit	**325**	**216**

UK Heritage operating profit

UK Heritage operating profit is based on expected investment returns on financial investments backing shareholder and policyholder funds over the period, with consistent allowance for the corresponding expected movements in liabilities (being the release of prudential margins and the interest cost of unwinding the discount on the liabilities).

Operating profit includes the effect of variances in experience for non-economic items, such as mortality and expenses, and the effect of changes in non-economic assumptions. Changes due to economic items which give rise to variances between actual and expected investment returns, and the impact of changes in economic assumptions on liabilities, are accounted for outside of operating profit. Operating profit is net of policyholder finance charges and policyholder tax.

The Group's UK Heritage business segment does not actively sell new life or pension policies and runs-off gradually over time.

The following table sets forth a breakdown of the Group's operating profit for the UK Heritage business segment for the six months ended 30 June 2019 and 2018.

	Six months ended 30 June	
	2019	**2018**
	£ million (unaudited)	
With-profit	58	40
With-profit where internal capital support provided	(10)	(6)
Non-profit and unit linked	207	173
Long-term return on owners' funds	2	7
UK Heritage operating profit before tax	**257**	**214**

With-profit

The with-profit operating profit represents shareholders' one-ninth share of policyholder with-profit bonuses. The with-profit operating profit increased by £18 million, or 45 per cent., to £58 million for the six months ended 30 June 2019 from £40 million for the six months ended 30 June 2018 reflecting the contribution from the acquired Standard Life Assurance businesses.

With-profit where internal capital support provided

The with-profit funds where internal capital support has been provided generated an operating loss of £10 million for the six months ended 30 June 2019. The loss is principally driven by the negative impact of updating actuarial assumptions with respect to the persistency of products with valuable guarantees in relation to late retirements.

Non-profit and unit linked

The operating profit on non-profit and unit linked funds increased by £34 million, or 20 per cent., to £207 million for the six months ended 30 June 2019 from £185 million for the six months ended 30 June 2018. The increase reflects the contribution of the acquired Standard Life Assurance businesses together with positive non-economic experience items. This has been partly offset by the lower positive impact of management actions and the delivery of actuarial modelling enhancements in the prior period.

Long-term return on owners' funds

The long-term return on owners' funds increased by £1 million to £2 million for the six months ended 30 June 2019 from £1 million for the six months ended 30 June 2018.

UK Open operating profit

The Group's UK Open operating profit increased by £37 million to £43 million for the six months ended 30 June 2019 as compared to £6 million for the six months ended 30 June 2018, driven by the Standard Life Assurance businesses. This includes operating profits generated across the Workplace, Retail and SIPP product lines, including new business distributed through the Group's Strategic Partnership with Standard Life Aberdeen, together with the operating profits from the Group's SunLife business.

Europe operating profit

The European business which comprises business written in Ireland, Germany and Austria and a mix of Heritage and Open products, generated an operating profit of £28 million during the six months ended 30 June 2019 compared to nil for the six months ended 30 June 2018, driven by the Standard Life Assurance businesses.

Management Services Companies operating profit

The operating profit for management services of £13 million for the six months ended 30 June 2019 comprises income from the life and holding companies in accordance with the respective management services company agreements less fees related to the outsourcing of services and other operating costs. Operating profit for management services increased by £5 million from £8 million for the six months ended

30 June 2018, principally driven by a revised management services agreement being in place for the full period in respect of the acquired Abbey Life business.

Group costs

Group costs of £16 million for the six months ended 30 June 2019 mainly comprise project recharges from the service companies offset by returns on the scheme surplus of the Group staff pension schemes. Group costs increased by £4 million, or 33 per cent., from £12 million for the six months ended 30 June 2018 principally as a result of a lower return on the scheme surplus of the PGL Pension Scheme following the buy-in transaction in March 2019.

Reconciliation of the Group's operating profit for the six months ended 30 June 2019 and 2018

The following table reconciles the Group's operating profit before tax to the IFRS result after tax for the six months ended 30 June 2019 and 2018.

	Six months ended 30 June	
	2019	**2018**
	(£ million)	
Total operating profit before adjusting items	325	216
Investment return variances and economic assumption changes on long-term business	(81)	27
Variance on owners' funds	(3)	(136)
Amortisation of acquired in-force business, customer relationships and other intangibles	(199)	(54)
Other non-operating items	(32)	(37)
Profit before finance costs and tax attributable to owners	**10**	**16**
Finance costs attributable to owners	(63)	(54)
Loss before tax attributable to owners	**(51)**	**(38)**
Tax credit attributable to owners	90	14
Profit/(loss) after tax attributable to owners	**39**	**(24)**

Investment return variances and economic assumption changes on long-term business

The net adverse investment return variances and economic assumption changes on long-term business of £81 million for the six months ended 30 June 2019 (HY 2018: £27 million positive) primarily arise due to losses on hedging positions held by the life funds following global equity market gains during the first half of 2019. The Group's exposure to equity movements arise from future profits in relation to the shareholder share of with-profit bonuses and unit-linked charges which are hedged to benefit the regulatory capital position. The impact of equity market movements on the value of the hedging instruments is reflected in the IFRS results, but the corresponding change in the value of future profits is not.

Losses on these hedging positions have been partly offset by the positive impacts of strategic asset allocation activities undertaken in the first half of 2019, including investment in higher yielding illiquid assets, together with positive impacts from lower fixed interest yields and narrowing credit spreads experienced in the first half of 2019.

The net positive investment return variances and economic assumption changes on long-term business of £27 million for the six months ended 30 June 2018 primarily arose due to the positive impact of strategic asset allocation activities, including investment in higher yielding illiquid assets. This was partially offset by the adverse impact of rises in yields and equity market gains during the period. The Group's exposure to equity movements arising from future profits in relation to with-profit bonuses and unit-linked charges is hedged to benefit the Group's regulatory capital position. The impact of equity market movements on the value of the hedging instruments is reflected in the Group's IFRS results, but the corresponding change in the value of future profits is not.

Variance on owners' funds

The adverse variance on owners' funds was £3 million for the six months ended 30 June 2019 (HY18: £136 million adverse). The reduction principally reflects that the six months ended 30 June 2018 includes losses on derivative instruments entered into by the Holding Companies to hedge exposure to equity risk arising pre-completion of the SLA Acquisition.

The adverse variance on owners' funds of £136 million for the six months ended 30 June 2018 includes the impact of fair value losses on derivatives held in the shareholder funds of the life companies to protect the Group's regulatory capital position as a result of an increase in yields in the period together with swap decay costs. It also reflects the impact of derivative instruments entered into on announcement of the SLA Acquisition in order to hedge shareholder exposures to equity risk from that business. Following equity market gains in the period, unrealised losses of £83 million have been recognised on these instruments, together with option premiums of £22 million.

Amortisation of acquired in-force business, customer relationships and other intangibles

The carrying amount of the Group's acquired in-force business and other intangibles was £4.0 billion at the end of the period (gross of deferred tax), of which £2.7 billion related to the acquired Standard Life Assurance businesses. The acquired in-force business is being amortised in line with the expected run-off profile of the profits to which it relates.

Amortisation of acquired in-force business during the six months ended 30 June 2019 totalled £189 million, representing an increase of £143 million as compared to £46 million for the six months ended 30 June 2018, primarily as a result of acquired in-force business recognised on completion of the SLA Acquisition. Amortisation of other intangible assets totalled £10 million in the six months ended 30 June 2019, representing an increase of £2 million, or 25 per cent. as compared to £8 million in the six months ended 30 June 2018, again reflecting intangibles recognised as a result of the SLA Acquisition.

Non-operating items

For the six months ended 30 June 2019, other non-operating items of £(32) million includes £26 million of staff and other expenses associated with corporate related projects, including £4 million of external costs related to the transition of the acquired Standard Life Assurance businesses. It also includes £7 million of costs associated with preparations to ready the Group for Brexit and net other items totalling £1 million of income.

For the six months ended 30 June 2018, other non-operating items of £(37) million include an actuarial provision for £68 million in respect of a commitment to reduce ongoing and exit charges for non-workplace pension products and acquisition related costs of £17 million in respect of the SLA Acquisition. This was partially offset by a £52 million net benefit reflecting anticipated cost savings associated with process improvements and continued investment in the digitalisation of the customer journey and net other one-off items totalling £4 million.

Finance costs attributable to owners

Finance costs have increased by £9 million, or 17 per cent., to £63 million for the six months ended 30 June 2019 from £54 million for the six months ended 30 June 2018, reflecting the €500 million Tier 2 debt issuance in September 2018.

Tax credit attributable to owners

Tax credit attributable to owners is discussed in the "*Results of Operations for the Group for the six months ended 30 June 2019 and 2018*" above.

Results of operations of the Group for the years ended 31 December 2018, 2017 and 2016

The table below sets forth the Group's combined results of operations for the years ended 31 December 2018, 2017 and 2016.

	Year ended 31 December		
	2018	**2017 (restated)**	**2016**
		(£ million)	
Gross premiums written	2,645	1,297	999
Premiums ceded to reinsurers	(481)	(356)	(75)
Net premiums written	**2,164**	**941**	**924**
Fees and commissions	385	173	88
Total revenue, net of reinsurance payable	**2,549**	**1,114**	**1,012**
Net investment income	(9,600)	4,986	6,361
Other operating income	37	5	20
Gain on acquisition	141	—	52
Net income	**(6,873)**	**6,105**	**7,445**
Net policyholder claims and benefits incurred	407	(2,547)	(5,517)
Change in investment contract liabilities	7,975	(2,673)	(1,194)
Total administrative expenses(1)	(1,074)	(613)	(529)
Net income/(expense) attributable to unitholders	159	(43)	(66)
Other operating expenses(2)	(195)	(104)	(87)
Profit before finance costs and tax	**401**	**125**	**52**
Finance costs	(142)	(132)	(122)
Profit/(loss) for the year before tax	**259**	**(7)**	**(70)**
Tax credit/(charge) attributable to policyholders' returns	211	(21)	(58)
Tax (charge)/credit attributable to owners	(60)	1	28
Tax credit/(charge)	151	(20)	(30)
Profit/(loss) for the year attributable to owners	410	(27)	**(100)**
Attributable to:			
Owners of the parent	379	(27)	(101)
Non-controlling interests	31	—	1
	410	(27)	(100)

Notes:

(1) Total administrative expenses comprises "Administrative expenses", "Amortisation of other intangibles" and "Acquisition costs".

(2) Other operating expenses comprises "Change in present value of future profits" and "Amortisation and impairment of acquired in-force business".

Net premiums written

The Group's net premiums written increased by £1,223 million to £2,164 million for the year ended 31 December 2018 from £941 million for the year ended 31 December 2017. This increase reflects the inclusion of the four month contribution from the acquired businesses post completion of the SLA Acquisition, together with the premiums of approximately £800 million received in respect of bulk purchase annuity contracts entered into during the year.

The Group's net premiums written increased by £17 million to £941 million for the year ended 31 December 2017 from £924 million for the year ended 31 December 2016. This increase principally reflects the twelve month contribution of the acquired AXA Wealth and Abbey Life businesses following completion of those transactions in the second half of 2016. This was largely offset by the impact of increased reinsurance premiums payable on the longevity swap arrangement entered into in December 2016 with RGA International in respect of a portfolio of the Group's in-force immediate annuity liabilities, and the impact of run-off of the book of regular premium business.

Fees and commissions

The Group's fees and commissions increased by £212 million to £385 million for the year ended 31 December 2018 from £173 million for the year ended 31 December 2017. This increase principally reflects the four month contribution of the acquired businesses following completion of the SLA Acquisition.

The Group's fees and commissions increased by £85 million, or 97 per cent., to £173 million for the year ended 31 December 2017 from £88 million for the year ended 31 December 2016. This increase principally reflects the twelve month contribution of the acquired AXA Wealth and Abbey Life businesses following completion of those transactions in the second half of 2016.

Total revenue, net of reinsurance payable

As a result of the foregoing factors, the Group's total revenue, net of reinsurance payable increased by £1,435 million to £2,549 million for the year ended 31 December 2018 from £1,114 million for the year ended 31 December 2017. The Group's total revenue, net of reinsurance payable increased by £102 million, or 10 per cent., to £1,114 million for the year ended 31 December 2017 from £1,012 million for the year ended 31 December 2016.

Net investment income

The table below sets forth a breakdown of the Group's net investment income for the years ended 31 December 2018, 2017 and 2016.

	Year ended 31 December		
	2018	**2017**	**2016**
		(£ million)	
Investment income			
Interest income on loans and deposits at amortised cost	10	1	1
Interest income on financial assets designated at fair value through profit or loss on initial recognition	1,260	972	859
Dividend income	1,936	1,073	902
Rental income	108	23	38
Net interest (expense)/income on Group defined benefit pension scheme liability/asset	(6)	(11)	21
Investment income	**3,308**	**2,058**	**1,821**
Fair value (losses)/gains			
Financial assets and financial liabilities at fair value through profit or loss:			
Designated upon initial recognition	(13,016)	2,754	3,236
Held for trading – derivatives	126	165	1,278
Investment property	(18)	9	26
Fair value (losses)/gains	**(12,908)**	**2,928**	**4,540**
Net investment income	**(9,600)**	**4,986**	**6,361**

The Group's net investment income decreased by £14,586 million to £(9,600) million for the year ended 31 December 2018 from £4,986 million for the year ended 31 December 2017. This decrease reflects declining equity market performance in the period, and the impact of widening credit spreads which generated fair value losses on the Group's fixed interest securities.

The Group's net investment income decreased by £1,375 million, or 22 per cent., to £4,986 million for the year ended 31 December 2017 from £6,361 million for the year ended 31 December 2016. This decrease reflects the relative stability of yields during 2017, compared to falling yields in 2016 which generated fair value gains on the Group's fixed interest securities in that period. The decrease also reflects losses on derivative positions entered into to protect the Group's capital position from the impact of falling interest rates and declining equity market performance, together with lower equity market gains in 2017 compared to 2016 experience.

Other operating income

The Group's other operating income increased by £32 million to £37 million for the year ended 31 December 2018 from £5 million for the year ended 31 December 2017. The increase was primarily as a result of the inclusion of the four month contribution of the acquired businesses following completion of the SLA Acquisition.

The Group's other operating income decreased by £15 million, or 75 per cent., to £5 million for the year ended 31 December 2017 from £20 million for the year ended 31 December 2016. The decrease was primarily as a result of the non-recurrence of amounts recognised in 2016 relating to the true-up of annuity liability reinsurance transaction amounts.

Gain on acquisition

The Group's gain on acquisition of £141 million for the year ended 31 December 2018 relates to the SLA Acquisition, and corresponds to the excess of the fair value of the net assets acquired compared to the consideration paid.

The gain on acquisition of £52 million for the year ended 31 December 2016 related to a gain on completion of a formal scheme under Part VII of FSMA to transfer a portfolio of annuity liabilities to ReAssure Limited, which replaced an existing reinsurance agreement.

Net income

As a result of the foregoing factors, the Group's net income decreased by £12,978 million to £(6,873) million for the year ended 31 December 2018 from £6,105 million for the year ended 31 December 2017.

The Group's net income decreased by £1,340 million, or 18 per cent., to £6,105 million for the year ended 31 December 2017 from £7,445 million for the year ended 31 December 2016.

Net policyholder claims and benefits incurred

The table below sets forth a breakdown of the Group's net policyholder claims and benefits incurred for the years ended 31 December 2018, 2017 and 2016.

	Year ended 31 December		
	2018	**2017 (restated)**	**2016**
		(£ million)	
Policyholder claims	(5,295)	(4,064)	(3,726)
Reinsurance recoveries	866	594	456
Net policyholder claims	**(4,429)**	**(3,470)**	**(3,270)**
Change in insurance contract liabilities	4,768	1,392	(1,970)
Change in reinsurers' share of insurance contract liabilities	(20)	(423)	(281)
Transfer from/(to) unallocated surplus	88	(46)	4
Net change in insurance contract liabilities	**4,836**	**923**	**(2,247)**
Net policyholder claims and benefits incurred	**407**	**(2,547)**	**(5,517)**

Net policyholder claims

The Group's net policyholder claims increased by £959 million, or 28 per cent., to £4,429 million for the year ended 31 December 2018 from £3,470 million for the year ended 31 December 2017. This increase principally reflects the four month contribution of the acquired Standard Life Assurance businesses following completion of the SLA Acquisition.

The Group's net policyholder claims increased by £200 million, or 6 per cent., to £3,470 million for the year ended 31 December 2017 from £3,270 million for the year ended 31 December 2016. This increase principally reflects the twelve month contribution of the acquired AXA Wealth and Abbey Life businesses following completion of those transactions in the second half of 2016.

Net change in insurance contract liabilities

The net change in insurance contract liabilities saw a movement of £3,913 million to an income of £4,836 million for the year ended 31 December 2018 from an income of £923 million for the year ended 31 December 2017. This increase principally reflects the increase in claims paid in the period.

The net change in insurance contract liabilities saw a movement of £3,170 million to an income of £923 million for the year ended 31 December 2017 from an expense of £2,247 million for the year ended 31 December 2016. This movement reflects claims paid in the period and the relative stability of yields during 2017, compared to the fall in yields experienced in 2016.

Change in investment contract liabilities

The change in the Group's investment contract liabilities was an increase in income of £10,648 million to an income of £7,975 million for the year ended 31 December 2018 from an expense of £2,673 million for the year ended 31 December 2017. This change was principally due to declining equity markets in the period, including the amplified impact on the larger book of investment contract business following completion of the SLA Acquisition on 31 August 2018.

The change in the Group's investment contract liabilities was an increase in the expense of £1,479 million to an expense of £2,673 million for the year ended 31 December 2017 from an expense of £1,194 million for the year ended 31 December 2016. This change was principally due to the impact of equity market gains on the larger book of investment contract business following completion of the acquisitions of the AXA Wealth and Abbey Life businesses in the second half of 2016.

Total administrative expenses

The table below sets forth a breakdown of the Group's total administrative expenses for the years ended 31 December 2018, 2017 and 2016.

	Year ended 31 December		
	2018	**2017 (restated)**	**2016**
		(£ million)	
Administrative and acquisition expenses	(1,056)	(596)	(515)
Amortisation of other intangibles	(18)	(17)	(14)
Total administrative expenses	**(1,074)**	**(613)**	**(529)**

The Group's total administrative expenses increased by £461 million, or 75 per cent., to £1,074 million for the year ended 31 December 2018 from £613 million for the year ended 31 December 2017. This increase principally reflects the inclusion of the four month contribution of the acquired Standard Life Assurance businesses following completion of the SLA Acquisition being £289 million, together with the recognition of certain one-off items in 2018, including transaction costs associated with the SLA Acquisition of £43 million, costs associated with the equalisation of accrued Guaranteed Minimum Pension ("**GMP**") benefits within the Group's pension schemes of £59 million and a provision for costs associated with the move to a single, digitally enhanced outsourcer platform.

The Group's total administrative expenses increased by £84 million, or 16 per cent., to £613 million for the year ended 31 December 2017 from £529 million for the year ended 31 December 2016. This increase reflects the twelve month contribution of the acquired AXA Wealth and Abbey Life businesses following completion of those transactions in the second half of 2016 together with the £25 million premium paid on part redemption of the £300 million senior bond. These amounts have been offset by the non-recurrence of £31 million in respect of transaction costs recognised in 2016 relating to the AXA Transaction and Abbey

Life Acquisition, together with the impact of a net positive movement of £18 million in the provision for claims and associated costs (net of recoveries from third parties under contractual arrangements) relating to creditor insurance underwritten prior to 2016 by a subsidiary of the Group, PA (GI) (2016: £33 million adverse).

Net income attributable to unitholders

The Group's net income attributable to unitholder moved by £202 million to net income item of £159 million for the year ended 31 December 2018 from a net expense item of £43 million for the year ended 31 December 2017. This was primarily due to the declining equity market performance in the year which reduced the minority share of the results of consolidated collective investment schemes compared to 2017.

The Group's net income attributable to unitholders decreased by £23 million, or 35 per cent., to a net expense item of £43 million for the year ended 31 December 2017 from a net expense item of £66 million for the year ended 31 December 2016. This change was primarily due to comparatively lower equity gains in 2017 compared to 2016, and the impact of stable yields in 2017. These factors reduced the minority share of the results of consolidated collective investment schemes compared to 2016.

Other operating expenses

The table below sets forth a breakdown of the Group's other operating expenses for the years ended 31 December 2018, 2017 and 2016.

	Year ended 31 December		
	2018	**2017 (restated)**	**2016**
		(£ million)	
Change in present value of future profits	1	5	(11)
Amortisation of acquired in-force business	(196)	(109)	(76)
Total other operating expenses	**(195)**	**(104)**	**(87)**

Other operating expenses, which include the change in present value of future profits and amortisation of acquired in-force business, increased by £91 million, or 88 per cent., to £195 million for the year ended 31 December 2018 from £104 million for the year ended 31 December 2017. This increase was primarily due to the increased amortisation charge arising on acquired in-force business recognised in respect of the SLA Acquisition.

Other operating expenses, which include acquisition costs, change in present value of future profits and amortisation and impairment of acquired in-force business, increased by £17 million, or 20 per cent., to £104 million for the year ended 31 December 2017 from £87 million for the year ended 31 December 2016. This increase was primarily due to the increased amortisation charge arising on acquired in-force business recognised in respect of the acquired AXA Wealth and Abbey Life businesses, partly offset by the impact of positive equity returns and favourable expense assumption changes on the present value of future profits.

Profit before finance costs and tax

As a result of the foregoing factors, the Group's profit before finance costs and tax increased by £276 million to a profit of £401 million for the year ended 31 December 2018 from a profit of £125 million for the year ended 31 December 2017. The Group's profit before finance costs and tax increased by £73 million to a profit of £125 million for the year ended 31 December 2017 from a profit of £52 million for the year ended 31 December 2016.

Finance costs

The Group's finance costs increased by £10 million, or 8 per cent., to £142 million for the year ended 31 December 2018 from £132 million for the year ended 31 December 2017. This increase was primarily due to interest charges on the 2029 Notes issued in September 2018.

The Group's finance costs increased by £10 million, or 8 per cent., to £132 million for the year ended 31 December 2017 from £122 million for the year ended 31 December 2016. This increase was primarily due to the increased coupon payable on hybrid debt issuances in the year, together with the impact of the acceleration of deferred issue cost recognition on senior debt repaid during the year.

Profit/(loss) for the year before tax

As a result of the foregoing factors, the Group's profit for the year before tax increased by £266 million to a profit of £259 million for the year ended 31 December 2018 from a loss of £7 million for the year ended 31 December 2017. The Group's result for the year before tax increased by £63 million to a loss of £7 million for the year ended 31 December 2017 from a loss of £70 million for the year ended 31 December 2016.

Tax credit/(charge)

In addition to Owners' Tax, the Phoenix Life Companies pay policyholders' tax. The Group, as a proxy for policyholders in the United Kingdom, is required to pay taxes on investment income and gains each year. Accordingly, the tax credit or expense attributable to UK life assurance policyholder earnings is included in income tax expense.

The table below sets forth a breakdown of the Group's tax credit between Owners' Tax and Policyholders' tax for the years ended 31 December 2018, 2017 and 2016:

	Year ended 31 December		
	2018	**2017**	**2016**
		(£ million)	
Owners' Tax (charge)/credit	(60)	1	28
Policyholder Tax (charge)/ credit	211	(21)	(58)
Tax credit/(charge)	**151**	(20)	**(30)**

For the year ended 31 December 2018, the Group received an Owners' Tax charge of £60 million, arising on profit before the tax attributable to owners of £470 million. The tax credit is different from the expected tax credit (based on the UK corporation tax rate of 19 per cent.) of £89 million primarily due to the impact of non-taxable income of £(31) million, profits taxed at rates other than 19 per cent. of £(14) million, partly offset by the impact of certain disallowable expenses of £21 million.

For the year ended 31 December 2017, the Group received an Owners' Tax credit of £1 million, arising on a loss before the tax attributable to owners of £(28) million. The tax credit is different from the expected tax credit (based on the UK corporation tax rate of 19.25 per cent.) of £5 million primarily due to the impact of non-taxable income of £(16) million offset by the impacts of current year tax losses not being recognised of £15 million and the valuation of current year losses at future lower tax rates of £4 million.

For the year ended 31 December 2016, the Group received an Owners' Tax credit of £28 million, arising on a loss before the tax attributable to owners of £128 million. The tax credit is different from the expected tax credit (based on the UK corporation tax rate of 20 per cent.) of £26 million primarily due to the impact of disallowable expenses including £7 million relating to the provision for costs recognised in respect of the creditor insurance underwritten by PA (GI) and the impact of the consolidation treatment of the PGL Pension Scheme buy-in agreement of £12 million. These items have been partly offset by the benefit of a 1 per cent. reduction in future corporation tax rates and the treatment of certain recurring income and expenses as either non-taxable or taxable at rates of less than 20 per cent.

Profit/(loss) for the year attributable to owners

As a result of the foregoing factors, the Group's profit for the year attributable to owners increased by £437 million to a profit of £410 million for the year ended 31 December 2018 from a loss of £27 million for the year ended 31 December 2017.

The Group's profit for the year attributable to owners decreased by £73 million, or 73 per cent., to a loss of £27 million for the year ended 31 December 2017 from a loss of £100 million for the year ended 31 December 2016.

Non-controlling interests

The Group recognises a non-controlling interest of £265 million on acquisition of the Standard Life Assurance businesses, reflecting the third party ownership of Standard Life Private Equity Trust ("**SLPET**") determined at the fair value of the third party interest in the underlying assets and liabilities. SLPET is a UK Investment Trust listed and traded on the London Stock Exchange. Profit attributable to non-controlling interests of £31 million for the year ending 31 December 2018 relates entirely to SLPET in the period post-completion of the SLA Acquisition.

Throughout 2015, as the Group's policyholder long-term funds held over 50 per cent. of the issued share capital of UKCPT, the Group was deemed to control the investment. In accordance with IFRS, 100 per cent. of the UKCPT profits and losses were consolidated with the Group's financial results for this period. In February 2016, the Group's shareholding fell below 50 per cent. and the Group was no longer deemed to exercise control over UKCPT. Accordingly, its results have not been consolidated since that date, and the Group's remaining investment in UKCPT is treated as an associate and recognised at its fair value. The profit of £1 million for the years ended 31 December 2016 represents the share of the profits of the trust that are attributable to the external investors who hold the remaining shareholdings in the trust.

Operating profit for the Group for the years ended 31 December 2018, 2017 and 2016

Phoenix has chosen to report a non-GAAP measure of performance, being operating profit. Operating profit is considered to provide a comparable measure of the underlying performance of the business as it excludes the impact of short-term economic volatility and other one-off items. This measure incorporates an expected return, including a longer-term return on financial investments backing shareholder and policyholder funds over the period, with consistent allowance for the corresponding expected movements in liabilities. Annuity new business profits are included in operating profit using valuation assumptions consistent with the pricing of the business (including Phoenix's expected longer-term asset allocation backing the business).

Operating profit includes the effect of variances in experience for non-economic items, such as mortality and expenses, and the effect of changes in non-economic assumptions. It also incorporates the impacts of significant management actions where such actions are consistent with Phoenix's core operating activities (for example, actuarial modelling enhancements and data reviews). Operating profit is reported net of policyholder finance charges and policyholder tax.

Operating profit 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;
- finance costs attributable to owners;
- gains or losses on the disposal of subsidiaries, associates or joint ventures (net of related costs of disposal);
- the financial impacts of mandatory regulatory change;
- integration, restructuring or other significant one-off projects; and
- any other items which, in the Directors' view, should be disclosed separately by virtue of their nature or incidence to enable a full understanding of Phoenix's financial performance. This is typically the case where the nature of the item is not reflective of the underlying performance of the operating companies.

Whilst the excluded items are important to an assessment of the consolidated financial performance of the Group, management considers that the presentation of the operating profit metric provides useful information for assessing the underlying performance of the Group's operating companies on an ongoing basis. This is considered particularly important given the Group's acquisitive strategy of closed life fund consolidation. The IFRS results are significantly impacted by the amortisation of intangible balances arising on acquisition, the one-off costs of integration activities and the costs of servicing debt used to finance acquisition activity, which are not indicative of the underlying operational performance of the Group's segments.

Furthermore, the hedging strategy of the Group is calibrated to protect the regulatory capital position and cash generation capability of the operating companies, as opposed to the IFRS financial position. This can create additional volatility in the IFRS result which is excluded from the operating profit metric.

Phoenix therefore considers that operating profit provides a more representative indicator of the ability of the Group's operating companies to generate cash available for the servicing of the Group's debts and for distribution to Shareholders. Accordingly, the measure is more closely aligned with the business model of the Group and how performance is managed by those charged with governance.

For a reconciliation of operating profit to IFRS profit for the year attributable to owners, see "*Reconciliation of the Group's operating profit for the years ended 31 December 2018, 2017 and 2016*" below.

Analysis of the Group's operating profit

The following table is an analysis of the Group's operating profit for the years ended 31 December 2018, 2017 and 2016.

	Year ended 31 December		
	2018	**2017**	**2016**[1]
		(£ million)	
Profit/(loss) after tax:			
UK Heritage	640	372	330
UK Open	41	(5)	—
Europe	22	—	—
			—
Management Services companies	25	21	27
Group costs	(20)	(20)	(6)
Operating profit	**708**	**368**	**351**

Note:

(1) Prior to the SLA Acquisition and the reassessment of the Group's operating segments, the Group had one operating segment, being Phoenix Life, which included the Group's operating insurance entities and the Management Services entities in the Group. The Group's operating profit of £351 million for the year ended 31 December 2016 is shown in the Group's Annual Report and Accounts for the year ended 31 December 2016 as comprising £351 million of Phoenix Life profit and Group costs of £6 million. For ease of comparison, all Phoenix Life operating profit with the exception of the Management Services companies has been shown in the UK Heritage line.

UK Heritage operating profit

Operating profit for the life companies is based on expected investment returns on financial investments backing shareholder and policyholder funds over the reporting period, with consistent allowance for the corresponding expected movements in liabilities (being the release of prudential margins and the interest cost of unwinding the discount on the liabilities).

Operating profit includes the effect of variances in experience for non-economic items, such as mortality and persistency, and the effect of changes in non-economic assumptions. Changes due to economic items, for example market value movements and interest rate changes, which give rise to variances between actual and expected investment returns, and the impact of changes in economic assumptions on liabilities, are accounted for outside of operating profit. Life company operating profit is net of policyholder finance charges and policyholder tax.

The following table sets forth a breakdown of operating profit for the Group's UK Heritage business segment for the years ended 31 December 2018, 2017 and 2016.

	Year ended 31 December		
	2018	2017	2016[(1)]
		(£ million)	
With-profits	101	84	81
With-profits where internal capital support provided	20	(108)	(72)
Non-profit and unit-linked	524	386	283
One-off impact of IFRS methodology change	—	—	31
Long-term return on owners' funds	(5)	5	7
UK Heritage operating profit before tax	**640**	**368**	**330**

Note:

(1) Prior to the SLA Acquisition and the reassessment of the Group's operating segments, the Group had one operating segment, being Phoenix Life. The breakdown of the Group's operating profit for the year ended 31 December 2016 is shown in the Group's Annual Report and Accounts for the year ended 31 December 2016 as a breakdown of Phoenix Life operating profit.

With-profits

The with-profits operating profit represents the shareholders' one-ninth share of policyholder bonuses. The with-profits operating profit increased by £17 million, or 20 per cent., to £101 million for the year ended 31 December 2018 from £84 million for the year ended 31 December 2017, which primarily reflects the contribution from the Standard Life Assurance businesses.

The with-profits operating profit increased by £3 million, or 4 per cent., to £84 million for the year ended 31 December 2017 from £81 million for the year ended 31 December 2016.

With-profits where internal capital support provided

The operating profit on with-profit funds where internal capital support has been provided increased by £128 million to a profit of £20 million for the year ended 31 December 2018 from a loss of £108 million for the year ended 31 December 2017. This increase is principally driven by the positive impact of updating actuarial assumptions related to longevity and expenses.

The operating profit on with-profit funds where internal capital support has been provided decreased by £36 million, or 50 per cent., to a loss of £108 million for the year ended 31 December 2017 from a loss of £72 million for the year ended 31 December 2016. This decrease is principally driven by the greater adverse impact of the strengthening of actuarial assumptions to reflect the impact of the continued low interest rate environment on the Group's expectations of persistency for products with valuable guarantees and the associated assumptions in relation to policyholders retiring later.

Non-profit and unit-linked

The operating profit on non-profit and unit-linked funds increased by £138 million, or 36 per cent., to £524 million for the year ended 31 December 2018 from £386 million for the year ended 31 December 2017, which includes a contribution of £42 million from the Standard Life Assurance businesses, excluding actuarial assumption changes. Updating actuarial assumptions had a net positive impact of £205 million on the result for the year (2017: £166 million) and included the impact of updating longevity base and improvement assumptions to reflect latest experience analyses and the most recent Continuous Mortality Investigation 2017 core projection tables.

The operating profit on non-profit and unit-linked funds increased by £103 million, or 36 per cent., to £386 million for the year ended 31 December 2017 from £283 million for the year ended 31 December 2016. This increase principally reflects the impact of updating actuarial assumptions which had a net positive impact of £166 million on the result for the period (2016: £85 million). This includes the positive impact of updating longevity base and improvement assumptions to reflect experience analyses and the most recent Continuous Mortality Investigation 2016 core projection tables. The non-profit and unit-linked operating profit also benefitted from updates made to expense assumptions from operational synergies and the inclusion of the expected return of the acquired AXA Wealth and Abbey Life businesses.

One-off impact of IFRS methodology change

Following the implementation of Solvency II, certain changes were made during the year ended 31 December 2016 to the assumptions and estimates used in the valuation of insurance contract liabilities to more closely align the IFRS reserving methodology with Solvency II requirements. As the Group manages its capital on a Solvency II basis, the changes mean that the IFRS results now more closely reflect the way the business is managed and the Group's risk hedging strategies. The implementation of the changes at 1 January 2016 resulted in an overall favourable impact of £31 million to PGH Cayman's operating profit for the year ended 31 December 2016.

Long-term return on owners' funds

The long-term return on owners' funds decreased by £10 million to a loss of £5 million for the year ended 31 December 2018 from £5 million for the year ended 31 December 2017. This loss reflects certain one-off project costs which have been borne by the shareholder.

The long-term return on owners' funds decreased by £2 million, or 29 per cent., to £5 million for the year ended 31 December 2017 from £7 million for the year ended 31 December 2016. This change reflects the impact of lower opening risk-free yields used in the determination of the longer-term investment return assumptions.

UK Open operating profit

The Group's UK Open business segment operating profit increased by £46 million to £41 million for the year ended 31 December 2018 from a loss of £5 million for the year ended 31 December 2017. This increase was primarily a result of a £31 million contribution from the Standard Life Assurance businesses. This includes operating profits generated across the Workplace, Retail and SIPP product lines, including new business distributed through the Group's Strategic Partnership with Standard Life Aberdeen. The Group's SunLife business generated an operating profit of £10 million during the year ended 31 December 2018.

Europe operating profit

The Group's European business which comprises business written in Ireland, Germany and Austria and a mix of Heritage and Open products, generated an operating profit of £22 million during the year ended 31 December 2018 as compared to nil for the year ended 31 December 2017, and reflects the European operations of the acquired Standard Life Assurance businesses.

Management Services companies operating profit

The operating profit for Management Services companies increased by £4 million, or 19 per cent., to £25 million for the year ended 31 December 2018 from £21 million for the year ended 31 December 2017. This comprises income from the life and holding companies in accordance with the respective management services companies agreements less fees related to the outsourcing of services and other operating costs.

The operating profit for management services decreased by £6 million to £21 million for the year ended 31 December 2017 from £27 million for the year ended 31 December 2016. This change reflects the impact of life company run-off.

Group costs

Group costs include head office expenses as well as the net interest income/(expense) on the Group's defined benefit pension schemes.

Group costs were £20 million for the years ended 31 December 2018 and 2017. Group costs for the year ended 31 December 2018 mainly comprise project recharges from the service companies offset by returns on the scheme surplus of the Group staff pension schemes.

Group costs increased by £14 million to £20 million for the year ended 31 December 2017 from £6 million for the year ended 31 December 2016. This increase primarily reflects a lower return on the scheme surplus of the PGL Pension Scheme following the buy-in transaction entered into with PLL in the second half of 2016, the recognition of the net interest cost on the Abbey Life Pension Scheme and the impact of higher project recharges from the service companies.

Operating profit

As a result of the foregoing factors, the Group's operating profit increased by £340 million, or 92 per cent., to £708 million for the year ended 31 December 2018 from £368 million for the year ended 31 December 2017.

The Group's operating profit increased by £17 million, or 5 per cent., to £368 million for the year ended 31 December 2017 from £351 million for the year ended 31 December 2016.

Reconciliation of the Group's operating profit for the years ended 31 December 2018, 2017 and 2016

The following table reconciles the Group's operating profit before tax to IFRS profit after tax for the years ended 31 December 2018, 2017 and 2016.

	Year ended 31 December		
	2018	**2017**	**2016**
		(£ million)	
Total operating profit before adjusting items	708	368	351
Investment return variances and economic assumption changes on long-term business	283	(6)	(207)
Variance on owners' funds	(193)	(87)	(5)
Amortisation of acquired in-force business, customer relationships and other intangibles	(207)	(119)	(82)
Other non-operating items	(38)	(80)	(95)
Profit/(loss) before finance costs and tax attributable to owners	**553**	**76**	**(38)**
Finance costs attributable to owners	(114)	(104)	(90)
Profit/(loss) before the tax attributable to owners of the parent	**439**	**(28)**	**(128)**
Profit before tax attributable to non-controlling interests	31	—	—
Profit/(loss) before tax attributable to owners	**470**	**(28)**	**(128)**
Tax (charge)/credit attributable to owners	(60)	1	28
Profit/(loss) after tax attributable to owners	**410**	**(27)**	**(100)**

Investment return variances and economic assumption changes on long-term business

The net positive investment return variances and economic assumption changes on long term business of £283 million for the year ended 31 December 2018 primarily arise due to the positive impact of strategic asset allocation activities, including investment in higher yielding illiquid assets, together with the impact of gains on hedging positions held by the life funds as a result of declining equity markets during 2018. The Group's exposure to equity movements arising from future profits in relation to with-profit bonuses and unit-linked charges is hedged to benefit the regulatory capital position. The impact of equity market movements on the value of the hedging instruments is reflected in the IFRS results, but the corresponding change in the value of future profits is not.

Investment return variances and economic assumption changes on long-term business were negative £6 million for the year ended 31 December 2017. The loss primarily arises on hedging positions held by the life funds following equity market gains during 2017. Losses on these hedging positions have been partly offset by the positive impact of strategic asset allocation activities, including investment in higher yielding assets.

Investment return variances and economic assumption changes on long-term business were negative £207 million for the year ended 31 December 2016. The loss was primarily driven by adverse market movements during 2016, most notably the adverse impact of falling yields on the life funds which increased the margin held within insurance liabilities in respect of longevity risk. The investment return variances were also adversely impacted by losses arising on equity hedging positions held by the life funds following equity market gains during 2016.

Variance on owners' funds

Variance on owners' funds decreased by £106 million to negative variance on owners' funds of £193 million for the year ended 31 December 2018 as compared to negative variance on owners' funds of £87 million for the year ended 31 December 2017. The negative variance is principally driven by realised losses on derivative instruments entered into by the Holding Companies to hedge exposure to equity risk arising from the SLA Acquisition. Losses of £143 million were incurred on these instruments, together with option premiums of £22 million.

Variance on owners' funds decreased by £82 million to negative variance on owners' funds of £87 million for the year ended 31 December 2017 as compared to negative variance on owners' funds of £5 million for the year ended 31 December 2016. The negative variance is driven by interest rate swaption positions held in the life companies' shareholder funds. Such positions are held to hedge the impact of interest rate risk on the Group's regulatory capital position. With swap yields remaining relatively stable during the period, option value associated with these contracts fell in the period due to expected option expiry and reduced volatility.

Amortisation of acquired in-force business, customer relationships and other intangibles

The carrying amount of the Group's acquired in-force business and other intangibles was £4.3 billion as at 31 December 2018 (gross of deferred tax), of which £2.8 billion relates to the Standard Life Assurance businesses. The acquired in-force business is being amortised in line with the expected run-off profile of the profits to which it relates.

The amortisation of acquired in-force business and other intangibles increased by £88 million, or 74 per cent., to £207 million for the year ended 31 December 2018 from £119 million for the year ended 31 December 2017 reflecting the additional acquired in-force business for the Standard Life Assurance businesses. Amortisation of acquired in-force business during 2018 totalled £189 million (2017: £102 million). Amortisation of other intangible assets totalled £18 million in 2018 (2017: £17 million).

The amortisation of acquired in-force business and other intangibles increased by £37 million, or 45 per cent., to £119 million for the year ended 31 December 2017 from £82 million for the year ended 31 December 2016 reflecting the increased amortisation charge on acquired in-force and intangible balances recognised on the acquisitions of the AXA Wealth and Abbey Life businesses.

Other non-operating items

The other non-operating items expense decreased by £42 million, or 53 per cent., to £38 million for the year ended 31 December 2018 compared to negative £80 million for the year ended 31 December 2017. The non-operating items include a gain on acquisition of £141 million reflecting the excess of the fair value of the net assets acquired over the consideration paid for the acquisition of the Standard Life Assurance businesses and a net benefit of £45 million reflecting anticipated costs savings associated with the move to a single, digitally enhanced outsourcer platform. These amounts have been more than offset by a provision for £68 million in respect of a commitment to reduce ongoing and exit charges for non-workplace pension products, costs of £59 million associated with the equalisation of accrued GMP benefits within the Group's pension schemes, costs of £43 million associated with the SLA Acquisition and £7 million incurred under the ongoing transition programme. It also includes net other one-off items totalling £47 million, including other corporate project costs.

The other non-operating items expense decreased by £15 million to £80 million for the year ended 31 December 2017 compared to negative £95 million for the year ended 31 December 2016. The non-operating items included a premium of £25 million paid on redemption of £178 million principal of the senior unsecured bond, costs of £21 million in respect of integration and restructuring of the Abbey Life and AXA Wealth businesses, costs of £20 million in respect of short-term expense overruns arising from the AXA Wealth businesses prior to the completion of the implementation of the Phoenix operating model, a provision of £27 million in respect of a commitment to the reduction of ongoing charges for workplace pension products, a £21 million increase in the provision for costs for claims relating to historic creditor insurance underwritten by a subsidiary of the Group, PA (GI), offset by the recognition of reimbursements of £39 million in respect of recoveries due or received from third parties under contractual arrangements; and net other one-off items totalling a cost of £5 million, including corporate project costs.

Finance costs attributable to owners

The Group's finance costs attributable to owners increased by £10 million, or 10 per cent., to £114 million for the year ended 31 December 2018 from £104 million for the year ended 31 December 2017. The increase comprised a £5 million decrease in bank finance costs driven by the repayment of bank debt and a £15 million increase in other finance costs reflecting debt issuances during 2018.

The Group's finance costs attributable to owners increased by £14 million, or 16 per cent., to £104 million for the year ended 31 December 2017 from £90 million for the year ended 31 December 2016. The increase was primarily as a result of the higher coupon payable on hybrid debt issuances in the year, together with the impacts of the acceleration of deferred issue cost recognition on senior debt repaid during the year.

Tax attributable to owners

Tax attributable to owners is discussed under the section entitled "*Results of operations for the Group for the years ended 31 December 2018, 2017 and 2016*" above.

Liquidity and capital resources

Phoenix and the Holding Companies

The principal cash requirements of Phoenix, Pearl Assurance Group Holdings Limited, PGH Cayman, PGH Capital, PLHL, PGH2, Impala, PGH1 and PeLHL (together, the "**Holding Companies**") are the payment of dividends to Shareholders, the servicing of debt, contributions to the pension schemes and the payment of expenses. The principal sources of cash for the Holding Companies are loans and dividends from the Group's operating companies.

The Phoenix Life Companies

The Phoenix Life Companies' principal sources of liquidity are policyholder premiums, cash balances, net investment income received and proceeds from investments as they are repaid, redeemed or sold. The Phoenix Life Companies principally use their liquidity to pay policyholder benefits (including withdrawals and surrender payments) and operating expenses and to purchase investments.

The Phoenix Life Companies are subject to various regulatory restrictions on the maximum amount of payments, including dividends, loans or cash advances that they may make to their shareholders. The amount of cash that the Phoenix Life Companies may distribute to the Holding Companies depends on the individual solvency position of each of the Phoenix Life Companies. Cash may be distributed only to the extent that (i) the individual solvency positions of the Phoenix Life Company is positive and (ii) there is excess capital over and above an additional solvency buffer determined by the respective Phoenix Life Company board, subject to any regulatory limitations imposed.

Cashflows for the six months ended 30 June 2019 and 2018

The table below sets out the Holding Companies' cashflows for the six months ended 30 June 2019 and 2018:

	Six months ended 30 June	
	2019	**2018**
	(£ million) (unaudited)	
Cash and cash equivalents at 1 January	**346**	**535**
Operating companies' cash generation:		
Cash receipts from Phoenix Life(1)	358	349
Cash receipts from Standard Life Assurance(1)	179	—
Cash remittances to Standard Life International	(250)	—
Net cash receipts	**287**	**349**
Uses of cash:		
Operating expenses	(19)	(19)
Pension scheme contributions	(23)	(23)
Debt interest	(34)	(10)

	Six months ended 30 June	
	2019	2018
	(£ million) (unaudited)	
Total recurring cash outflows	**(76)**	**(52)**
Non-recurring cash outflows	(41)	(126)
Uses of cash before debt repayments and shareholder dividend	**(117)**	**(178)**
Shareholder dividend	(169)	(99)
Total uses of cash	**(286)**	**(277)**
Debt issuance (net of fees)	—	494
Support of BPA activity	(32)	(62)
Cash and cash equivalents at 30 June	**315**	**1,039**

Note:

(1) Includes £43 million and £47 million received by the Holding Companies in respect of tax losses surrendered to Phoenix Life and Standard Life Assurance respectively (HY18: £14 million – Phoenix Life).

Total receipts of cash by Holding Companies

Total receipts of cash by Holding Companies were £287 million for the six months period ended 30 June 2019 compared to £349 million for the six months ended 30 June 2018.

Cash generation is reported net of a £250 million cash remittance into the Group's Irish domiciled subsidiary, Standard Life International. This capital injection preceded a Part VII Transfer of the Standard Life Assurance Irish, German and Austrian policies to Standard Life International, completed in March 2019 as part of preparations to ready the business for Brexit.

Uses of cash

Recurring cash outflows

The operating expenses of £19 million for the six months ended 30 June 2019 are in line with operating expenses for the six months ended 30 June 2018 and principally comprise corporate office costs, net of income earned on holding company cash and investment balances.

Pension scheme contributions of £23 million (HY18: £23 million) are made on a monthly basis and comprise £20 million for the Pearl Group Pension Scheme and £3 million for the Abbey Life Pension Scheme.

Debt interest of £34 million (HY18: £10 million) increased as a result of the cash settlement of the semi-annual coupon on the £500 million Tier 1 bond issued in April 2018 and the annual coupon on the €500 million Tier 2 bond issued in September 2018. A semi-annual coupon on the US$500 million Tier 2 bond was also settled in the period.

Non-recurring net cash outflows

Non-recurring net cash outflows decreased by £85 million to £41 million for the six months ended 30 June 2019 as compared to £126 million for the six months ended 30 June 2018, which principally comprises £31 million of recharged staff costs and Group expenses associated with corporate related projects, including £4 million of external costs related to the transition of the acquired Standard Life Assurance businesses. It also includes a further £4 million of costs related to the separation of those businesses from Standard Life Aberdeen and £3 million of cash paid to close out derivative instruments entered into by the Holding Companies to hedge the Group's exposure to currency risk.

Non-recurring cash outflows of £126 million for the six months ended 30 June 2018 included £22 million of option premiums and £49 million of collateral posted in respect of derivative instruments entered into to hedge the Group's exposure to equity risk arising from the SLA Acquisition. It also included a further £21 million of collateral posted on other Group hedging positions and net other corporate costs.

Shareholder dividend

The shareholder dividend of £169 million for the six months ended 30 June 2019 represents the payment of the 2018 final dividend in May 2019.

The shareholder dividend of £99 million in the six months ended 30 June 2018 represents the payment of the 2017 final dividend in May 2018.

Debt issuance (net of fees)

The £494 million debt issuance during the six months ended 30 June 2018 comprised the proceeds of the Tier 1 bond issuance of £500 million completed in April 2018, net of associated fees.

Support of BPA activity

In the six months ended 30 June 2019, £32 million (HY18: £62 million) of funding has been provided to the Life Companies to support BPA new business (based on the assets received as premium from the scheme on Day 1).

Cashflows for the years ended 31 December 2018, 2017 and 2016

The table below sets out the Holding Companies' cashflows for the years ended 31 December 2018, 2017 and 2016.

	Year ended 31 December		
	2018	**2017**	**2016**
		(£ million)	
Cash and cash equivalents at 1 January	**535**	**570**	**706**
Operating companies' cash generation:			
Cash receipts from Phoenix Life	664	653	486
Total receipts[(1)]	**664**	**653**	**486**
Uses of cash:			
Operating expenses	(32)	(36)	(33)
Pension scheme contributions	(49)	(92)	(55)
Debt interest	(88)	(60)	(58)
Total recurring outflows	**(169)**	**(188)**	**(146)**
Non-recurring cash outflows	(216)	(84)	(141)
Uses of cash before debt repayments and shareholder dividend	**(385)**	**(272)**	**(287)**
Debt repayments	—	(1,053)	(239)
Shareholder dividend	(262)	(193)	(126)
Total uses of cash	**(647)**	**(1,518)**	**(652)**
Equity raise (net of fees)	934	—	908
Debt issuance (net of fees)	932	830	428
Cost of acquisitions	(1,971)	—	(1,306)
Support of BPA activity	(101)	—	—
Cash and cash equivalents at 31 December[(2)]	**346**	**535**	**570**

Note:

(1) Includes amounts received by the Holding Companies in respect of tax losses surrendered to the Group's operating companies of £39 million in the year ended 31 December 2018 (2017: £20 million; 2016: £84 million).

Total receipts of cash by Holding Companies

Total receipts of cash by Holding Companies were £664 million for the year ended 31 December 2018. Of the £664 million, management actions accounted for £237 million.

Total receipts of cash by Holding Companies were £653 million for the year ended 31 December 2017, which included £165 million generated from the acquired AXA Wealth business and £236 million generated from the acquired Abbey Life business (which includes a £74 million cash receipt in connection with the transfer of the Abbey Life Pension Scheme from the operating company to a Holding Company). Of the £653 million, management actions accounted for £380 million.

Total receipts of cash by Holding Companies were £486 million for the year ended 31 December 2016, which included £117 million generated following completion of the AXA Transaction. Of the £486 million, management actions accounted for £265 million.

Uses of cash

Total recurring cash outflows

Total recurring cash outflows decreased by £19 million, or 10 per cent., to £169 million for the year ended 31 December 2018 from £188 million for the year ended 31 December 2017. The operating expenses of £32 million for the year ended 31 December 2018 (2017: £36 million) principally comprise corporate office costs, net of income earned on Holding Company cash and investment balances.

Total recurring outflows increased by £42 million, or 29 per cent., to £188 million for the year ended 31 December 2017 from £146 million for the year ended 31 December 2016. The operating expenses of £36 million for the year ended 31 December 2017 (2016: £33 million) principally comprise corporate office costs, net of income earned on holding company cash and investment balances.

Pension scheme contributions of £49 million for the year ended 31 December 2018 (2017: £92 million; 2016: £55 million) are made on a monthly basis and include total contributions of £40 million into the Pearl Pension Scheme and £9 million into the Abbey Life Pension Scheme, including £4 million paid into the 2016 Charged Account and held in escrow.

The decrease in total contributions in 2018 as compared to 2017 reflects the lump sum payment of £25 million paid as part of the transfer of the Abbey Life Pension Scheme to the Group in 2017 and £10 million paid into the Pearl Pension Scheme in respect of the final quarter of 2016 as part of the move from annual to monthly funding. In addition, no further contributions are expected to be paid into the PGL Pension Scheme under the existing funding agreement (2017: £10 million).

Debt interest increased by £28 million, or 47 per cent., to £88 million for the year ended 31 December 2018 (2017: £60 million). The increase compared to the prior year reflects the debt issued in 2018 to finance the SLA Acquisition. Debt interest principally comprises coupon payments on the RT1 Notes issued in April 2018 and the Group's subordinated and senior bond instruments.

Debt interest increased by £2 million, or 3 per cent., to £60 million for the year ended 31 December 2017 (2016: £58 million) reflecting the higher coupon payable on hybrid debt issued during 2017 which has offset the impact of lower debt principal balances following repayments.

Non-recurring cash outflows

Non-recurring net cash outflows of £216 million for the year ended 31 December 2018 (2017: £84 million) include £22 million of option premiums and £143 million of cash paid to close out derivative instruments entered into by the Holding Companies to hedge the Group's exposure to equity and currency risk arising from SLA Acquisition. Standard Life Assurance has subsequently applied the Group's hedging strategy and the derivative instruments are now held within this entity. Non-recurring cashflows for the year ended 31 December 2018 also include a favourable collateral movement of £27 million on the Group's other hedging positions relating to the Group's debt. The remainder of the balance includes £43 million of expenses associated with the SLA Acquisition and £35 million of net other corporate costs, including integration costs.

Non-recurring cash outflows of £84 million for the year ended 31 December 2017 (2016: £141 million) include Group costs associated with integration activity and corporate related projects, together with the payment of collateral on hedging transactions, partly offset by the receipt of proceeds from the disposal of internal holdings of the £428 million subordinated loan notes.

Non-recurring cash outflows of £141 million for the year ended 31 December 2016 reflect costs associated with hedging and acquisition activity undertaken during 2016. Outflows also include £68 million of capital support provided to a subsidiary of the Group, PA (GI), with regard to the cost of providing for potential claims and associated capital requirements relating to creditor insurance underwritten prior to 2006.

Debt repayments

External debt repayments of £1,053 million in 2017 include the full settlement of the £850 million revolving credit facility balance outstanding at 31 December 2016 and repayment of £178 million of the £300 million senior bonds which were redeemed at a premium of £25 million. Total debt repayments of £239 million in the year ended 31 December 2016 were made in respect of the repayment of the £182 million bank debt used to finance the AXA Transaction, together with £50 million of the Group's revolving credit facility. The remaining £6 million of outstanding Tier 1 bonds were also redeemed in March 2016.

Shareholder dividend

The shareholder dividend of £262 million for the year ended 31 December 2018 represents the payment of the 2017 final dividend of £99 million in May 2018 and the payment of the 2018 interim dividend of £163 million in September 2018.

The shareholder dividend of £193 million for the year ended 31 December 2017 comprises the payment of the 2016 final dividend of £94 million in May 2017 and the payment of the 2017 interim dividend of £99 million in September 2017, which reflected the 5 per cent. increase in dividend that followed the Abbey Life Acquisition.

The shareholder dividend of £126 million for the year ended 31 December 2016 comprises the payment of the 2015 final dividend of £60 million in May 2016 and the payment of the 2016 interim dividend of £66 million in September 2016, reflecting the impact of shares issued in May 2016 as part of the AXA Transaction.

Equity raise (net of fees)

The £934 million equity issuance in 2018 relates to proceeds, net of fees, from the rights issue associated with the financing of the SLA Acquisition.

The £908 million equity issuance in 2016 was in relation to proceeds, net of fees, from the equity placement and the rights issue associated with the financing of the AXA Transaction and the Abbey Life Acquisition respectively.

Debt issuance (net of fees)

The £932 million debt issuance in 2018 comprises the net proceeds of the RT1 Notes of £500 million completed in April 2018 and the £445 million (€500 million) Tier 2 bond issuance in September 2018.

The £830 million debt issuance in 2017 comprises the net proceeds of the Tier 3 bond issuances of £300 million and £150 million completed in January and May 2017 respectively, as well as the Tier 2 bond issuance of US$500 million (£385 million), completed in July 2017.

£428 million of debt, net of fees of £4 million, was issued in 2016 comprising the £182 million short-term debt facility in connection with the AXA Transaction, which was fully repaid during 2016, and the £250 million short-term bank facility issued in connection with the Abbey Life Acquisition.

Cost of acquisitions

Cost of acquisitions of £1,971 million for the year ended 31 December 2018 relates to the cash consideration settlement to finance the SLA Acquisition.

Cost of acquisitions of £1,306 million for the year ended 31 December 2016 comprise £933 million in connection with the Abbey Life Acquisition and £373 million in connection with the AXA Transaction.

Support of BPA activity

£101 million of funding has been provided to the Life Companies in the year ended 31 December 2018 to support the bulk purchase annuity new business (based on the assets received on Day 1).

Capital management

Solvency II Surplus

From 1 January 2016, the Solvency II capital assessment and the Group's regulatory supervision were performed at the PLHL level being the highest EEA insurance holding company. A waiver that was in place permitting Group supervision to take place at the level of the then ultimate parent, PGH Cayman, via other methods as opposed to full Group supervision, expired on 30 June 2017. The Group's capital position was subsequently being managed at the PGH Cayman level only. Following completion of the Onshoring, Phoenix became the ultimate parent company and the highest EEA insurance Group holding company and the Group's Solvency II capital assessment and Group supervision is now being managed at the Phoenix level only.

A Solvency II capital assessment involves a valuation in line with Solvency II principles of the Group's Own Funds and a risk-based assessment of the Group's SCR. For further information, see *"Solvency II"* in Part IV ("*Regulatory Overview*") of this document.

Phoenix's Own Funds differ materially from the Group's IFRS equity for a number of reasons, including the recognition of future shareholder transfers from the with-profit funds and future management charges on investment contracts, the treatment of certain subordinated debt instruments as capital items, and a number of valuation differences, most notably in respect of insurance contract liabilities and intangible assets.

The SCR is calibrated so that the likelihood of a loss exceeding the SCR is less than 0.5 per cent. over one year. This ensures that capital is sufficient to withstand a broadly '1-in-200 year event'.

In December 2015, the Group was granted the PRA's approval for use of its Internal Model ("**Phoenix Internal Model**") to assess capital requirements, the scope of which was extended to include the acquired AXA Wealth and Abbey Life businesses in March 2017 and March 2018 respectively. The Standard Life Assurance businesses determine their capital requirements in accordance with an approved Internal Model ("**Standard Life Internal Model**"), which was in place prior to the SLA Acquisition. The one exception to this is Standard Life International, the Group's Irish subsidiary, which remains on Standard Formula. As a result, the Group currently uses a PIM to calculate Group SCR, aggregating outputs from the existing Phoenix Internal Model, the Standard Life Internal Model and Standard Life International's Standard Formula, without further diversification.

A harmonisation programme to combine the two Internal Models into a single Internal Model is ongoing. The PRA has approved a separate Solvency II Internal Model for SLAL and SLPF. SLIDAC calculates its SCR in accordance with the Standard Formula. These calculations then feed in to a single Group SCR. The Group is working with the PRA to create a single Group-wide Solvency II Internal Model. This process will not complete for SLAL and SLPF before December 2020. The Group also intends to work with the CBI and the PRA to incorporate SLIDAC into the Group's Solvency II Internal Model in the future. This process will not complete before 2021.

The Phoenix Solvency II Surplus position as at 30 June 2019 (estimated), 31 December 2018 and 31 December 2017 (*pro forma* assuming the SLA Acquisition took place on 31 December 2017) and the Solvency II Surplus of PGH Cayman as at 31 December 2016 (*pro forma* to illustrate the impacts of the issuance in January 2017 of the £300 million Solvency II qualifying Tier 3 bond and the receipt of the PRA's approval in March 2017 to include the acquired AXA Wealth business within the Group's Internal Model) is set out below.

	Estimated position as at 30 June 2019	**As at 31 December 2018**	***Pro forma* as at 31 December 2017(5)**	***Pro forma* as at 31 December 2016(6)**
		(£ billion)		
Own Funds(1)	10.8	10.3	10.2	6.0
SCR(2)	(7.8)	(7.1)	(7.7)	(4.9)
Solvency II Surplus(3)	**3.0(4)**	**3.2**	**2.5**	**1.1**

Notes:

(1) Own Funds includes the net assets of the Life Companies and Holding Companies calculated under Solvency II rules, pension scheme surpluses calculated on an IAS19 basis not exceeding the Holding Companies' contribution to the Group SCR and qualifying subordinated liabilities. It is stated net of restrictions for assets which are non-transferable and fungible between Group companies within a period of nine months.

(2) The SCR reflects the risks and obligations to which Phoenix (or PGH Cayman, as the case may be) is exposed.

(3) The surplus equates to a regulatory coverage ratio of 139 per cent. as at 30 June 2019 (2018: 146 per cent.; 2017: 132 per cent. *pro forma*; 122 per cent. *pro forma*).

(4) The estimated Solvency II Surplus as at 30 June 2019 includes a dynamic recalculation of TMTP, in anticipation of the mandatory recalculation required as at 31 December 2019. Had the dynamic calculation not been performed, the surplus would have been £0.2 billion lower.

(5) The *pro forma* position assumes the acquisition of the Standard Life Assurance businesses took place on 31 December 2017.

(6) The position as at 31 December 2016 included *pro forma* adjustments to illustrate the impacts of the issuance in January 2017 of the £300 million Solvency II qualifying Tier 3 bond and the receipt of the PRA's approval in March 2017 to include the acquired AXA Wealth business within the Group's Internal Model.

Change in Phoenix Solvency II Surplus between 30 June 2019 (estimated) and 31 December 2018

The Phoenix Solvency II Surplus has decreased to £3.0 billion as at 30 June 2019 (FY18: £3.2 billion). The result assumes a dynamic recalculation of TMTP.

Surplus generation and the impact of the reduction in capital requirements for the Group added £0.2 billion to the surplus during the year.

Management actions undertaken increased the surplus by £0.3 billion. This includes £0.1 billion in respect of capital synergies associated with the SLA Acquisition, primarily as a result of internal group restructuring activities. Other management actions of £0.2 billion include further investment in illiquid assets within annuity portfolios and expense reductions.

The impact of new business written during the first six months of 2019 reduced the surplus by £0.1 billion. This primarily reflects the capital strain associated with the BPA transaction executed in May 2019 and vesting annuities in the Heritage business segment. The Group's Open business continues to be capital light.

The Part VII Transfer of the Standard Life Assurance Irish, German and Austrian policies to Standard Life International resulted in a £0.2 billion reduction in the surplus reflecting increases in the SCR and risk margin as a result of the more onerous capital requirements and a loss of diversification under Standard Formula compared to the Standard Life Internal Model, together with the recognition of counterparty default and additional currency risk.

Financing costs, pension contributions and dividend payments (including accrual for the 2019 interim dividend) amount to £0.2 billion and reduced the surplus in the period.

The adverse impact of economic and other variances reduced the surplus by £0.2 billion. This is largely due to the impact of the second pension scheme buy-in arrangement entered into between Phoenix Life Limited ("**PLL**") and the Trustees of the PGL Pension Scheme for the remaining liabilities of that Scheme. The adverse impact reflects the more onerous valuation basis for insurance technical provisions than the IAS19 basis for valuing pension scheme liabilities, creating an additional restriction within Own Funds. The impact has been mitigated in the second half of 2019 by the receipt of approval for Matching Adjustment on these liabilities.

Other variances also includes the effect of strengthening assumptions in respect of the valuation of Equity Release Mortgages ("**ERM**"), and the adverse impact of falling yields, foreign exchange and property movements in the period.

The Solvency II Surplus excludes the surpluses arising in the Group's unsupported with-profit funds and the PGL Pension Scheme of £2.0 billion as at 30 June 2019 (FY18: £2.1 billion). Surpluses within the with-profit funds and the PGL Pension Scheme, whilst not included in the Solvency II Surplus, are available to absorb economic shocks. This means that the headline surplus is resilient to economic stresses.

In the calculation of the Solvency II Surplus, the SCR of the with-profit funds and the PGL Pension Scheme is included, but the related Own Funds are recognised only to a maximum of the SCR amount. This approach suppresses the regulatory capital coverage ratio, calculated as eligible own funds as a percentage of SCR.

As a result, the Group focuses on a shareholder view of the capital coverage ratio which it considers to give a more accurate reflection of the capital strength of the Group. The Shareholder Capital Coverage Ratio is calculated as the ratio of eligible Own Funds to SCR adjusted to exclude Own Funds and the associated SCR relating to the unsupported with-profit funds and the PGL Pension Scheme.

The Group targets a Shareholder Capital Coverage Ratio in the range of 140 per cent. to 180 per cent.

Excluding the SCR and Own Funds relating to the unsupported with-profit funds and the PGL Pension Scheme, the Shareholder Capital Coverage Ratio was 160 per cent. as at 30 June 2019 (FY18: 167 per cent.).

Change in Phoenix Solvency II Surplus between 31 December 2018 and 31 December 2017 (pro forma)

The Phoenix Solvency II Surplus increased to £3.2 billion as at 31 December 2018 (2017 *pro forma*: £2.5 billion). The following explanation discusses the movements in the Phoenix Solvency II Surplus on a *pro forma* basis as if the SLA Acquisition took place on 31 December 2017.

The *pro forma* position as at 31 December 2017 for the SLA Enlarged Group (i.e., including the acquired Standard Life Assurance businesses) was £2.5 billion. Surplus generation and the impact of the reduction in capital requirements for the SLA Enlarged Group added £0.3 billion to the surplus during 2018.

Management actions undertaken, including further investment in illiquid assets within annuity portfolios, reductions in investment expenses and anticipated cost savings associated with a move to a single outsourcer and continued investment in digitalisation increased the surplus by £0.6 billion.

Delivery of capital synergies associated with the SLA Acquisition increased the surplus by £0.5 billion, primarily as a result of implementing Phoenix's equity and currency hedging strategy in order to protect the economic value of the acquired businesses.

The *pro forma* surplus for the SLA Enlarged Group included an assumed £0.6 billion of capital qualifying debt issued in relation to the SLA Acquisition. Following the issuances of the £500 million RT1 Notes in April 2018 and €500 million of Tier 2 bonds in September 2018, actual debt raised in the year was £0.9 billion, resulting in a £0.3 billion increase to the surplus compared to the *pro forma* position.

The impact of new business written during the year reduced the surplus by £0.2 billion. This primarily reflects the capital strain associated with the three BPA transactions executed in the year and the vesting annuities in the Heritage business segment.

Assumption, experience and modelling changes decreased the Solvency II Surplus by £0.1 billion, reflecting the impact of strengthening lapse risk capital for the Standard Life Assurance businesses, together with expense impacts arising from separation of those businesses prior to the SLA Acquisition, customer proposition development and other project costs. These items have been offset by the positive impacts of changes to longevity assumptions.

The adverse impact of economic and other variances reduced the surplus by £0.2 billion. This includes a provision in respect of a commitment to reduce ongoing and exit charges for unitised non-workplace pensions. Extending the Group's hedging strategy to Standard Life Assurance has ensured the Group remains resilient to equity market movements.

Financing costs, pension contributions and dividend payments (including accrual for the 2018 final dividend) amount to £0.5 billion and reduced the surplus in 2018.

Standard Life Assurance obtained regulatory approval to recalculate the benefits associated with TMTP as at 31 December 2018 and the impact of this recalculation is included within the Phoenix Solvency II Surplus as at that date. The Phoenix Life entities last undertook a mandatory recalculation of TMTP as at 31 December 2017. Had a dynamic recalculation been assumed as at 31 December 2018 for Phoenix Life entities, the Phoenix Solvency II Surplus would have been £0.1 billion higher.

Unsupported with-profit funds and the PGL Pension Scheme consist of £4.4 billion of Own Funds and £2.3 billion of SCR. The related Own Funds are only recognised in the Phoenix Solvency II Surplus up to the value of the SCR in respect of these funds.

Excluding the SCR and Own Funds relating to the unsupported with-profit funds and the PGL Pension Scheme, the Shareholder Capital Coverage Ratio was 167 per cent. as at 31 December 2018 (2017: 147 per cent. on a *pro forma* basis for the SLA Enlarged Group).

Group Solvency II Surplus increase between 31 December 2017 (pro forma) and 31 December 2016 (*pro forma*)

The Group Solvency II Surplus increased to £2.5 billion on a *pro forma* basis as at 31 December 2017 (31 December 2016: £1.1 billion on a *pro forma* basis).

Adjusting the Group Solvency II Surplus for the impacts of the SLA Acquisition as if it took place on 31 December 2017 increased the surplus as at that date by £0.7 billion on a *pro forma* basis.

Excluding the *pro forma* impacts, the underlying increase in the Group Solvency II Surplus includes surplus generation and expected run-off of capital requirements of £0.2 billion over the period. Management actions undertaken, including reductions in expenses from operating synergies and the impact of strategic asset allocation activities increased the surplus by £0.4 billion. Total management actions in 2017 were £553 million, including the impact of the receipt of the PRA's approval to include the acquired AXA Wealth business within the Group's Solvency II Internal Model, which is reflected in the 31 December 2016 (*pro forma*) position.

The issuance of £150 million of Tier 3 notes in May 2017 (the 2022 Notes) and US$500 million of Tier 2 notes in July 2017 (the 2027 Notes) increased the Solvency II Surplus by a total of £0.5 billion compared to the *pro forma* position as at 31 December 2016. Assumption, experience and modelling changes were net neutral on a Solvency II basis, with the net impact of changes to longevity assumptions being offset by the impact of the continued low interest rate environment on the Group's expectations of persistency for products with valuable guarantees.

Economic and other variances decreased the surplus by £0.1 billion and include the premium paid on partial redemption of the Group's Senior Bonds, the impact of the agreement to reduce annual charges on workplace pension products to 1 per cent. or lower and acquisition integration costs.

Financing costs, pension contributions and dividend payments (including accrual for the 2017 final dividend) reduced the surplus by £0.3 billion.

Unsupported with-profit funds and the PGL Pension Scheme consist of £2.6 billion (2016: £2.4 billion) of Own Funds and £2.0 billion (2016: £2.0 billion) of SCR. Of the £2.6 billion (2016: £2.4 billion) of Own Funds, £2.0 billion (2016: £1.8 billion) consists of estate within the unsupported with-profit funds and £0.6 billion (2016: £0.6 billion) of Own Funds within the PGL Pension Scheme. The surplus of £0.6 billion (2016: £0.4 billion) in unsupported with-profit funds and the PGL Pension Scheme does not contribute to the Group Solvency II Surplus and the value of their Own Funds is restricted to the value of the related SCR.

Excluding the SCR and Own Funds relating to the unsupported with-profit funds and the PGL Pension Scheme, the Shareholder Capital Coverage Ratio was 147 per cent. on a *pro forma* basis as at 31 December 2017 (2016: 139 per cent. on a *pro forma* basis).

Life company free surplus

Life company free surplus represents the Solvency II Surplus of the Life Companies that is in excess of their board-approved capital management policies.

As at 30 June 2019, the life company free surplus is £0.6 billion (FY18: £1.0 billion; FY17: 0.7 billion; FY16: 0.7 billion).

Cash remittances from holding companies relate to the £250 million capital injection into Standard Life International as part of the Group's Brexit planning activities.

Movements in the life company free surplus as at 30 June 2019 and as at 31 December 2018, 2017 and 2016 is set out below.

	Position as at			
	30 June	31 December		
	2019	2018(1)	2017	2016
	(£ billion)			
Opening free surplus	**1.0**	**0.8**(1)	**0.7**	**0.1**
Surplus generation and expected run-off of capital requirements	0.3	0.4	0.2	0.2
Management actions	0.2	0.6	0.5	0.6
Part VII Transfer	(0.3)	—	—	—
Capital synergies associated with acquisition	—	0.1	—	—
New business	—	(0.1)	—	—
Economic, financing and other	(0.3)	(0.1)	—	—
Impact of acquisitions	—	—	—	0.3
Assumptions, experience and modelling changes	—	—	(0.1)	(0.1)
Impact of economic and other variances	—	—	—	(0.2)
Free surplus before cash remittances	**0.9**	**1.7**	**1.3**	**0.9**
Cash remittances to holding companies	(0.6)	(0.7)	(0.6)	(0.4)(2)
Cash remittances from holding companies	0.3	—	—	—
Impact of incorporating the AXA business in the Group's Internal Model	—	—	—	0.2
Closing free surplus	**0.6**	**1.0**	**0.7**	**0.7**(3)

Notes:

(1) Assumes the acquisition of the Standard Life Assurance businesses and the implementation of the Group's equity and currency hedging strategy by those acquired businesses took place on 31 December 2017.

(2) The cash remittances to holding companies excludes cash receipts from Opal Re in the period of £85 million.

(3) On a *pro forma* basis, adjusting for the impact of incorporating the AXA Wealth business in the Group's Internal Model.

Off-balance sheet arrangements

The Group is not a party to any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Contingent liabilities

In the normal course of business the Group is exposed to certain legal issues, which involve litigation and arbitration. As at 30 June 2019, the Group has a number of contingent liabilities in this regard, none of which is considered by the Directors to be material as of the date of this document.

Description of certain other indebtedness

Overview

The Group intends to manage leverage at a level consistent with maintaining an investment grade rating for Phoenix and the Group's senior and subordinated shareholder debt.

Under the terms of the SLA Share Purchase Agreement, SLAL was transferred to PGH Cayman free of any outstanding indebtedness in the form of bonds, loans or other financing liabilities.

A description of the Group's own indebtedness as at the date of this document is set out below.

Senior Bonds

On 7 July 2014, PGH Capital issued the Senior Bonds, being a £300 million senior unsecured bond with an annual coupon of 5.75 per cent., which was guaranteed by PGH Cayman on a senior basis. On 20 March 2017, PGH Cayman was substituted in place of PGH Capital as issuer of the Senior Bonds and on 18 June 2019, Phoenix was in turn substituted in place of PGH Cayman as issuer of the Senior Bonds. The Senior Bonds constitute direct, unconditional, unsubordinated and unsecured obligations of Phoenix. Unless previously redeemed or purchased and cancelled, the Senior Bonds will mature on 7 July 2021. The Senior Bonds are listed on the LSE. In 2017, the Group repurchased £178,390,000 of the principal of the Senior Bonds. As at 31 December 2019, the outstanding principal amount under the Senior Bonds was £121,610,000.

2022 Notes

On 20 January 2017, PGH Capital issued £300,000,000 4.125 per cent. Tier 3 subordinated notes due 2022 (the "**2022 Notes**"). On 20 March 2017, PGH Cayman was substituted in place of PGH Capital as issuer of the 2022 Notes. On 5 May 2017, PGH Cayman completed the issue of a further £150 million of the 2022 Notes (bringing the total outstanding principal amount to £450 million). On 12 December 2018, Phoenix was in turn substituted in place of PGH Cayman as issuer of the 2022 Notes. The 2022 Notes constitute direct, unsecured and subordinated obligations of Phoenix. On a winding-up of Phoenix or in the event that an administrator of Phoenix is appointed and gives notice that it intends to declare and distribute a dividend, the claims of the holders of the 2022 Notes will rank junior in priority to the claims of all senior creditors of Phoenix, but senior to the 2025 Notes, the 2027 Notes, the 2029 Notes and the RT1 Notes. Unless previously redeemed or purchased and cancelled, the 2022 Notes are scheduled to mature on 20 July 2022, subject to and in accordance with their terms. The 2022 Notes are listed on the LSE.

2025 Notes

On 23 January 2015, PGH Capital issued £428,113,000 6.625 per cent. guaranteed subordinated notes due 2025 guaranteed on a subordinated basis by PGH Cayman (the "**2025 Notes**"). On 20 March 2017, PGH Cayman was substituted in place of PGH Capital as issuer of the 2025 Notes and on 12 December 2018, Phoenix was in turn substituted in place of PGH Cayman as issuer of the 2025 Notes. The 2025 Notes constitute direct, unsecured and subordinated obligations of Phoenix. On a winding-up of Phoenix or in the event that an administrator of Phoenix is appointed and gives notice that it intends to declare and distribute a dividend, the claims of the holders of the 2025 Notes will rank junior in priority to the claims of all senior creditors of Phoenix and the 2022 Notes, but senior to the RT1 Notes. Unless previously redeemed or purchased and cancelled, the 2025 Notes are scheduled to mature on 18 December 2025, subject to and in accordance with their terms. The 2025 Notes are listed on the LSE.

2027 Notes

On 6 July 2017, PGH Cayman issued US$500,000,000 5.375 per cent. Tier 2 notes due 2027 (the "**2027 Notes**"). On 12 December 2018, Phoenix was substituted in place of PGH Cayman as issuer of the 2027 Notes. The 2027 Notes constitute direct, unsecured and subordinated obligations of Phoenix. On a winding-up of Phoenix or in the event that an administrator of Phoenix is appointed and gives notice that it intends to declare and distribute a dividend, the claims of the holders of the 2027 Notes will rank junior in priority to the claims of all senior creditors of Phoenix and the 2022 Notes, but senior to the RT1 Notes. Unless previously redeemed or purchased and cancelled, the 2027 Notes are scheduled to mature on 6 July 2027, subject to and in accordance with their terms. The 2027 Notes are listed on the LSE.

2029 Notes

On 24 September 2018, PGH Cayman issued €500,000,000 4.375 per cent. Tier 2 Notes due 2029 (the "**2029 Notes**"). On 12 December 2018, Phoenix was substituted in place of PGH Cayman as issuer of the 2029 Notes. The 2029 Notes constitute direct, unsecured and subordinated obligations of Phoenix. On a winding-up of Phoenix or in the event that an administrator of Phoenix is appointed and gives notice that it intends to declare and distribute a dividend, the claims of the holders of the 2029 Notes will rank junior in priority to the claims of all senior creditors of Phoenix and the 2022 Notes, but senior to the RT1 Notes. Unless previously redeemed or purchased and cancelled, the 2029 Notes are scheduled to mature on 24 January 2029, subject to and in accordance with their terms. The 2029 Notes are listed on the LSE.

PLL Tier 2 Bonds

In July 2001, Scottish Mutual Assurance Limited (which was then known as Scottish Mutual Assurance plc) issued £200 million 7.25 per cent. undated, unsecured subordinated notes (the "**PLL Tier 2 Bonds**"). With effect from 1 January 2009, as a part of a Part VII Transfer, the PLL Tier 2 Bonds were transferred into the shareholder fund of PLL. The PLL Tier 2 Bonds have no fixed redemption date. The earliest date upon which PLL can redeem the PLL Tier 2 Bonds is on 25 March 2021 and on each fifth anniversary thereafter. In the event of the winding-up of PLL, the right of payment under the PLL Tier 2 Bonds is subordinated to the rights of the higher-ranking creditors (principally policyholders). The PLL Tier 2 Bonds are listed on the Luxembourg Stock Exchange. On 23 December 2014, the terms of the PLL Tier 2 Bonds were amended pursuant to an extraordinary resolution of the holders of the PLL Tier 2 Bonds and a supplemental trust deed effecting such changes in order to ensure that the PLL Tier 2 Bonds were compliant with the requirements of the General Prudential sourcebook as they applied to PLL. The PLL Tier 2 Bonds will continue to be treated as tier 2 capital for up to ten years from 1 January 2016 under the transitional arrangements set out in Solvency II.

RT1 Notes

On 26 April 2018, PGH Cayman issued £500,000,000 fixed rate reset perpetual restricted tier 1 write down notes (the "**RT1 Notes**"). On 12 December 2018, Phoenix was substituted in place of PGH Cayman as issuer of the RT1 Notes. The RT1 Notes constitute direct, unsecured and deeply subordinated obligations of Phoenix and are perpetual securities with no fixed redemption date. The RT1 Notes will bear interest on their principal amount from (and including) 26 April 2018 to (but excluding) 26 April 2028 at a fixed rate of 5.75 per cent. per annum and thereafter at a fixed rate of interest which will be reset on 26 April 2028 (the first call date) and on each fifth anniversary thereafter. Phoenix may at its option redeem the RT1 Notes on the first call date or any interest payment date thereafter. On a winding-up or administration of Phoenix, claims of holders of the RT1 Notes would be subordinated to those of senior creditors of Phoenix and to the holders of any tier 2 and tier 3 notes issued by Phoenix (including, without limitation, the 2025 Notes, the 2027 Notes, the 2029 Notes and the 2022 Notes). Holders of RT1 Notes have an equal right to a return of assets in the winding-up or administration of Phoenix to, and so rank *pari passu* with, the holders of the most senior class or classes of issued preference shares (if any) in the capital of Phoenix from time to time and so ahead of holders of the Phoenix shares. However, notwithstanding such a ranking in a winding-up or administration, upon the occurrence of specific trigger events set out in the terms of the RT1 Notes (including a breach of certain solvency capital requirements), each of the RT1 Notes will be permanently and automatically written down to zero and in such certain circumstances the holders of the RT1 Notes will have no claim in the winding-up or administration of Phoenix. The RT1 Notes also contain provisions for the mandatory cancellation of interest in certain circumstances and also on a discretionary basis. The RT1 Notes are listed on the LSE.

Credit Facilities

For further information on the Group's previous credit facilities and agreements, see paragraph entitled "*Equity Raise and Debt Refinancing*" above.

For further information on the Group's current Revolving Credit Agreement, see paragraph entitled "*Equity Raise and Debt Refinancing*" above and paragraph 12.1.10 ("*Revolving Credit Agreement*") in Part XV ("*Additional Information—Material Contracts*") of this document.

Indebtedness

During the six months ended 30 June 2019, cash receipts from Phoenix Life Companies were £287 million and finance costs attributable to owners were £63 million, resulting in a cash coverage ratio of 4.6:1. The cash coverage ratio (cash receipts: finance costs attributable to owners) is an indicator of the ability of the Group to meet its debt servicing costs, subject to any necessary regulatory permissions to loan or dividend up such cash amounts and any other regulatory restrictions on payments.

As at 31 December 2019, the Group had the following indebtedness, stated on a basis consistent with the Group's IFRS statement of financial position:

	As at 31 December 2019
	(£ million)
Total current debt	
Secured[(1)]	12
Total current debt	**12**
Total non-current debt (excluding current portion of the long-term debt)	
Secured[(1)]	121
Unguaranteed / Unsecured[(2)]	1,989
Total non-current debt	**2,110**

Notes:

(1) Secured debts related to the £120 million 7.59 per cent. Class A2 limited recourse bonds, with an outstanding principal of £34 million as at 31 December 2019, secured against embedded value on a block of policies within PLAL and the Property Reversions loan from Santander UK plc, secured against related residential property reversions. These borrowings are classified as policyholder borrowings as they have either no or limited shareholder exposure, for example, borrowings attributable to the Group's with-profit operations and are stated at their fair value.

(2) The £200 million PLL Tier 2 Bonds and the £500 million RT1 Notes are undated and unsecured. The £428 million subordinated notes (the 2025 Notes), the £450 million Tier 3 subordinated notes (the 2022 Notes), the US $500 million Tier 2 notes (the 2027 Notes) and the €500 million Tier 2 notes (the 2029 Notes) are dated and unsecured. The right of payment under the notes is subordinated to the rights of higher-ranking creditors (notably policyholders). The £300 million senior unsecured bond (the Senior Bonds) (of which £122 million is outstanding as at 31 December 2019) is dated and unsubordinated. These borrowings are stated on an amortised cost basis.

The Group has no indirect and contingent indebtedness.

Capitalisation

	As at 30 June 2019
	(£ million)
Shareholders' equity	
Share capital	72
Share premium	1
Shares held by the employee trust	(4)
Foreign currency translation reserve	103
Owner-occupied property revaluation reserve	5
Cash flow hedging reserve	15
Retained earnings	4,815
Total capitalisation	5,007

There has been no material change in the issued share capital of the Company since 30 June 2019.

Quantitative and qualitative disclosures about market risk

Quantitative and qualitative disclosures about market risk are included in the "*Risk Management*" section on pages 12 to 15 of the 2019 Interim Report, pages 39 to 46 of the Group's Annual Report and Accounts for the year ended 31 December 2018 and Note E6 to the audited consolidated financial statements included in the Group's Annual Report and Accounts for the year ended 31 December 2018, pages 32 to 37 of the Group's Annual Report and Accounts for the year ended 31 December 2017 and Note E6 to the audited consolidated financial statements included in the Group's Annual Report and Accounts for the year ended 31 December 2017, pages 34 to 39 of the Group's Annual Report and Accounts for the year ended 31 December 2016 and Note E6 to the audited consolidated financial statements included in the Group's Annual Report and Accounts for the year ended 31 December 2016, which are incorporated by reference into this document as set out in Part XVI ("*Documents Incorporated by Reference*").

Critical accounting policies

The critical accounting policies of Phoenix are set out in Note A3 of the audited consolidated financial statements included in the Group's Annual Report and Accounts for the year ended 31 December 2018 and the critical accounting policies of PGH Cayman are set out in Note A3 of the audited consolidated financial statements included in the Group's Annual Report and Accounts for the years ended 31 December 2017 and 2016, which are incorporated by reference into this document as set out in Part XVI ("*Documents Incorporated by Reference*").

PART VII — OPERATING AND FINANCIAL REVIEW OF STANDARD LIFE ASSURANCE

The following operating and financial review is intended to convey the Directors' perspective on the operating performance and financial condition of Standard Life Assurance from 1 January 2016 to 31 December 2017. The discussion should be read in conjunction with the rest of this document and the combined historical financial information of Standard Life Assurance as at and for the years ended 31 December 2017 and 2016, which is incorporated by reference as described in Part XVI ("Documents Incorporated by Reference") of this document. The following discussion contains forward-looking statements that involve risks and uncertainties that could cause the actual results of Standard Life Assurance to differ from those expressed or implied by such forward-looking statements. These risks and uncertainties are discussed in the section of this document headed "Risk Factors" and elsewhere in this document. See "Cautionary note regarding forward-looking statements" in the section of this document headed "Important Information".

The discussion contained herein relates to, and all financial information has been extracted without material adjustment from, the combined historical financial information of Standard Life Assurance as at and for the years ended 31 December 2017 and 2016, which is incorporated by reference as described in Part XVI ("Documents Incorporated by Reference") of this document. Standard Life Assurance has not comprised a separate legal entity or group of entities for the years ended 31 December 2017 and 2016. The combined historical financial information of Standard Life Assurance as at and for the years ended 31 December 2017 and 2016 was prepared specifically for the purpose of the SLA Acquisition Prospectus, has been prepared on a basis that combines the results, assets and liabilities, and cash flows of Standard Life Assurance by applying the principles underlying the consolidation procedures relating to the elimination of intercompany transactions under IFRS 10 'Consolidated Financial Statements' for each of the years ended 31 December 2017 and 2016 and as at these dates. On such basis, the combined historical financial information of Standard Life Assurance as at and for the years ended 31 December 2017 and 2016 sets out the combined balance sheet as at 31 December 2017 and 2016 and the results of operations and cash flows for the years then ended.

The combined historical financial information of Standard Life Assurance as at and for the years ended 31 December 2017 and 2016 has been prepared in accordance with the basis of preparation set out in Part IX ("Financial Information of Standard Life Assurance") of the SLA Acquisition Prospectus. It has been prepared in accordance with IFRS as adopted by the European Union and the IFRS Interpretation Committee interpretations, except as described in Part IX ("Financial Information of Standard Life Assurance") of the SLA Acquisition Prospectus.

This section also includes a discussion of Standard Life Assurance's liquidity and capital resources.

Key factors affecting Standard Life Assurance's results of operations and comparability

The following paragraphs describe the key factors which affected the results of operations of Standard Life Assurance during the period from 1 January 2016 to 31 December 2017 and/or which may affect the results of operations of Standard Life Assurance in subsequent periods, including the results and operations of the Group in periods following completion of the SLA Acquisition.

Mortality and longevity

The results of operations and cashflows from Standard Life Assurance may be affected by changes in mortality and longevity rates. Increased longevity rates result in pay-outs to holders of annuities over a longer period. The business manages its exposure to changes in mortality and longevity rates by holding prudent reserves based on assumptions that reflect past experience and anticipated future trends.

Annual management charges

The results of operations and cashflows from Standard Life Assurance may be affected by the changes in levels of assets under administration ("**AUA**") and the impact such changes have on annual management charges. An increase in AUA will lead to an increase in annual management charges levels. Changes in AUA are driven by a combination of market movements and net flows from customers.

Provision for annuity sales practices relating to enhanced annuities

On 14 October 2016, the FCA published a further report on its thematic review of non-advised annuity sales practices (TR16/7). SLAL was a participant in that review. The FCA looked at whether firms provided sufficient information to their customers about their potential eligibility for enhanced annuities.

At the request of the FCA, SLAL conducted a review of non-advised annuity sales (with a purchase price above a minimum threshold) to customers eligible to receive an enhanced annuity from 1 July 2008 until 31 May 2016. The purpose of this review was to identify whether these customers received sufficient information about enhanced annuities to make the right decisions about their purchase, and, where appropriate, provide redress to customers who suffered loss as a result of not having received sufficient information.

SLAL provided for an estimate of the redress payable to SLAL annuity customers, as well as the costs of conducting the review and other related costs and expenses. The provision in respect of this was £248 million as at 31 December 2017 (£175 million as at 31 December 2016).

The FCA's review has now completed and SLAL received a final notice in July 2019 which imposed a financial penalty on the entity of £31 million. SLAL has agreed to settle in accordance with the final notice and accordingly a provision of that amount has been recognised in the Group's results as at 30 June 2019.

Under the terms of the SLA Acquisition, Standard Life Aberdeen provided PGH Cayman with the SLA Deed of Indemnity, with a duration of up to four years from the date of the SLA Acquisition, relating to SLAL's review and redress programme in respect of historical non-advised sales of pension annuities, and the FCA's investigation of those sales practices. The SLA Deed of Indemnity covers regulatory fines and associated adviser fees, and accordingly, a reimbursement asset of £31 million has been recognised in the Group's results as at 30 June 2019 in other receivables in respect of amounts recoverable from Standard Life Aberdeen.

For further information, see "*FCA Thematic review provision—SLAL*" of Part VI ("*Operating and Financial Review of the Group*").

Description of key line items

The following descriptions of key line items in the combined historical financial information of Standard Life Assurance as at and for the years ended 31 December 2017 and 2016 are relevant to the discussion of Standard Life Assurance's results of operations.

Premiums

Premiums received on insurance contracts and participating investment contracts are recognised as revenue when due for payment, except for unit-linked premiums which are accounted for when the corresponding liabilities are recognised. For single premium business, this is the date from which the policy is effective. For regular (and recurring) premium contracts, receivables are established at the date when payments are due.

Contributions received on non-participating investment contracts are treated as policyholder deposits and not reported as revenue on the income statement.

Fees

All fees related to unit-linked non-participating investment contracts are deemed to be associated with the provision of investment management services. Fees related to the provision of investment management services and administration services are recognised as the services are provided. Front-end fees, which are charged at the inception of service contracts, are deferred as a liability and recognised over the life of the contract. Ongoing fees that are charged periodically, either directly or by making a deduction from invested funds, are recognised as received, which corresponds to when the services are provided.

Commissions received or receivable are recognised as revenue on the commencement or renewal date of the related policies. However, when it is probable that Standard Life Assurance will be required to render further services during the life of the policy, the commission is deferred as a liability and is recognised as the services are provided.

Other fee income is related to the development and distribution of technology for the management and administration of employee benefits and the provision of management services are stated net of VAT. Fee income deriving from support contracts and fixed term licences are recognised over the relevant contract periods. Fee income deriving from the delivery of professional services is calculated with reference to the value of the work performed to date as a proportion of total contract value. Fee income deriving from the supply of other goods and services is recognised following the provision of goods and services.

Investment return

Gains and losses resulting from changes in both market value and foreign exchange on investments classified as fair value through profit or loss ("**FVTPL**"), including investment income received are recognised in the income statement in the period in which they occur. The gains and losses include investment income received such as interest payments, but excludes dividend income. Dividend income is recognised in the income statement when the right to receive payment is established.

Rental income is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted such as rent free periods are recognised as an integral part of the total rental income and are spread over the term of the lease.

Changes in the fair value of derivative financial instruments that are not hedging instruments are recognised immediately in the income statement.

Interest income on loans and receivables is separately recognised in the income statement using the effective interest rate method.

Claims and benefits paid

Claims paid on insurance contracts and participating investment contracts are recognised as expenses in the income statement.

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 the insurance liability. Death claims and all other claims are accounted for when notified.

Claims payable include the direct costs of settlement. Reinsurance recoveries are accounted for in the same period as the related claim.

Withdrawals paid out to policyholders on non-participating investment contracts are treated as a reduction to policyholder deposits and not recognised as expenses in the income statement.

Change in insurance and participating investment contract liabilities

The change in insurance and participating investment contract liabilities comprising the full movement in the corresponding liabilities during the period is recognised in the income statement.

Change in investment contract liabilities

Investment return and related benefits credited in respect of non-participating investment contracts are recognised in the income statement as changes in investment contract liabilities.

Change in unallocated divisible surplus ("UDS")

The change in UDS recognised in the income statement comprises the movement in the UDS during the period. However, where movements in assets and liabilities which are attributable to participating policyholders are recognised in other comprehensive income, the change in UDS arising from these movements is not recognised in the income statement as it is also recognised in other comprehensive income.

Change in third party interest in consolidated funds

When Standard Life Assurance is considered to control an investment vehicle, such as an open-ended investment company, a unit trust or limited partnership, and it is therefore consolidated, the interests of parties other than Standard Life Assurance are assessed to determine whether they should be classified as liabilities or as non-controlling interests. The liabilities are recognised in third party interest in consolidated funds line in the combined statement of financial position and any movements are recognised in the combined income statement. The financial liability is designated at fair value through profit or loss as it is implicitly managed on a fair value basis as its value is directly linked to the market value of the underlying portfolio of assets. The interests of parties other than Standard Life Assurance in all other types of entities are recorded as non-controlling interests.

Expenses under arrangements with reinsurers

Standard Life Assurance has reinsured the longevity and investment risk related to a portfolio of annuity contracts held within its Heritage With Profits Fund. At inception of the reinsurance contract the reinsurer was required to deposit an amount equal to the reinsurance premium with Standard Life Assurance. Interest is payable on the deposit at a floating rate. Standard Life Assurance maintains a ring fenced pool of assets to back this deposit liability. Annuity payments under the reinsured contracts are made by Standard Life Assurance from the ring fenced assets and the deposit liability is reduced by the amount of these payments. Periodically Standard Life Assurance is required to pay to the reinsurer or receive from the reinsurer premium adjustments defined as the difference between the fair value of the ring fenced assets and the deposit amount, such that the deposit amount equals the fair value of the ring fenced assets. This has the effect of ensuring that the investment risk on the ring fenced pool of assets falls on the reinsurer. The investment return on the ring fenced assets included in investment return in the consolidated income statement is equal to these expenses under arrangements with reinsurers.

Administrative expenses

Administrative expenses comprise expenses relating to management expenses, salaries for employers, commission expenses, investment management expenses, deferral and amortisation of acquisition costs. Administrative expenses are recognised on an accruals basis.

Finance costs

Finance costs primarily relate to interest payable on a £300 million intercompany borrowing which was repaid in August 2018.

Results of operations of Standard Life Assurance for the years ended 31 December 2017 and 2016

The table below sets forth Standard Life Assurance's combined results of operations for the years ended 31 December 2017 and 2016. All results derive from continuing operations.

	Year ended 31 December	
	2017	**2016**
	(£ million)	
Revenue		
Gross earned premium	2,099	2,030
Premium ceded to reinsurers	(45)	(46)
Net earned premium	**2,054**	**1,984**
Investment return	12,801	15,421
Fee income	633	619
Other income	28	30
Total net revenue	**15,516**	**18,054**
Expenses		
Claims and benefits paid	4,397	4,766
Claim recoveries from reinsurers	(480)	(492)
Net insurance benefits and claims	3,917	4,274
Change in reinsurance assets	567	126
Change in insurance and participating contract liabilities	(1,392)	2,064
Change in non-participating investment contract liabilities	8,873	8,776
Change in unallocated divisible surplus	61	106
Change in third party interest in consolidated funds	1,537	443
Expenses under arrangements with reinsurers	202	509
Administrative expenses	1,075	1,045
Provision for annuity sales practices	100	175
Finance costs	25	25
Total expenses	**14,965**	**17,544**

	Year ended 31 December	
	2017	**2016**
	(£ million)	
Profit before tax	**551**	**510**
Tax expense attributable to policyholders' returns	159	233
Profit before tax attributable to equity holders profits	**392**	**277**
Total tax expense	207	271
Less: Tax expense attributable to policyholders' returns	(159)	(233)
Tax expense attributable to shareholders' profits	48	38
Profit for the year	**344**	**239**
Attributable to:		
Net parent investment	286	160
Non-controlling interest – Subordinated notes	34	34
Non-controlling interest – Other	24	45
Total profit attributable to holders	**344**	**239**

Net earned premium

Net earned premiums increased by £70 million, or 4 per cent., to £2,054 million for the year ended 31 December 2017 from £1,984 million for the year ended 31 December 2016. This increase was primarily due to an increase in premium income from the offshore bond product, which had recorded lower premium income in 2016.

Investment return

The table below sets forth a breakdown of Standard Life Assurance's net investment return for the years ended 31 December 2017 and 2016.

	Year ended 31 December	
	2017	**2016**
	(£ million)	
Financial instruments other than those at FVTPL		
Interest income		
Cash and cash equivalents	48	79
Loans	36	22
Other	2	6
	86	107
Foreign exchange losses on instruments other than at FVTPL	(73)	(90)
Gains on financial instruments other than those at FVTPL	**13**	**27**
Financial instruments at FVTPL		
Dividend income	2,225	2,033
Gains/(losses) on financial instruments held at FVTPL(1)		
Equity securities and interests in pooled investment funds	8,686	9,911
Debt securities	1,287	6,914
Derivative financial instruments	(354)	(3,702)
Loans	26	9
Assets held for sale	(2)	1
	9,643	13,134
Gains on financial instruments held at FVTPL	**11,868**	**15,166**
Investment property		
Rental income	430	369
Net fair value gains/(losses) on investment property	490	(141)
	920	228
Total investment return	**12,801**	**15,421**

Note:

(1) Gains/(losses) including interest income, excluding dividend income.

Investment return decreased by £2,620 million, or 17 per cent., to £12,801 million for the year ended 31 December 2017 from £15,421 million for the year ended 31 December 2016. Whilst investment return was positive in both periods, the reduction in 2017 was due to the reduction in yields being lower in 2017 than in 2016, generating a smaller fair value gain on debt securities.

Fee income

Fee income increased by £14 million, or 2 per cent., to £633 million for the year ended 31 December 2017 from £619 million for the year ended 31 December 2016. This increase principally reflects the growth in annual management charges in line with increasing AUA.

Other income

Other income decreased by £2 million, or 7 per cent., to £28 million for the year ended 31 December 2017 from £30 million for the year ended 31 December 2016. Other income decreased by £13 million, or 30 per cent., to income of £30 million for the year ended 31 December 2017 from income of £43 million for the year ended 31 December 2016.

Total net revenue

As a result of the foregoing factors, total net revenue of Standard Life Assurance decreased by £2,538 million, or 14 per cent., to £15,516 million for the year ended 31 December 2017 from £18,054 million for the year ended 31 December 2016.

Net insurance benefits and claims

Net insurance benefits and claims decreased by £357 million, or 8 per cent., to £3,917 million for the year ended 31 December 2017 from £4,274 million for the year ended 31 December 2016. This decrease was primarily due to claims in the UK business reducing over time due to a reduction in the size of Standard Life Assurance's older style book of business.

Change in reinsurance assets

Change in reinsurance assets increased by £441 million to a £567 million reduction in reinsurance assets for the year ended 31 December 2017 from a £126 million reduction for the year ended 31 December 2016. As the reinsurance business runs off a reduction in reinsurance assets is expected. However, in 2016 the reduction was somewhat offset by the relatively large reduction in yields in 2016.

Change in insurance and participating contract liabilities

Change in insurance and participating contract liabilities increased by £3,456 million to a credit of £1,392 million for the year ended 31 December 2017 from a debit of £2,064 million for the year ended 31 December 2016.

The change in insurance and participating contract liabilities line includes the impact of net outflows in this older class of business leading to a decrease in liabilities. In 2016, the impact of net outflows was offset by the impact of higher investment gains and the relatively large yield reduction leading to an increase in liabilities.

Change in non-participating investment contract liabilities

Change in non-participating investment contract liabilities increased by £97 million, or 1 per cent., to £8,873 million for the year ended 31 December 2017 from £8,776 million for the year ended 31 December 2016, primarily due to investment performance on the assets underlying the non-participating investment contract business.

Change in unallocated divisible surplus

Change in unallocated divisible surplus decreased by £45 million, or 42 per cent., to £61 million for the year ended 31 December 2017 from £106 million for the year ended 31 December 2016.

Change in third party interest in consolidated funds

Change in third party interest in consolidated funds increased by £1,093 million to £1,537 million for the year ended 31 December 2017 from £444 million for the year ended 31 December 2016, primarily due to the impact of positive investment return which enhanced the third party share of the consolidated investment funds.

Expenses under arrangements with reinsurers

Expenses under arrangements with reinsurers decreased by £307 million, or 60 per cent., to £202 million for the year ended 31 December 2017 from £509 million for the year ended 31 December 2016. This relates to the deposit back arrangement with Canada Life and equates to passing back to Canada Life the investment return on the debt securities in the deposit back. The decrease in 2017 is due to 2016 having higher investment return on the debt securities in the deposit back, due to the higher reduction in yields in 2016.

Administrative expenses

Administrative expenses increased by £30 million, or 3 per cent., to £1,075 million for the year ended 31 December 2017 from £1,045 million for the year ended 31 December 2016, reflecting lower commission expenses, investment management expenses and staff costs in 2016.

Provision for annuity sales practices

In the year ended 31 December 2016 a provision of £175 million was created as the FCA's review into the sale of non-advised annuities determined that some of the sales that Standard Life Assurance made since July 2008 did not adequately explain to customers that they may have been eligible for an enhanced annuity.

The provision for historic annuity sales practices increased by £100 million in the year ended 31 December 2017, following further analysis work and an update to assumptions based on sample testing following the receipt of the FCA redress calculator in early 2018.

Finance costs

Finance costs were £25 million for the years ended 31 December 2017 and 31 December 2016.

Profit before tax

As a result of the foregoing factors, Standard Life Assurance's profit before tax increased by £41 million, or 8 per cent., to £551 million for the year ended 31 December 2017 from £510 million for the year ended 31 December 2016.

Total tax expense

Total tax expense decreased by £64 million, or 24 per cent., to £207 million for the year ended 31 December 2017 from £271 million for the year ended 31 December 2016. The decrease principally reflects a lower policyholder tax charge in line with the reduction in investment return in 2017.

Profit for the year attributable to net parent investment

As a result of the foregoing factors, the profit for the year attributable to the owners of Standard Life Assurance increased by £126 million, or 79 per cent., to £286 million for the year ended 31 December 2017 from £160 million for the year ended 31 December 2016.

Profit for the year attributable to Non-controlling interest – Subordinated notes

Profit for the year attributable to the subordinated notes remained constant at £34 million in the years ended 31 December 2017 and 31 December 2016. The subordinated notes have been classified as non-shareholders' equity under IFRS with interest payments being treated as an appropriation of profit attributable to holders of the notes.

Profit for the year attributable to Non-controlling interest – Other

Non-controlling interest decreased by £21 million to £24 million for the year ended 31 December 2017 from £45 million for the year ended 31 December 2016. This item is driven by the performance of investment funds in which third parties have a holding.

Operating profit for Standard Life Assurance for the years ended 31 December 2017 and 2016

Operating profit as presented by Standard Life Assurance for the years ended 31 December 2017 and 2016 is a non-GAAP financial measure and is not a measure of financial performance under IFRS. Standard Life Assurance presented operating profit for the years ended 31 December 2017 and 2016 because it is less affected by short-term external market impacts than IFRS measures of performance and therefore in Standard Life Assurance's view it provided a better basis for assessing trends in the operational performance of Standard Life Assurance over time. Operating profit represents the normalised long-term investment return in that it excludes short-term fluctuations in investment returns and other items considered to be non-operating by management. Operating profit should not be considered in isolation as an alternative to profit or loss for the year before tax or other data presented in the financial statements as indicators of financial performance. As it is not determined in accordance with IFRS, operating profit may not be comparable to other similarly titled measures of performance of other companies.

Operating profit is based on expected investment returns on financial investments backing owners and policyholder funds over the reporting period, with allowance for the corresponding expected movements in liabilities. Variances between actual and expected investment returns, and the impact of changes in economic assumptions on liabilities, are disclosed separately outside adjusted profit.

Operating profit is presented before the deduction of the following non-operating items:

- amortisation and impairment of acquired intangible assets;
- finance costs attributable to owners;
- provision for annuity sales practices;
- other non-operating items, which include:
  - gains or losses on the disposal of subsidiaries, associates or joint ventures;
  - the financial impacts of mandatory regulatory change; and
  - integration, restructuring or other significant one-off projects; and
- any other items which, in the Directors' view, should be excluded by virtue of their nature or incidence to enable a full understanding of the Group's financial performance.

For a reconciliation of operating profit to IFRS profit for the year attributable to owners, see "*Reconciliation of Standard Life Assurance's operating profit for the years ended 31 December 2017 and 2016*".

Analysis of Standard Life Assurance's operating profit

The following table is an analysis of Standard Life Assurance's operating profit for the years ended 31 December 2017 and 2016.

	Year ended 31 December	
	2017	**2016**
	(£ million)	
Fee based revenue	790	748
Spread/risk margin	148	110
Operating income	938	858
Operating expenses	(611)	(548)
Capital management	39	53
Operating profit before adjusting items	**366**	**363**

Fee based revenue

Fee based revenue increased by £42 million, or 6 per cent., to £790 million for the year ended 31 December 2017 from £748 million for the year ended 31 December 2016, benefitting from higher opening AUA due to net inflows and market movements.

Spread/risk margin

Spread/risk margin increased by £38 million, or 35 per cent., to £148 million for the year ended 31 December 2017 from £110 million for the year ended 31 December 2016. The increase was largely driven by the impact of operating assumption and actuarial reserving changes in the UK which provided a £79 million benefit (2016: £38 million), primarily from mortality assumption changes. The Europe spread/risk result was impacted by adverse mortality experience in Ireland and refinements to Standard Life Assurance's reserving methodology in Germany.

Operating expenses

Operating expenses increased by £63 million, or 11 per cent., to £611 million for the year ended 31 December 2017 from £548 million for the year ended 31 December 2016. The 2017 result includes a £31 million impairment of intangible assets, which arose due to the discontinuation of part of an IT transformation project and a £16 million cost of specific remediation. Investment expenses payable to Aberdeen Standard Investments also increased by £9 million in line with higher AUA.

Capital management

The capital management result decreased by £14 million, or 26 per cent., to £39 million for the year ended 31 December 2017 from £53 million for the year ended 31 December 2016. The decrease is attributable to a lower expected return on the assets backing subordinated debt and a reduction in the IAS 19 Pension Scheme net interest credit, reflecting lower opening yields.

Reconciliation of Standard Life Assurance's operating profit for the years ended 31 December 2017 and 2016

The following table reconciles Standard Life Assurance's operating profit before tax to IFRS profit after tax for the years ended 31 December 2017 and 2016.

	Year ended 31 December	
	2017	**2016**
	(£ million)	
Operating profit before adjusting items	**366**	**363**
Adjusted for the following items:		
Investment return variances and economic assumption changes on long-term business	135	50
Variance on owners' funds	(3)	26
Provision for annuity sales practices	(100)	(175)
Other	(10)	(12)
Profit before finance costs attributable to owners	**388**	**252**
Finance costs attributable to owners	(20)	(20)
Profit attributable to non-controlling interests – other	24	45
Profit before tax attributable to equity holders profits	**392**	**277**
Shareholder tax	(48)	(38)
Profit after tax attributable to net investment	**344**	**239**

Investment return variances and economic assumption changes

Investment return variances and economic assumption changes increased by £85 million to £135 million for the year ended 31 December 2017 from £50 million for the year ended 31 December 2016. This variance largely relates to investment variances on assets and liabilities in relation to Standard Life Assurance's annuity business.

Variance on owners' funds

Variance on owners' funds decreased by £29 million to a negative variance on owners' funds of £3 million for the year ended 31 December 2017 compared to a positive variance on owners' funds of £26 million for the year ended 31 December 2016. The 2016 result was favourable due to the relatively large reduction in yields in 2016, which gave investment gains on the assets backing subordinated debt.

Provision for annuity sales practices

In the year ended 31 December 2016 a provision of £175 million was created as the FCA's review into the sale of non-advised annuities determined that some of the sales that Standard Life Assurance made since July 2008 did not adequately explain to customers that they may have been eligible for an enhanced annuity.

The provision for historic annuity sales practices increased by £100 million in the year ended 31 December 2017, following further analysis work and an update to assumptions based on sample testing following the receipt of the FCA redress calculator in early 2018.

Other items

Other items decreased by £2 million, or 17 per cent., to £10 million for the year ended 31 December 2017 from £12 million for the year ended 31 December 2016.

Finance costs attributable to owners

Finance costs attributable to owners have remained stable, reflecting the ongoing cost of the subordinated debt liabilities. The finance costs were £20 million for the years ended 31 December 2017 and 31 December 2016.

Profit attributable to non-controlling interests – other

Profit attributable to non-controlling interest – other, decreased by £21 million, or 47 per cent., to £24 million for the year ended 31 December 2017 from £45 million for the year ended 31 December 2016. This item is driven by the performance of investment funds in which third parties have a holding.

Shareholder tax

Shareholder tax increased by £10 million, or 26 per cent., to a £48 million charge for the year ended 31 December 2017 compared to a charge of £38 million for the year ended 31 December 2016, in line with higher profits.

Regulatory capital requirements

The following table sets out a reconciliation from the Solvency II balance sheet to the Solvency II Own Funds for Standard Life Assurance as at 31 December 2017.

	As at 31 December 2017	
	(£ million)	
Assets	Audited	161,079
Technical provisions	Unaudited	146,140
BEL	*Audited*	145,942
Risk Margin	*Unaudited*	1,433
TMTP	*Unaudited*	(1,235)
Other liabilities	Audited	8,783
Excess of assets over liabilities	**Unaudited**	**6,156**
Subordinated debt	Audited	1,023
RFF restriction	Unaudited	(921)
Standard Life Assurance Own Funds	**Unaudited**	**6,258**

On a Solvency II basis, using the Internal Model approved by the PRA for the insurance companies included within Standard Life Assurance, as at 31 December 2017 Standard Life Assurance had a SCR of £3,148 million (unaudited).

Contingent liabilities

In the normal course of business, Standard Life Assurance is exposed to certain legal issues, which involve litigation and arbitration. As at 31 December 2017, Standard Life Assurance had a number of contingent liabilities in this regard, none of which were considered by the Directors to be material.

Capitalisation and dividends

Capitalisation

As Standard Life Assurance was not a separate legal group as at and for the years ended 31 December 2017 and 2016 and has not previously prepared standalone financial statements, it is not meaningful to disclose share capital or an analysis of reserves. The net assets of Standard Life Assurance as at

31 December 2017 and 2016 are represented by the cumulative investment of the Standard Life Aberdeen group (the owners of Standard Life Assurance prior to completion of the SLA Acquisition) in Standard Life Assurance and disclosed as net parent investment.

Dividends

SLAL declared dividends to its parent of £312 million in respect of 2017 and £180 million in respect of 2016. Dividends were paid by reference to excess shareholder cash over planned expenditure and capital requirements. The increase in the 2017 dividend was primarily due to higher profits than in previous years.

Quantitative and qualitative disclosures about market risk

Quantitative and qualitative disclosures about market risk are included in Note 34 – Risk management of the combined historical financial information of Standard Life Assurance as at and for the years ended 31 December 2017 and 2016 contained in Part IX ("*Financial Information of Standard Life Assurance*") of the SLA Acquisition Prospectus, which is incorporated by reference as described in Part XVI *("Documents Incorporated by Reference")* of this document.

Critical accounting policies

The critical accounting policies of Standard Life Assurance are set out in Note 1 of the combined historical financial information of Standard Life Assurance as at and for the years ended 31 December 2017 and 2016 contained in Part IX ("*Financial Information of Standard Life Assurance*") of the SLA Acquisition Prospectus, which is incorporated by reference as described in Part XVI *("Documents Incorporated by Reference")* of this document.

PART VIII — FINANCIAL INFORMATION OF THE REASSURE GROUP

PART A: UNAUDITED CONSOLIDATED FINANCIAL INFORMATION OF THE REASSURE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2019

Condensed consolidated income statement

For the 6 months ended 30 June 2019

	Note	6 months ended 30 June 2019	6 months ended 30 June 2018	Year ended 31 December 2018
		£m	£m	£m
Revenue				
Gross premiums written		234.1	225.6	447.4
Less: premiums ceded to reinsurers		(196.3)	(202.2)	(403.1)
Net premium revenue		**37.8**	**23.4**	**44.3**
Revenue from other activities		91.0	84.1	183.8
Investment income/(expense)	4	3,687.3	170.1	(1,199.6)
Other Income		14.1	16.2	34.5
Net income/(expense)		**3,830.2**	**293.8**	**(937.0)**
Expenses				
Policyholder claims		(857.8)	(933.4)	(1,865.6)
Less: claims recovered from reinsurers		221.6	231.8	462.1
Change in insurance contract liabilities		(623.0)	1,254.2	2,089.8
Change in investment contract liabilities		(2,217.8)	(296.3)	877.8
Change in reinsurers' share of insurance contract liabilities		113.2	(116.6)	(131.3)
Transfer to unallocated divisible surplus		(11.1)	5.4	26.0
Net policyholder claims and benefits incurred		**(3,374.9)**	**145.1**	**1,458.8**
Administration expenses	5	(216.5)	(190.8)	(410.0)
Total (expenses)/income		**(3,591.4)**	**(45.7)**	**1,048.8**
Profit before finance costs and tax		**238.8**	**248.1**	**111.8**
Finance costs		(6.2)	(1.9)	(7.0)
Profit before tax		**232.6**	**246.2**	**104.8**
Tax on profit for the period/year	6	(82.2)	(54.6)	(13.1)
Profit for the period/year		**150.4**	**191.6**	**91.7**
All results derive from continuing operations				
Earnings per share				
From continuing operations				
Basic (pence per share)	22	15.04	19.16	9.17
Diluted (pence per share)	22	15.04	19.16	9.17

Condensed consolidated statement of comprehensive income

For the 6 months ended 30 June 2019

	Note	6 months ended 30 June 2019	6 months ended 30 June 2018	Year ended 31 December 2018
		£m	£m	£m
Profit for the period/year		**150.4**	**191.6**	**91.7**
Other comprehensive income:				
Items that are or may reclassified subsequently to profit or loss:				
Exchange differences on translation of foreign operations		(0.4)	(0.7)	2.4
Items that will not be reclassified to profit or loss:				
Actuarial gain/(loss) on defined benefit pension schemes		(17.5)	30.9	23.4
Movement in related deferred tax		3.0	(13.0)	(11.7)
Owner-occupied land & buildings revaluation		—	—	0.3
Total other comprehensive income/ (expense)		**(14.9)**	**17.2**	**14.4**
Total comprehensive income for the period/ year		**135.5**	**208.8**	**106.1**

Condensed consolidated statement of financial position

As at 30 June 2019

	Note	30 June 2019	30 June 2018	31 December 2018
		£m	£m	£m
Assets				
Present value in-force business		419.4	452.8	435.7
Deferred acquisition costs		554.2	634.1	590.9
Property, plant and equipment		17.0	19.1	17.8
Investment property	7	811.3	851.9	857.9
Financial investments:	9			
Debt securities		19,868.9	19,414.9	19,199.4
Equity securities		14,554.6	13,880.5	13,195.8
Loans		900.9	665.3	732.2
Collective investment schemes		5,443.3	6,574.8	4,623.3
Derivative assets	10	9.8	15.5	13.7
Net pension surplus		—	23.1	15.1
Reinsurers' share of insurance contract liabilities	12	1,879.2	1,771.2	1,764.3
Reinsurance receivables		112.1	68.7	86.8
Insurance contract receivables		18.7	21.0	20.5
Deferred tax asset		41.8	—	58.2
Other financial assets		313.0	312.1	314.0
Other assets		416.2	250.3	210.7
Cash and cash equivalents	11	1,746.4	2,131.7	2,137.6
Total Assets		**47,106.8**	**47,087.0**	**44,273.9**
Liabilities				
Insurance contract liabilities:	12			
Liabilities under insurance contracts		21,765.5	21,967.6	21,140.9
Unallocated divisible surplus		157.7	167.3	146.6
Investment contract liabilities	9, 13	20,968.2	21,490.5	19,552.6
Borrowings	15	972.8	—	—
Deposits received from reinsurers		104.5	120.1	103.9
Provisions		17.5	11.5	20.4
Derivative liabilities	10	119.9	118.5	112.5
Reinsurance payables		39.7	27.9	49.2
Payables related to direct insurance contracts		29.4	34.6	28.5
Claims outstanding		257.1	266.4	254.9
Current tax liability		108.4	43.3	50.3
Deferred tax liability		—	6.7	—
Net pension deficit		2.8	1.8	1.8
Other financial liabilities		6.7	7.7	7.2
Other liabilities		443.6	223.9	308.6
Total Liabilities		**44,993.8**	**44,487.8**	**41,777.4**

Condensed consolidated statement of financial position (continued)

As at 30 June 2019

	Note	30 June 2019	30 June 2018	31 December 2018
		£m	**£m**	**£m**
Equity				
Share capital	17	100.0	73.1	73.1
Share premium	18	—	83.9	83.9
Merger reserve	19	57.0	—	—
Other reserves	20	1,364.7	1,364.0	1,364.4
Retained Earnings	21	591.3	1,078.2	975.1
Total Equity		**2,111.3**	**2,599.2**	**2,496.5**
Total Liabilities and Equity		**47,106.8**	**47,087.0**	**44,273.9**

The condensed consolidated Interim financial statements on pages 3 to 44 were approved by the Board of Directors.

Condensed consolidated statement of changes in equity

	Attributable to owners of the Company					
	Share capital	**Share premium**	**Merger reserve**	**Other reserves**	**Retained earnings**	**Total equity**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
For 6 months ended 30 June 2019						
1 January 2019	73.1	83.9	—	1,364.4	975.1	2,496.5
				—		
Profit for the period	—	—	—	—	150.4	150.4
Other comprehensive income for the period	—	—	—	0.3	(15.2)	(14.9)
Total comprehensive income for the period	**—**	**—**	**—**	**0.3**	**135.2**	**135.5**
Impact of Group Restructure	26.9	(83.9)	57.0	—	—	—
Dividends paid during the period	—	—	—	—	(519.0)	(519.0)
At 30 June 2019	**100.0**	**—**	**57.0**	**1,364.7**	**591.3**	**2,113.0**
For 6 months ended 30 June 2018						
1 January 2018	73.1	83.9	—	1,364.1	1,790.3	3,311.4
Profit for the period	—	—	—	—	191.6	191.6
Other comprehensive income for the period	—	—	—	(0.1)	17.3	17.2
Total comprehensive income for the period	**—**	**—**	**—**	**(0.1)**	**208.9**	**208.8**
Dividends paid during the period	—	—	—	—	(921.0)	(921.0)
At 30 June 2018	73.1	83.9	—	1,364.0	1,078.2	2,599.2
For year ended 31 December 2018						
1 January 2018	73.1	83.9	—	1,364.1	1,790.3	**3,311.4**
Profit for the period	—	—	—	—	91.7	**91.7**
Other comprehensive income for the period	—	—	—	0.3	14.1	**14.4**
Total comprehensive income for the period	**—**	**—**	**—**	**0.3**	**105.8**	**106.1**
Dividends paid during the period	—	—	—	—	(921.0)	**(921.0)**
At 31 December 2018	**73.1**	**83.9**	**—**	**1,364.4**	**975.1**	**2,496.5**

Condensed consolidated cash flow statement

For the 6 months ended 30 June 2019

	Note	6 months ended 30 June 2019	6 months ended 30 June 2018	Year ended 31 December 2018
		£m	£m	£m
Cash flows from operating activities				
Cash used in/from operating activities		(835.8)	73.0	**94.8**
Taxation paid		(7.6)	(171.2)	(188.7)
Net cash (used in)/from operating activities	23	**(843.4)**	**(98.2)**	**(93.9)**
Cash flows from investing activities				
Net purchase of property, plant and equipment		(1.0)	—	(1.7)
Acquisition of subsidiary		—	—	—
Net cash from/(used in) investing activities		**(1.0)**	**—**	**(1.7)**
Net cash used in financing activities				
Ordinary and preference share dividends paid		(519.0)	(921.0)	(921.0)
Issuance of subordinated and intercompany debt		970.0	—	—
Interest accrued on subordinated and intercompany debt		2.6	—	—
Net cash generated from/(used in) financing activities		**453.6**	**(921.0)**	**(921.0)**
Net (decrease)/ increase in cash and cash equivalents		(390.8)	**(1,019.2)**	**(1,016.6)**
Cash and cash equivalents at the beginning of the year		2,137.6	3,151.5	3,151.5
Effect of exchange rate fluctuations on cash held		(0.4)	(0.6)	2.7
Cash and cash equivalents		**1,746.4**	**2,131.7**	**2,137.6**

Notes to condensed consolidated interim financial statements

1 Basis of preparation

The condensed consolidated interim financial statements ('the interim financial statements') for the six months ended 30 June 2019 comprise the interim financial statements of ReAssure Group plc ('the Company') and its subsidiaries (together referred to as 'the Group') as set out on pages 2 to 40.

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 £1.00. 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 changed its name to ReAssure Group plc.

On 9 May 2019, the Company acquired the entire share capital of ReAssure Midco Limited (RML) from Swiss Re Finance Midco (Jersey) Limited (formerly Swiss Re ReAssure Midco Limited), the Company's immediate parent company, settled by the issuance of share capital.

This transaction has been accounted for as a reverse acquisition and in substance these Consolidated financial statements reflect the continuation of the pre-existing group headed by ReAssure Midco Limited. The comparatives presented in these financial statements are the consolidated results of ReAssure Midco Limited and the Statement of Financial position in the prior period 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. The Consolidated Statement of changes in equity explains the impact of this in more detail.

These interim financial statements were authorised for issue by the Board of Directors on 28 August 2019.

The interim financial statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority, and should be read in conjunction with the ReAssure Midco Limited's last annual consolidated financial statements (filed within Part 7 of the ReAssure Group plc IPO registration document) for the year ended 31 December 2018 ('last annual financial statements'). The interim financial statements do not include all of the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual financial statements. Due to the Group being a long-term insurer, there is no seasonality of interim operations, thus no significant fluctuations of income or expenses are expected between each period other than in relation to investment return.

The accounting policies applied in these interim financial statements are the same as those applied in the ReAssure Midco Limited's last annual financial statements as at and for the year ended 31 December 2018, except as stated below.

- *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.

  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.

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. Thus they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

2 Use of judgements and estimates

In preparing these interim financial statements, management has made judgements and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements of ReAssure Midco Limited.

3 Operating segments

The Group defines and presents operating segments based on the information which is provided to the Board, and 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. For reporting purposes, business units are aggregated where they share similar economic characteristics including the nature of products and services, types of customers and the nature of the regulatory environment. As such, ReAssure Life is considered to be the Group's only reportable segment, which includes all the UK insurance activities. The 'Other Group activities' 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, as well as all consolidation adjustments.

Segment performance based on profit or loss and the assets and liabilities of the Group, in certain respects, is presented differently from profit or loss in 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 of the Group's last annual financial statements.

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 after 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 changes;
- 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.

The acquisitive strategy of the Group results in significant one off costs being incurred for integration projects and the creation of Present Value In-Force business ('PVIF') 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 condensed 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.

Segmental income statement for the 6 months ended 30 June 2019

	ReAssure Life			Unallocated Group			Total		
	6 months ended 30 June 2019	6 months ended 30 June 2018	Year ended 31 December 2018	6 months ended 30 June 2019	6 months ended 30 June 2018	Year ended 31 December 2018	6 months ended 30 June 2019	6 months ended 30 June 2018	Year ended 31 December 2018
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Revenue									
Gross premiums written	207.8	197.6	391.9	26.3	28.0	55.5	234.1	225.6	447.4
Less: premiums ceded to reinsurers	(177.5)	(182.3)	(363.5)	(18.8)	(19.9)	(39.6)	(196.3)	(202.2)	(403.1)
Net premium revenue	**30.3**	**15.3**	**28.4**	**7.5**	**8.1**	**15.9**	**37.8**	**23.4**	**44.3**
Revenue from other activities	82.8	75.5	166.4	8.2	8.6	17.4	91.0	84.1	183.8
Investment income	714.3	733.6	1,393.6	25.4	6.4	15.7	739.7	740.0	1,409.3
Net fair value movements on financial assets/liabilities held	2,792.9	(572.7)	(2,532.8)	154.7	2.8	(76.1)	2,947.6	(569.9)	(2,608.9)
Other income	0.8	1.2	6.2	13.3	15.0	28.3	14.1	16.2	34.5
Net (expense)/ income	**3,621.1**	**252.9**	**(938.2)**	**209.1**	**40.9**	**1.2**	**3,830.2**	**293.8**	**(937.0)**
Expenses									
Policyholder claims	(832.5)	(903.2)	(1,806.9)	(25.3)	(30.2)	(58.7)	(857.8)	(933.4)	(1,865.6)
Less: claims recovered from reinsurers	204.3	212.8	428.4	17.3	19.0	33.7	221.6	231.8	462.1
Change in insurance contract liabilities	(500.2)	1,237.9	2,132.5	(122.8)	(7.4)	(42.7)	(623.0)	1,230.5	2,089.8
Change in investment contract liabilities	(2,049.7)	(275.7)	836.4	(168.1)	(20.6)	41.4	(2,217.8)	(296.3)	877.8
Change in reinsurers' share of insurance contract liabilities	(12.0)	(132.7)	(197.5)	125.2	16.5	66.2	113.2	(116.2)	(131.3)
Change in reinsurers' share of investment contract liabilities	—	—	—	—	—	—	—	—	—
Transfer to unallocated divisible surplus	(11.1)	5.4	26.0	—	—	—	(11.1)	5.4	26.0
Net policyholder claims and benefits incurred	**(3,201.2)**	**144.5**	**1,418.9**	**(173.7)**	**(22.7)**	**39.9**	**(3,374.9)**	**121.8**	**1,458.8**
Administration expenses	(107.1)	(120.1)	(270.5)	(109.4)	(70.7)	(139.5)	(216.5)	(190.8)	(410.0)
Total income/(expenses)	**(3,308.3)**	**24.4**	**1,148.4**	**(283.1)**	**(93.4)**	**(99.6)**	**(3,591.4)**	**(69.0)**	**1,048.8**
Profit/(loss) before finance costs and tax	**312.8**	**277.3**	**210.2**	**(74.0)**	**(52.5)**	**(98.4)**	**238.8**	**224.8**	**111.8**
Finance costs	(4.2)	(2.5)	(7.8)	(2.0)	0.6	0.8	(6.2)	(1.9)	(7.0)
Profit/(loss) before tax	**308.6**	**274.8**	**202.4**	**(76.0)**	**(51.9)**	**(97.6)**	**232.6**	**222.9**	**104.8**
Policyholder tax	(41.0)	(13.6)	11.2	(4.2)	(1.2)	(2.1)	(45.2)	(14.8)	9.1
Profit/(Loss) before tax (attributable to owners of the Group)	**267.6**	**261.2**	**213.6**	**(80.2)**	**(53.1)**	**(99.7)**	**187.4**	**208.1**	**113.9**

	ReAssure Life			Unallocated Group			Total		
	6 months ended 30 June 2019	6 months ended 30 June 2018	Year ended 31 December 2018	6 months ended 30 June 2019	6 months ended 30 June 2018	Year ended 31 December 2018	6 months ended 30 June 2019	6 months ended 30 June 2018	Year ended 31 December 2018
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Less:									
Economic experience and assumptions changes on long term business	(113.9)	(107.8)	(2.5)	(0.9)	(0.6)	(1.3)	(114.8)	(108.4)	(3.8)
Amortisation and impairments of intangible assets	36.5	43.4	86.9	16.4	17.4	34.5	52.9	60.8	121.4
External financing costs	—	—	1.0	2.7	(0.1)	(0.8)	2.7	(0.1)	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	(15.8)	7.6	12.9	15.8	(7.6)	(12.9)	—	—	—
Dividends received from subsidiaries, associates and joint ventures	—	(15.8)	(22.3)	—	15.8	22.3	—	—	—
Mandatory regulatory change	—	—	—	—	—	—	—	—	—
Integration, restructuring and other significant one-off projects	34.1	14.0	45.6	15.1	4.0	3.1	49.2	18.0	48.7
Any other items which, in the Directors' view, should be disclosed separately	—	—	—	0.7	—	—	0.7	—	—
Total Adjustments	**(59.1)**	**(58.6)**	**121.6**	**49.8**	**28.9**	**41.9**	**(9.3)**	**(29.7)**	**163.5**
Operating Profit	**217.5**	**202.6**	**335.2**	**(30.4)**	**(24.2)**	**(57.8)**	**178.1**	**178.4**	**277.4**

Segmental statement of financial position as at 30 June 2019

As at	ReAssure Life			Unallocated Group			Total		
	30 June 2019	30 June 2018	December 2018	30 June 2019	30 June 2018	December 2018	30 June 2019	30 June 2018	December 2018
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Assets									
Present value of in-force business	96.0	99.0	97.4	323.4	353.8	338.3	419.4	452.8	435.7
Deferred acquisition costs	531.2	608.1	566.2	23.0	26.0	24.7	554.2	634.1	590.9
Investments in group undertakings	485.4	474.9	469.6	(485.4)	(474.9)	(469.6)	—	—	—
Property, plant and equipment	3.7	3.4	3.7	13.3	15.7	14.1	17.0	19.1	17.8
Investment property	684.5	704.6	720.8	126.8	147.3	137.1	811.3	851.9	857.9
Financial assets	38,497.1	38,898.7	36,215.5	2,280.4	1,652.3	1,548.9	40,777.5	40,551.0	37,764.4
Assets relating to reinsurance activities	1,329.9	1,363.1	1,711.6	661.4	478.0	139.5	1,991.3	1,841.1	1,851.1
Insurance contract receivables	18.7	21.0	20.5	—	—	—	18.7	21.0	20.5
Other assets	664.3	515.3	485.8	106.7	70.2	112.2	771.0	585.5	598.0
Cash and cash equivalents	1,450.1	1,567.6	1,627.8	296.3	564.1	509.8	1,746.4	2,131.7	2,137.6
Reportable segment assets	**43,760.9**	**44,255.7**	**41,918.9**	**3,345.9**	**2,832.5**	**2,355.0**	**47,106.8**	**47,088.2**	**44,273.9**
Liabilities									
Insurance contract liabilities	(21,428.1)	(21,847.0)	(20,913.7)	(752.2)	(584.5)	(628.5)	(22,180.3)	(22,431.5)	(21,542.2)
Investment contract liabilities	(19,408.3)	(19,935.9)	(18,098.5)	(1,559.9)	(1,554.6)	(1,454.1)	(20,968.2)	(21,490.5)	(19,552.6)
Borrowings	(244.0)	(242.9)	(244.3)	(728.8)	242.9	244.3	(972.8)	—	—
Liabilities relating to reinsurance activities	(139.4)	(143.0)	(503.4)	(4.8)	(5.0)	350.3	(144.2)	(148.0)	(153.1)
Payables related to direct insurance contracts	(28.3)	(33.8)	(27.3)	(1.1)	(0.8)	(1.2)	(29.4)	(34.6)	(28.5)
Other Liabilities	(553.7)	(246.4)	(362.2)	(145.2)	(161.5)	(138.7)	(698.9)	(407.9)	(500.9)
Reportable segment liabilities	**(41,801.8)**	**(42,449.0)**	**(40,149.4)**	**(3,192.0)**	**(2,063.5)**	**(1,627.9)**	**(44,993.8)**	**(44,512.5)**	**(41,777.3)**
Reportable segment net assets	**1,959.1**	**1,806.7**	**1,769.5**	**153.9**	**769.0**	**727.1**	**2,113.0**	**2,575.7**	**2,496.6**

Geographical Information

	(Expense)/ Revenue	Net Assets
	£m	£m
As at 30 June 2019		
United Kingdom	3,636.1	1,911.9
Rest of Europe	194.1	201.1
	3,830.2	**2,113.0**
As at 30 June 2018		
United Kingdom	253.8	2,410.5
Rest of Europe	40.0	188.7
	293.8	**2,599.2**
As at 31 December 2018		
United Kingdom	(928.7)	2,301.7
Rest of Europe	(8.3)	194.9
	(937.0)	**2,496.6**

4 Investment income/(expense)

	6 months ended 30 June 2019	6 months ended 30 June 2018	Year ended 31 December 2018
	£m	£m	£m
Rental income from investment property	**18.5**	**16.4**	**36.4**
Income from other investments			
— Debt securities	358.6	385.7	753.1
— Equity securities	340.6	313.4	539.0
Income from financial assets at fair value through profit or loss, held for trading:			
— Derivatives	(2.2)	—	—
Interest income on loans and deposits at amortised cost	—	—	0.1
Other	36.4	24.5	80.7
Total income from other investments	**733.4**	**723.6**	**1,372.9**
Net (losses)/gains on the realisation of investments:			
Financial assets at fair value through profit or loss upon initial recognition:			
— Debt securities	55.8	(13.8)	(20.4)
— Equity securities	196.9	335.2	1,467.7
— Investment properties	5.8	7.2	5.6
Financial assets at fair value through profit or loss, held for trading:			
— Derivatives	(2.6)	(15.7)	(26.8)
— Other	(3.1)	12.2	35.0
Total net gains on the realisation of investments	**252.8**	**325.1**	**1,461.1**
Net unrealised (losses)/gains on investments			
Financial assets at fair value through profit or loss upon initial recognition:			
— Debt securities	830.8	(538.6)	(883.9)
— Equity securities	1,866.1	(362.7)	(3,201.3)
— Investment properties	(19.0)	6.2	22.5
Financial assets at fair value through profit or loss, held for trading:			
— Derivatives	(10.9)	2.6	(4.2)
— Other	15.6	(2.5)	(3.1)
Total net unrealised (losses)/gains on investments	**2,682.6**	**(895.0)**	**(4,070.0)**
Net fair value losses on financial liabilities	—	—	—
Total investment return	**3,687.3**	**170.1**	**(1,199.6)**

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

5 Administration expenses

	6 months ended 30 June 2019	6 months ended 30 June 2018	Year ended 31 December 2018
	£m	£m	£m
Amortisation of PVIF asset	16.3	17.1	34.2
Amortisation of DAC asset	36.6	43.7	87.3
Investment management expenses	24.3	26.0	57.3
FX differences arising on conversion of intercompany dividend payments	—	0.1	0.3
Other administrative expenses	139.3	103.9	230.9
	216.5	**190.8**	**410.0**

Other administrative expenses includes employee benefit related costs and other miscellaneous expenditure.

6 Tax on profit on ordinary activities

a) Analysis of charge in the period

	6 months ended 30 June 2019	6 months ended 30 June 2018	Year ended 31 December 2018
	£m	£m	£m
Current taxation			
UK corporation tax	(38.9)	(30.2)	(42.5)
Other	—	—	—
Adjustments in respect of prior periods	—	2.9	2.9
Total current tax charge for the period/year	(38.9)	(27.3)	**(39.6)**
Business transfer reversal	—	—	—
Deferred taxation			
Origination and reversal of timing differences	2.0	(12.5)	17.4
Business transfer	—	—	—
Impact of rate change	—	—	—
Adjustment in respect of prior periods	—	—	—
Tax charge attributable to the shareholders	(36.9)	(39.8)	(22.1)
Tax credit/(charge) attributable to the policyholders	(45.2)	(14.8)	9.1
Total tax (charge)/credit for the period/year	(82.2)	(54.6)	**(13.1)**

b) Reconciliation of tax charge on profit attributable to shareholders

The tax assessed for the period is lower (6 months ended 30 June 2018: lower, year ended 31 December 2018: higher) than the standard rate of corporation tax in the UK of 19% (6 months ended 30 June 2018: 19%, year ended 31 December 2018: 19%) The differences are explained in the next table:

	6 months ended 30 June 2019	6 months ended 30 June 2018	Year ended 31 December 2018
	£m	£m	£m
Profit on ordinary activities before taxation	232.6	246.1	104.9
Tax on profit on ordinary activities at 19% (6 months ended 30 June 2018: 19%, year ended 31 December 2018: 19%)	(44.2)	(46.8)	(19.9)
Effects of:			
Non-taxable dividend income	—	—	(0.1)
Amounts written off investments	—	—	—
Permanent disallowable items	(3.1)	—	(0.4)
Transfer pricing adjustments	1.7	1.6	3.4
Impairment of subsidiaries	—	—	—
Adjustments in respect of prior years	—	3.1	2.9
Business transfer	—	—	—
Asset written off	—	—	—
Different basis of taxation for UK life insurance companies	8.4	(0.4)	(8.7)
Movement in value of deferred tax asset	—	—	3.0
Movement in value of tax provision	(0.5)	(0.3)	(5.1)
Foreign tax relief	1.3	1.4	2.7
Other	0.2	0.8	0.8
Impact of rate change	(1.0)	1.0	(2.4)
Tax charge attributable to the policyholders	0.3	—	1.7
Total tax (charge)/credit for the period/year attributable to the shareholders	**(36.9)**	**(39.6)**	**(22.1)**
Effective tax rate	15.86%	16.09%	21.04%

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%.

7 Investment property

A reconciliation of the carrying amount of investment properties at the beginning and end of the 6 months ended 30 June 2019 is set out below:

	6 months ended 30 June 2019	**6 months ended 30 June 2018**	**Year ended 31 December 2018**
	£m	**£m**	**£m**
Opening fair value at 1 January	**857.9**	846.9	846.9
Additions	1.5	1.0	2.4
Disposals	(36.6)	(12.8)	(25.4)
Change in fair value	(11.5)	16.8	34.0
Closing fair value at period/year end	811.3	851.9	857.9
Land and buildings at reversionary value	97.5	116.4	108.6
Land and buildings at open market value	713.8	735.5	749.3
	811.3	851.9	857.9

Land and buildings at open market value as at 31 December 2018 were valued by Knight Frank LLP or Savills, both firms of independent chartered surveyors. These are categorised as level 3 of the fair value hierarchy.

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.

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% (6 months ended 30 June 2018: 5%, year ended 31 December 2018: 5%).

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

	Tables	**Long term improvements**
30 June 2019		
Male lives	PML08_HAWP 92.7%	CMI_2017_M [2.00%]
Female lives	PFL08_HAWP 96.3%	CMI_2016_F [2.00%]
30 June 2018		
Male lives	PML08 108.9%	CMI_2016_M [1.75%;S=7.75]
Female lives	PFL08 103.5%	CMI_2016_F =6
31 December 2018		
Male lives	PML08_HAWP 92.7%	CMI_2017_M [2.00%]
Female lives	PFL08_HAWP 96.3%	CMI_2017_F [2.00%]

The mortality assumption is based on the PML08_HAWP (30 June 2018: PML08, 31 December 2018: PML08) table for males and the PFL08_HAWP (30 June 2018: PFL08, 31 December 2018: PFL08) 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.

As at 30 June 2019 the Group had capital commitments in respect of Investment Properties of £1.1m (30 June 2018: £1.5m, 31 December 2018: £1.8m). There were no restrictions on the realisability of investment property or the remittance of income and proceeds of disposal (30 June 2018: none, 31 December 2018: none).

During the year there were no additions resulting from acquisitions through business combinations (30 June 2018: none, 31 December 2018: none)

8 Subsidiaries

Interests in unconsolidated structured entities

The following table details the Group's interests in unconsolidated structured entities and the maximum exposure to loss from holding these investments in the 6 months ended 30 June 2019 (6 months ended 30 June 2018: £425.5m, year ended 31 December 2018: £413.0m):

	Number of entities	Carrying amount	Maximum exposure to loss	Total assets structured entity
		£m	£m	£m
Asset backed securities	21	205.2	205.2	4,423.1
Commercial MBS	11	101.7	101.7	2596.9
	32	**306.9**	**306.9**	**7,020.0**

9 Financial Instruments

a) Carrying value by measurement category

Financial assets

As at:	Carrying Value 30 June 2019	Carrying Value 30 June 2018	Carrying Value 31 December 2018	Fair Value 30 June 2019	Fair Value 30 June 2018	Fair Value 31 December 2018
	£m	£m	£m	£m	£m	£m
Financial assets at fair value through profit and loss designated upon initial recognition	40,678.1	40,722.1	37,876.4	40,678.1	40,722.1	37,876.4
Derivatives at fair value through profit and loss	9.8	15.5	13.7	9.8	15.5	13.7
Loans at fair value through profit and loss	896.6	660.5	727.7	896.6	660.5	727.7
Loans at amortised cost	4.3	4.8	4.5	4.3	4.8	4.5
Total financial assets	**41,588.8**	**41,402.9**	**38,622.3**	**41,588.8**	**41,402.9**	**38,622.3**
Included in the statement of financial position as follows:						
Listed investments:						
Shares and other variable yield securities	14,554.6	13,880.5	13,195.8	14,554.6	13,880.5	13,195.8
Debt securities and other fixed income securities	19,868.9	19,414.9	19,199.4	19,868.9	19,414.9	19,199.4
Total listed investments	**34,423.5**	**33,295.4**	**32,395.2**	**34,423.5**	**33,295.4**	**32,395.2**
Unlisted investments:						
Units in unit trusts	5,443.3	6,574.8	4,623.3	5,443.3	6,574.8	4,623.3
Loans secured by mortgages	0.4	0.5	0.5	0.4	0.5	0.5
Other loans	900.5	664.8	731.7	900.5	664.8	731.7
Derivatives	9.8	15.5	13.7	9.8	15.5	13.7
Investment property	811.3	851.9	857.9	811.3	851.9	857.9
Total unlisted investments	**7,165.3**	**8,107.5**	**6,227.1**	**7,165.3**	**8,107.5**	**6,227.1**
Total financial investments	**41,588.8**	**41,402.9**	**38,622.3**	**41,588.8**	**41,402.9**	**38,622.3**

The carrying values in the table above relate 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 costs for which the carrying value is an approximation of fair value.

Financial liabilities

As at:	Carrying Value 30 June 2019	Carrying Value 30 June 2018	Carrying Value 31 December 2018	Fair Value 30 June 2019	Fair Value 30 June 2018	Fair Value 31 December 2018
	£m	£m	£m	£m	£m	£m
Investment contract liabilities	20,968.2	21,490.5	19,552.6	20,968.2	21,490.5	19,552.6
Derivatives	119.9	118.5	112.5	119.9	118.5	112.5
Deposits received from reinsurers	104.5	120.1	103.9	104.5	120.1	103.9
Total financial liabilities	**21,192.6**	**21,729.1**	**19,769.0**	**21,192.6**	**21,729.1**	**19,769.0**

The carrying values in the table above relate to the amounts recorded in the consolidated financial statements. The Group cannot measure reliably the fair value of the investment contracts that contain a discretionary participating feature therefore; carrying value has been used as an approximation of fair value.

Subsequent tables within this note refer to only those investment contract liabilities for which fair value can reliably be measured.

b) Determination of fair values and fair value hierarchy

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

— Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the Group 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 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 30 June 2019, 30 June 2018 and 31 December 2018.

Assets as at 30 June 2019

	Level 1	**Level 2**	**Level 3**	**Total items held at FVTPL**
	£m	**£m**	**£m**	**£m**
Financial assets at FVTPL:				
Debt Securities	—	19,219.3	649.6	**19,868.9**
Equity Securities	14,551.9	2.7	—	**14,554.6**
Loans	—	—	896.6	**896.6**
Collective Investment Schemes	5,440.1	3.2	—	**5,443.3**
Investment Property	—	—	811.3	**811.3**
Derivatives	1.2	8.6	—	**9.8**
	19,993.2	**19,233.8**	**2,357.5**	**41,584.5**

Assets as at 30 June 2018

	Level 1	**Level 2**	**Level 3**	**Total items held at FVTPL**
	£m	**£m**	**£m**	**£m**
Financial assets at FVTPL:				
Debt Securities	—	18,692.2	722.7	**19,414.9**
Equity Securities	13,874.7	5.7	0.1	**13,880.5**
Loans	—	—	660.5	**660.5**
Collective Investment Schemes	6,570.7	4.1	—	**6,574.8**
Investment Property	—	—	851.9	**851.9**
Derivatives	—	15.5	—	**15.5**
	20,445.4	**18,717.5**	**2,235.2**	**41,398.1**

Assets as at 31 December 2018

	Level 1	Level 2	Level 3	Total items held at FVTPL
	£m	£m	£m	£m
Financial assets at FVTPL:				
Debt Securities	—	18,484.8	714.6	**19,199.4**
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**
Investment Property	—	—	857.9	**857.9**
Derivatives	0.7	13.0	—	**13.7**
	17,811.7	**18,505.8**	**2,300.3**	**38,617.8**

Liabilities as at 30 June 2019

	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Financial liabilities under non-participating investment contracts	—	18,697.3	—	**18,697.3**
Derivative liabilities	—	30.1	89.8	**119.9**
Deposits received from reinsurers	—	—	104.5	**104.5**
	—	**18,727.4**	**194.3**	**18,921.7**

Liabilities as at 30 June 2018

	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Financial liabilities under non-participating investment contracts	—	19,120.3	—	19,120.3
Derivative liabilities	0.4	13.3	104.8	118.5
Deposits received from reinsurers	—	—	120.1	120.1
	0.4	**19,133.6**	**224.9**	**19,358.9**

Liabilities as at 31 December 2018

	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Financial liabilities under non-participating investment contracts	—	17,384.3	—	**17,384.3**
Derivative liabilities	0.7	13.8	98.0	**112.5**
Deposits received from reinsurers	—	—	103.9	**103.9**
	0.7	**17,398.1**	**201.9**	**17,600.7**

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.

Where we use broker quotes or valuations from independent third parties and no information as to the observability of inputs is provided, the investments are classified as follows:

- Where the valuation is validated by using internal models with market observable inputs and the values are similar, we classify the investment as Level 2.
- In circumstances where internal models are not used to validate valuations, or the observability of inputs used is unavailable, the investment is classified as Level 3.

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

c) Transfers between Levels of the fair value hierarchy

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

6 months ended 30 June 2019

	From Level 1 to Level 2	**From Level 2 to Level 1**
	£m	**£m**
Financial assets designated at fair value through profit or loss upon initial recognition:		
Collective Investment Schemes	—	—

6 months ended 30 June 2018

	From Level 1 to Level 2	**From Level 2 to Level 1**
	£m	**£m**
Financial assets designated at fair value through profit or loss upon initial recognition:		
Collective Investment Schemes	—	177.8

Year ended December 2018

	From Level 1 to Level 2	From Level 2 to Level 1
	£m	£m
Financial assets designated at fair value through profit or loss upon initial recognition:		
Collective Investment Schemes	—	175.9

The above transfers in 2018 were due to a change in pricing methodology.

The following tables present the changes in Level 3 instruments for the 6 months ended 30 June 2019, 30 June 2018, and year ended 31 December 2018.

	Opening balance at 1 January 2019	Purchases during the period	Disposed during the period	Gains/(losses) recognised in the income statement	Transfer into/ out of Level 3	Foreign exchange impact upon translation	Closing balance at 30 June 2019
	£m	£m	£m	£m	£m	£m	£m
Financial Assets							
Financial assets designated at fair value through profit or loss upon initial recognition:							
— Debt Securities	714.6	—	(45.1)	30.4	(50.3)	—	649.6
— Equity Securities	0.1	—	—	(0.1)	—	—	—
— Loans	727.7	195.5	(41.6)	15.0	—	—	896.6
— Investment Property	857.9	1.7	(29.4)	(18.9)	—	—	811.3
	2,300.3	197.2	(116.1)	26.4	(50.3)	—	2,357.5
Financial Liabilities							
Derivative liabilities	98.0	—	(4.3)	(3.9)	—	—	89.8
Deposits received from reinsurers	103.9	—	—	0.6	—	—	104.5
	201.9	**—**	**(4.3)**	**(3.3)**	**—**	**—**	**194.3**

	Opening balance at 1 January 2018	Purchases during the period	Disposed during the period	Gains/(losses) recognised in the income statement	Transfer into/ out of Level 3	Foreign exchange impact upon translation	Closing balance at 30 June 2018
	£m	£m	£m	£m	£m	£m	£m
Financial Assets							
Financial assets designated at fair value through profit or loss upon initial recognition:							
— Debt Securities	716.7	17.8	(1.0)	(10.8)	—	—	**722.7**
— Equity Securities	0.1	—	—	—	—	—	**0.1**
— Loans	633.4	68.7	(38.7)	(2.9)	—	—	**660.5**
— Investment Property	846.9	1	(12.6)	16.6	—	—	**851.9**
	2,197.1	**87.5**	**(52.3)**	**2.9**	**—**	**—**	**2,235.2**
Financial Liabilities							
Derivative liabilities	111.1	—	(5.0)	(1.3)	—	—	**104.8**
Deposits received from reinsurers	124.9	—	—	(4.8)	—	—	**120.1**
	236.0	**—**	**(5.0)**	**(6.1)**	**—**	**—**	**224.9**

	Opening balance at 1 January 2018	Purchases during the period	Disposed during the period	Gains/(losses) recognised in the income statement	Transfer into/ out of Level 3	Foreign exchange impact upon translation	Closing balance at 31 December 2018
	£m	£m	£m	£m	£m	£m	£m
Financial Assets							
Financial assets designated at fair value through profit or loss upon initial recognition:							
— Debt Securities	716.7	27.7	(9.5)	(20.2)	—	—	**714.7**
— Equity Securities	0.1	—	—	—	—	—	**0.1**
— Loans	633.4	235.5	(136.6)	(4.7)	—	—	**727.6**
— Investment Property	846.9	2.4	(25.4)	34.0	—	—	**857.9**
	2,197.1	**265.6**	**(171.5)**	**9.1**	**—**	**—**	**2,300.3**
Financial Liabilities							
Derivative liabilities	111.1	—	(25.4)	12.3	—	—	**98.0**
Deposits received from reinsurers	124.9	–	–	(21.0)	–	–	**103.9**
	236.0	**—**	**(25.4)**	**(8.7)**	**—**	**—**	**201.9**

The above transfers were due to a change in pricing methodology.

d) Level 3 financial instruments

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

i) Assets

Debt securities

Less liquid corporate debt securities or government debt which is issued in such small quantities do not have observable market prices. 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 using discounted cash flow models which are based on discount curves and spread inputs that require management's judgement.

Investment Property

Land and buildings at open market value: Policyholder investment property

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

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

Unobservable inputs are not validated by the Group and therefore these assets are categorised as level 3 of the fair value hierarchy.

Land and buildings at reversionary value

Land and buildings at reversionary value represent the interest in the residential property of policyholders who have previously entered into an Equity Release Income Plan ("ERIP") policy. Under these plans, the policyholder was provided with a lifetime annuity in return for the legal title to their property. Valuations are based on unobservable inputs and management's best estimates. Refer to note 7 for further information as to their valuation.

ii) Liabilities

Derivative liabilities – ERIP total return swap

The total return swap represents future generated cashflows 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% 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 21 of the year end financial statements.

There have been no changes in the fair value of the swap arrangement attributable to changes in credit risk to 30 June 2019 (30 June 2018: £nil, 31 December 2018: £nil).

Deposits received from reinsurers

The Partner Re deal on the NMLL block of business requires the reinsurer to deposit with ReAssure, the reinsured value of the reserves, and entitles the reinsurer to receive interest based on that deposit. The reinsured value of the reserves is equal to 90% of the discounted present value of the expected future claims. This is calculated using mortality, interest rate and inflation assumptions, which are set internally by the relevant reporting team.

The cumulative change in fair value of the deposit attributable to changes in credit risk to 30 June 2019 was £nil (30 June 2018: £nil, 31 December 2018: £nil).

iii) Sensitivities

The tables below shows the sensitivity of the fair value of Level 3 assets and liabilities at 30 June 2019, 30 June 2018 and 31 December 2018 to changes in unobservable inputs to a reasonable alternative:

	30 June 2019 Fair Value	Most significant unobservable input	Reasonable alternative	Positive impact	Negative impact
	£m			£m	£m
Financial Assets					
Debt securities........................					(0.1)
— Corporate...........................	647.4	Discount rate	+/- 100bps		(46.0)
— Government Loans		Discount rate	+/- 100bps		
— Infrastructure......................	362.7	Discount rate	+/- 100bps		(30.1)
— Mortgage Investment property	506.2	Discount rate	+/- 100bps		(13.9)
— At reversionary value	99.6	Discount Rate	+/-1%	4.4	(4.2)
		Mortality assumption	-5%		(0.8)
Financial Liabilities					
Derivative liabilities					
— ERIP total return swap	89.8	Discount rate	+/- 1%	3.5	(3.3)
		Mortality assumption	-5%		(0.5)
Deposits received from reinsurers	104.5	Discount rate	+/- 100bps	9.1	(8.0)
		Mortality assumption	-5%	2.8	

	30 June 2018 Fair Value	Most significant unobservable input	Reasonable alternative	Positive impact	Negative impact
	£m			£m	£m
Financial Assets					
Debt securities					
— Corporate...........................	720.4	Discount rate	+/- 100bps	51.9	(51.9)
— Government Loans	2.3	Discount rate	+/- 100bps	0.1	(0.1)
— Infrastructure......................	197.1	Discount rate	+/- 100bps	14.4	(14.4)
— Mortgage Investment property	463.4	Discount rate	+/- 100bps	15.2	(15.2)
— At reversionary value	119.3	Discount Rate	+/-1%	5.3	(5.0)
		Mortality assumption	-5%		(0.9)
Financial Liabilities					
Derivative liabilities					
— ERIP total return swap	104.8	Discount rate	+/- 1%	3.9	(4.2)
		Mortality assumption	-5%	0.6	
Deposits received from reinsurers	120.1	Discount rate	+/- 100bps	9.6	(11.1)
		Mortality assumption	-5%		(2.7)

	31 December 2018 Fair Value	Most significant unobservable input	Reasonable alternative	Positive impact	Negative impact
	£m			£m	£m
Financial Assets					
Debt securities	712.4	Discount rate	+/- 100bps	49.2	(49.2)
— Corporate	2.2	Discount rate	+/- 100bps	0.1	(0.1)
— Government Loans	255.8	Discount rate	+/- 100bps	16.5	(16.5)
— Infrastructure	471.9	Discount rate	+/- 100bps	14.6	(14.6)
— Mortgage Investment property					
— At reversionary value	108.6	Discount Rate	+/-1%	4.9	(4.7)
		Mortality assumption	-5%	—	(0.9)
Financial Liabilities					
Derivative liabilities					
— ERIP total return swap	98.0	Discount rate	+/- 1%	3.8	(3.9)
		Mortality assumption	-5%	0.6	
Deposits received from reinsurers	103.9	Discount rate	+/- 100bps	8.0	(9.1)
		Mortality assumption	-5%	—	(1.9)

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

10 Derivative assets and liabilities

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 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 Group controls, or an agreed upon amount in a contract.

a) As at

	30 June 2019 Fair values			30 June 2018 Fair values			31 December 2018 Fair values		
	Contract/ Notional Amount	Assets	Liabilities	Contract/ Notional Amount	Assets	Liabilities	Contract/ Notional Amount	Assets	Liabilities
Non-profit/shareholder derivatives									
Interest rate contracts	2,113.9	2.9	(18.5)	1,147.0	8.6	(9.7)	1,498.5	4.8	(9.3)
Equity/Index derivatives	(2.2)	—	—	(235.9)	1.5	(0.2)	(191.1)	2.0	(0.1)
Forward foreign currency contracts	172.2	—	(1.1)	210.1	0.6	(2.4)	322.0	1.6	(0.8)
Other derivatives	—	—	(89.8)	1.0	—	(104.6)	1.0	—	(98.0)
	2,283.9	**2.9**	**(109.4)**	**1,122.2**	**10.7**	**(116.9)**	**1,630.4**	**8.4**	**(108.2)**
With-profit derivatives									
Interest rate contracts	633.5	4.8	(10.3)	649.1	3.7	(0.4)	637.1	3.6	(1.7)
Equity/Index derivatives	10.7	0.1	—	5.8	0.7	(0.7)	5.8	0.7	(0.6)
	644.2	**4.9**	**(10.3)**	**654.9**	**4.4**	**(1.1)**	**642.9**	**4.3**	**(2.3)**
Unit-linked derivatives									
Interest rate contracts	—	—	—	—	—	—	(17.9)	0.7	—
Equity/Index derivatives	131.6	2.0	—	17.9	—	(0.4)	134.3	0.3	(2.0)
Forward foreign currency contracts	236.9	—	(0.2)	198.1	0.4	(0.1)	—	—	—
	368.5	**2.0**	**(0.2)**	**216.0**	**0.4**	**(0.5)**	**116.4**	**1.0**	**(2.0)**
Total derivative assets and liabilities	**3,296.6**	**9.8**	**(119.9)**	**1,993.1**	**15.5**	**(118.5)**	**2,389.7**	**13.7**	**(112.5)**

Other derivatives include a total return swap representing future generated cashflows 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.

b) The Group does not have any derivatives that are designated as hedging instruments (30 June 2018: same, 31 December 2018: same).

11 Cash and cash equivalents

	As at 30 June 2019	As at 30 June 2018	As at 31 December 2018
	£m	£m	£m
Cash	131.7	135.7	179.2
Cash equivalents	1,614.7	1,996.0	1,958.4
	1,746.4	2,131.7	2,137.6

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

12 Insurance contract liabilities

12.1 Valuation

(a) Non-profit insurance contracts

For non-profit insurance contracts, in-force business liabilities are determined using a gross premium valuation method which entails projecting forward cashflows on a policy by policy basis. For annuity business in the Matching Adjustment funds, the technical provisions under IFRS are set equal to the Solvency II best estimate liabilities discounted using the Matching Adjustment rate with an explicit margin for risk based on a 6% cost of capital calculated using the Solvency II Standard Formula. The matching adjustment is determined on the yield on the assets in the matching adjustment fund allowing for deductions for credit risk based on the EIOPA fundamental spread. Annuities outside the matching adjustment are set equal to the Solvency II best estimate cashflows discounted at the EIOPA risk free rate with an explicit margin for risk based on a 6% cost of capital calculated using the Solvency II Standard Formula.

For all other non-profit policies the liabilities for insurance contracts are determined projecting cashflows (with an allowance for prudence in the demographic assumptions) and discounting them using a rate based on the 15 year gilt yield. As the liabilities for insurance contracts are predominantly annuities in payment, the most material assumptions are the discount rate used to discount future annuity payments and annuitant mortality.

(b) With-profit insurance contracts

For with-profit insurance contacts, the insurance contract liability is calculated on a best estimate basis, adjusted to exclude the shareholders' share of future bonuses and the associated tax liability. This is a market consistent valuation, which involves placing a value on liabilities similar to the market value of assets with similar cash flow patterns.

12.2 Process followed in determining key assumptions

(a) Discount rates

The discount rates used are determined by reference to basic risk-free interest rates prescribed by EIOPA.

For Ark Life policies, the interest rates applied in valuation are based on quoted Euro swap rates with no deductions.

(b) 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.

The assumptions for annuitant mortality are best estimate, based on own and industry experience.

12.3 Carrying amounts

Components of insurance liabilities (net and gross of reinsurance).

	30 June 2019			30 June 2018			31 December 2018		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	£m	£m	£m	£m	£m	£m	£m	£m	£m
With-profits insurance contracts	**1,357.7**	**(3.4)**	**1,354.3**	1,390.7	(2.9)	1,387.8	1,299.1	(3.0)	1,296.1
Non-profit insurance contracts	**17,685.7**	**(1,875.8)**	**15,765.9**	17,619.3	(1,768.2)	15,851.1	17,259.6	(1,761.3)	15,498.3
Unit-linked insurance contracts	**2,722.1**	**—**	**2,722.1**	2,957.6	—	2,957.6	2,582.2	—	2,582.2
	21,765.5	**(1,879.2)**	**19,886.3**	21,967.6	(1,771.1)	20,196.5	21,140.9	(1,764.3)	19,376.6

12.4 Impact of changes in assumptions on non-profit and unit-linked insurance contracts

The impact of the more significant changes in assumptions on non-profit and unit-linked insurance contracts for the 6 months ended 30 June 2019 is shown in the table below. The main changes in assumptions for the 6 months ended 30 June 2019 relate to a reduction in yields and spreads on the MA business.

	6 month period ended 30 June 2019	6 month period ended 30 June 2018	Year ended 31 December 2018
	£m	£m	£m
Demographic changes	(2.1)	—	28.0
Economic changes	922.2	(429.3)	(276.7)

13 Investment contract liabilities

	As at 30 June 2019	As at 30 June 2018	As at 31 December 2018
	£m	£m	£m
Investment contract liabilities – unit-linked	18,674.6	19,094.9	17,361.3
Investment contract liabilities – non-profit	22.7	25.4	22.9
Investment contracts with discretionary participating features	2,270.9	2,370.2	2,168.4
	20,968.2	21,490.5	19,552.6

Unit-linked investment contract liabilities are carried in the statement of financial position at fair value through profit or loss.

Certain investment contracts contain a discretionary participating feature (DPF) which gives the holder an entitlement to receive additional benefits or bonuses, as a supplement to the guaranteed benefits. Applying these supplemental discretionary benefits is entirely at the discretion of the Group. The investment contract liabilities are calculated in accordance with the methodology and assumptions described in note 12, insurance contract liabilities.

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 the 6 months ended 30 June 2019 and year ended 31 December 2018 on derecognising these instruments.

Movements in investment contract liabilities (excluding contracts with DPF)

	6 months ended 30 June 2019	**6 months ended 30 June 2018**	**Year ended 31 December 2018**
	£m	**£m**	**£m**
At 1 January	**17,384.3**	19,592.1	19,592.1
Linked cash flows arising (premiums, claims, fees)	(563.5)	(703.5)	(1,443.4)
Linked investment return	1,881.6	238.4	(779.0)
Change in non-profit non linked investment contract liabilities	(0.2)	1.0	(1.5)
Currency impact	(4.9)	(5.7)	16.1
At period/year end	**18,697.3**	19,122.3	17,384.3

Movements in investment contract with DPF liabilities

	6 months ended 30 June 2019	**6 months ended 30 June 2018**	**Year ended 31 December 2018**
	£m	**£m**	**£m**
At 1 January	**2,168.4**	2,423.2	2,423.2
Impact of experience effects	82.0	(67.2)	(265.2)
Impact of assumption changes	20.5	14.2	10.4
At period/year end	**2,270.9**	2,370.2	2,168.4

14 Retirement Benefit Schemes

The Group operates one defined benefit scheme, the ReAssure Staff Pension Scheme ("RSPS") which is closed to future accruals. 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 ReAssure UK Services Limited, 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 Group balance sheet.

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 Trustee 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 the Group has paid £17m into a Custody Account. 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 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.

	6 months ended 30 June 2019	6 months ended 30 June 2018	Year ended 31 December 2018
	£m	£m	£m
ReAssure Staff Pension Scheme	(1.0)	23.1	15.1
Private Retirement Trust	(1.8)	(1.8)	(1.8)

15 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 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.

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 30 June 2019, all borrowings were classified as shareholder borrowings.

(a) Analysis of borrowings

	6 months ended 30 June 2019	6 months ended 30 June 2018	Year ended 31 December 2018
	£m	£m	£m
Subordinated debt			
£500m 5.867% 2029 Tier 2 capital markets bond	486.5	—	—
£250m 5.766% 2029 Tier 2 capital markets bond	243.3	—	—
£250m 4.016% 2026 Tier 3 capital markets bond	243.0	—	—
Total borrowings	972.8	—	—

(i) Subordinated debt

On 13 June 2019 the Company issued £500m Tier 2 10 year subordinated notes, £250m Fixed Rate Reset Callable Tier 2 10 year subordinated notes (first optional call date in year 5) and £250m Tier 3 7 year subordinated notes to Swiss Re Finance (Jersey) Limited (SRFJL) (formerly Swiss Re ReAssure Ltd (SRRL)), a Swiss Re Group company.

The £250m 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 5.170% plus a margin equivalent to the yield of a UK Treasury Bill of similar term.

Fees associated with these notes of £30.0m were deferred and are being amortised over the life of the notes. During Q3 2019 the Group successfully completed the public listing, private remarketing and external placement of all three tranches of subordinated debt.

All borrowings are unsecured. Subordinated notes issued by the Company rank ahead of its ordinary share capital.

(b) Fair value

	Carrying value			Fair value		
As at:	**30 June 2019**	**30 June 2018**	**31 December 2018**	**30 June 2019**	**30 June 2018**	**31 December 2018**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Subordinated debt						
£500m 2029 5.867% Tier 2 capital markets bond	486.5	—	—	489.4	—	—
£250m 2029 5.766% Tier 2 capital markets bond	243.3	—	—	247.5	—	—
£250m 2026 4.016% Tier 3 capital markets bond	243.0	—	—	246.1	—	—
Total borrowings	**972.8**	**—**	**—**	**983.0**	**—**	**—**

The fair value of the subordinated debt is estimated using a discounted cash flow model and therefore has been classified as level 2 of the fair value hierarchy. 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.

(c) Movements during the period

		Cash movements		Non-cash movements	
As at:	**1 January 2019**	**New borrowings, net of costs**	**Repayments**	**Other movements**	**30 June 2019**
	£m	**£m**	**£m**	**£m**	**£m**
Subordinated debt					
£500m 2029 5.867% Tier 2 capital markets bond	—	485.0	—	1.5	486.5
£250m 2029 5.766% Tier 2 capital markets bond	—	242.5	—	0.8	243.3
£250m 2026 4.016% Tier 3 capital markets bond	—	242.5	—	0.5	243.0
	—	**970.0**	**—**	**2.8**	**972.8**

There were no borrowings during the period ended 30 June 2018 and for the year ended 31 December 2018.

(d) Management of risk

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 borrowings also change the interest rate and liquidity risk profile of the Group. Interest rate risk arises from the schedule of repayments under the fixed rate borrowings and there will be additional liquidity requirements to fund the repayments as they fall due.

The table below shows the contractual maturity dates of the undiscounted cash flows for borrowings as at 30 June 2019. There were no borrowings during the period ended 30 June 2018 and for the year ended 31 December 2018.

	Principal	Interest	Total
	£m	£m	£m
Within one year			
Between 1 year and 5 years	250.0	268.9	518.9
More than 5 years	750.0	166.8	916.8
Total contractual undiscounted cash flows	1,000.0	435.7	1,435.7

Sensitivities

Sensitivity of shareholder equity to interest rates movements is not impacted by borrowings due to fixed interest rate terms.

16 Contingent liabilities

Where the Group has a possible future obligation as a result of a past event, or a present legal or constructive obligation but it is not probable that there will be an outflow of resources to settle the obligation or the amount cannot be reliably estimated, this is disclosed as a contingent liability. 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 Group is not aware of any significant liabilities in this regard.

There are no material contingent liabilities as at 30 June 2019.

17 Share capital

	As at 30 June 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

	As at 30 June 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

	As at 31 December 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 and 30 June 2018 reflects the share capital of ReAssure MidCo Limited. The share capital for the current period 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 Swiss Re Finance Midco (Jersey) Limited (formerly 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 Share premium account

	6 months ended 30 June 2019	6 months ended 30 June 2018	Year ended 31 December 2018
	£m	£m	£m
Balance brought forward at 1 January	83.9	83.9	83.9
Impact of Group restructure	(83.9)	—	—
Balance at period/year end	—	83.9	83.9

Share premium as at 31 December 2018 and 30 June 2018 reflects the share premium of ReAssure MidCo Limited. The share premium for the current period reflects the share premium of ReAssure Group plc.

On 9 May 2019, the Company issued 999,999,990 ordinary shares of £0.10 to Swiss Re Finance Midco (Jersey) Limited (formerly 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.

19 Merger reserve

	6 months ended 30 June 2019	6 months ended 30 June 2018	Year ended 31 December 2018
	£m	£m	£m
Balance brought forward at 1 January	—	—	—
Impact of group restructure	57.0	—	—
Balance at period/year end	57.0	—	—

On 9 May 2019, the Company acquired the entire share capital of ReAssure Midco Limited (RML) from Swiss Re Finance Midco (Jersey) Limited (formerly Swiss Re ReAssure Midco Limited), the Company's immediate parent company, settled by the issuance of share capital. The Company has applied IAS27 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.

20 Other reserves

	6 months ended 30 June 2019	6 months ended 30 June 2018	Year ended 31 December 2018
	£m	£m	£m
Balance brought forward at 1 January	1,364.4	1,364.1	1,364.1
Exchange differences on translating the net assets of foreign operations	0.3	(0.1)	—
Revaluation increase on land and buildings	—	—	0.3
Balance at period/year end	**1,364.7**	1,364.0	1,364.4

Other reserves as at 31 December 2018 and 30 June 2018 reflects the other reserves of ReAssure MidCo Limited. The other reserves for the current period reflects the other reserves of ReAssure Group plc.

Capital contributions received do not have any conditions attached to them and are not repayable. There were no capital contributions in the reported period.

21 Retained Earnings

	6 months ended 30 June 2019	6 months ended 30 June 2018	Year ended 31 December 2018
	£m	£m	£m
Balance brought forward at 1 January	975.1	1,790.3	1,790.3
Dividends paid in the period/year	(519.0)	(921.0)	(921.0)
Net profit for the period/year	150.5	191.6	91.7
Foreign exchange impact upon translation	(0.2)	(0.1)	2.4
Other comprehensive income arising from measurement of defined benefit obligation (net of income tax)	(15.3)	17.4	11.7
Balance at period/year end	**591.3**	1,078.2	975.1

Retained earnings as at 31 December 2018 and 30 June 2018 reflects the retained earnings of ReAssure MidCo Limited. The retained earnings for the current period reflects the retained earnings of ReAssure Group plc.

22 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 and diluted EPS computations. Note, as a result of the consolidation of shares on 9th May 2019, EPS has been adjusted retrospectively.

From continuing operations		30 June 2019	30 June 2018	31 December 2018	30 June 2019	30 June 2018 (adjusted)	31 December 2018 (adjusted)
Earnings for the purposes of basic earnings per share being net profit attributable to owners of the Company	£m	150.4	191.6	91.7	186.0	191.6	91.7
Weighted average number of ordinary shares for the purposes of basic earnings per share	Number million	1,000.0	7,305.1	7,305.1	1,000.0	1,000.0	1,000.0
Basic/diluted earnings per share (pence)	pence	15.04	2.62	1.26	18.60	19.16	9.17

23 Cash flows used in operating activities

	6 months ended 30 June 2019	6 months ended 30 June 2018	Year ended 31 December 2018
	£m	£m	£m
Profit for the period/year before tax	276.4	246.2	104.8
Non-cash income statement changes in operating assets & liabilities:			
Fair value loss/(gains) on:			
– Investment property	13.3	(13.4)	(28.1)
– Financial assets	(2,949.6)	579.9	2,637.9
– Derivatives	(13.5)	(13.1)	(31.0)
Defined benefit contributions	(1.1)	—	2.0
Non cash defined benefit expenditure	(0.2)	(0.9)	(2.6)
Depreciation of property, plant and equipment	1.7	1.9	4.5
Revaluation of property, plant and equipment	—	(0.1)	0.3
Release of negative present value of in force business to income		—	—
Amortisation of intangible assets	16.3	17.1	34.2
Amortisation of subordinated debt	0.2		
Purchase of DAC		(650.0)	(650.0)
Release of deferred acquisition costs	36.7	43.8	87.0
Change in unallocated divisible surplus	11.1	(5.4)	(26.0)
Finance costs	2.6	6.3	6.3
Decrease/(Increase) in reinsurance assets	(139.2)	69.8	58.8
(Decrease)/Increase in insurance contracts & investment contract liabilities	2,000.1	(1,740.4)	(4,522.0)
(Decrease)/Increase in other financial liabilities	—	—	—
(Decrease)/increase in deposits received from reinsurers	(11.5)	(13.7)	(8.6)
Purchase of financial assets	—	—	—
Net disposal/(purchase) of investment properties	33.3	8.4	17.1
Net disposal/(purchase) of financial assets	(67.3)	1,576.4	2,303.1
Net disposal/(purchase) of derivatives	24.8	6.1	19.8
Net Decrease/(increase) in working capital	(72.9)	(31.8)	99.0
Tax receipts	3.0	(14.1)	(11.7)
Net cash used in operating activities	**(835.8)**	**73.0**	**94.8**

24 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 Company is incorporated and domiciled in England and Wales. The immediate parent company is Swiss Re Finance Midco (Jersey) Limited (formerly Swiss Re ReAssure Midco Ltd), incorporated in Jersey. Swiss Re Ltd is the ultimate and controlling parent undertaking of the Company. The consolidated financial statements of Swiss Re Ltd may be obtained on www.swissre.com or from its registered office at Mythenquai 50/60, P.O. Box 8022, Zurich, Switzerland.

(b) Services received from related parties

	6 months ended 30 June 2019	6 months ended 30 June 2018	Year ended 31 December 2018
	£m	£m	£m
Other subsidiary undertakings of Swiss Re Ltd	3.1	12.6	15.0
	3.1	**12.6**	**15.0**

(c) Period/year-end balances with related parties (excluding loans)

	6 months ended 30 June 2019	6 months ended 30 June 2018	Year ended 31 December 2018
	£m	£m	£m
Other subsidiary undertakings of Swiss Re Ltd	20.2	39.4	32.9
	20.2	**39.4**	**32.9**

(d) Intra-group retrocession arrangements

All with other subsidiary undertakings of Swiss Re Ltd

	6 months ended 30 June 2019	6 months ended 30 June 2018	Year ended 31 December 2018
	£m	£m	£m
Premiums ceded to reinsurers	173.8	183.5	359.8
Claims recovered from reinsurers	(159.0)	(172.6)	(305.0)
Commissions	—	(0.3)	—
Change in reinsurers' share of insurance contract liabilities	634.1	651.1	(0.7)
	648.9	661.7	54.1

Balance at period/year end	**30 June 2019**	**30 June 2018**	**31 December 2018**
	£m	£m	£m
Reinsurers' share of insurance contract liabilities	(396.1)	(417.3)	239.3
Reinsurance payables	(16.6)	(20.5)	(16.6)
	(412.7)	(437.8)	222.7

(e) Remuneration of key management personnel

Key management includes the Directors of the holding company of the group and members of the group's management committee. All members of key management were remunerated by RUKSL or by other Group undertakings.

Any material changes since the year-ended December 2018 to remuneration of key management personnel is documented within Section 8 of Part 10 (Additional Information) of the ReAssure Group plc IPO Registration Document.

25 Post Balance Sheet Events

In May 2019 a newly incorporated UK private limited company, ReAssure Group Ltd, became the parent of the ReAssure Group following the transfer of shares in ReAssure Midco Ltd. The insertion of the ReAssure Group Ltd as a new holding company constitutes a group reorganisation and will be accounted for as a capital reorganisation under common control.

As part of this reorganisation, ReAssure Group Ltd has entered into subscription agreements for a total of £1 billion of Subordinated Notes. Upon receipt of the proceeds of the Subordinated Notes an immediate dividend of £519 million was paid to SRRML, a Swiss Re group company. ReAssure will maintain the liability associated with the Subordinated Notes and associated obligations but the majority of the cash will not be retained within the ReAssure Group.

Following a competitive auction process, ReAssure Group Ltd announced on 5 August 2019 that it had agreed to acquire the UK Heritage business of Quilter. The transaction is structured as an acquisition of 100% of the voting shares in the legal entity Old Mutual Wealth Life Assurance Limited ("OMWLA") and indirectly of its subsidiary, Old Mutual Wealth Pensions Trustees Limited.

On 6 December 2019, Phoenix Group Holdings plc announced the proposed acquisition of ReAssure Group plc (formerly ReAssure Group Ltd) from Swiss Re for a total consideration of £3.2 billion. The transaction is expected to be completed during 2020, subject to regulatory approval.

On 31 December 2019, the acquisition of OMWLA by ReAssure Group plc for a total consideration of £446 million was completed. The Part VII transfer of the OMWLA business into ReAssure Limited is expected to occur by the end of 2021. As part of the transaction, a new Intra-Group Reinsurance ("IGR") agreement between OMWLA and ReAssure Limited was entered into, transferring the shareholder risks and rewards of the insurance business from OMWLA to ReAssure Limited. Policyholders are not impacted by this agreement, and the IGR will extinguish upon successful completion of the Part VII transfer. Approximately 300 employees have transferred to the ReAssure Group upon completion. ReAssure Group remains a consolidator of closed life insurance business and successfully acquiring and integrating such books is key to the future success of the business.

The Directors are not aware of any other significant post balance sheet events that require disclosure in the statements.

PART B: CONSOLIDATED HISTORICAL FINANCIAL INFORMATION OF THE REASSURE GROUP FOR THE THREE YEARS ENDED 31 DECEMBER 2018

Consolidated Income Statement

For the year ended 31 December

	Note	2018	2017	2016
		£m	**£m**	**£m**
Revenue				
Gross premiums written	3	447.4	356.6	392.1
Less: premiums ceded to reinsurers		(403.1)	(416.1)	(429.7)
Net premium revenue		**44.3**	**(59.5)**	**(37.6)**
Fee income	6	183.8	169.8	167.9
Investment (expense)/income	8	(1,199.6)	3,331.0	6,294.7
Other Income	7	34.5	31.4	453.3
Net (expense)/income		**(937.0)**	**3,472.7**	**6,878.3**
Expenses				
Policyholder claims	12	(1,865.6)	(2,039.7)	(2,890.9)
Less: claims recovered from reinsurers	12	462.1	481.3	492.1
Change in insurance contract liabilities		2,089.8	2,175.0	(86.0)
Change in investment contract liabilities		877.8	(2,152.0)	(2,953.9)
Change in reinsurers' share of insurance contract liabilities		(131.3)	(337.8)	(134.0)
Change in reinsurers' share of investment contract liabilities		—	—	(5.2)
Transfer to unallocated divisible surplus		26.0	(8.8)	(17.1)
Net policyholder claims and benefits incurred		**1,458.8**	**(1,882.0)**	**(5,595.0)**
Administration Expenses	10	(410.0)	(316.0)	(349.0)
Total (expense)/income		**1,048.8**	**(2,198.0)**	**(5,944.0)**
Profit before finance costs and tax		**111.8**	**1,274.7**	**934.3**
Finance costs	11	(7.0)	(7.4)	(7.8)
Profit before Tax		**104.8**	**1,267.3**	**926.5**
Tax on profit for the year	15	(13.1)	(256.2)	(122.0)
Profit for the year		**91.7**	**1,011.1**	**804.5**

All results derive from continuing operations

	Note	2018	2017	2016
Earnings per share	41			
From continuing operations				
Basic (pence per share)		1.26	13.84	11.01
Diluted (pence per share)		1.26	13.84	11.01

Consolidated Statement of Comprehensive Income

For the year ended 31 December

	Note	2018	2017	2016
		£m	**£m**	**£m**
Profit for the year		**91.7**	**1,011.1**	**804.5**
Other comprehensive income/(expense):				
Exchange differences on translation of foreign operations		2.4	10.0	38.8
Actuarial gain/(loss) on defined benefit pension schemes	32	23.4	32.6	(77.8)
Movement in related deferred tax		(11.7)	(5.6)	13.2
Owner-occupied land & buildings revaluation		0.3	0.4	—
Total comprehensive income for the year		**106.1**	**1,048.5**	**778.7**

Consolidated Statement of Financial Position

As at 31 December

	Note	2018	2017	2016
		£m	£m	£m
Assets				
Acquired in-force business	16	435.7	469.9	505.6
Deferred acquisition costs	48	590.9	27.9	30.8
Property, plant and equipment	17	17.8	21.1	19.1
Investment property	18	857.9	846.9	931.7
Financial investments:	20			
Debt securities		19,199.4	21,208.0	22,436.6
Equity securities		13,195.8	14,094.9	13,413.8
Loans		732.2	639.0	776.7
Collective investment schemes		4,623.3	6,749.7	7,052.5
Derivatives	21	13.7	18.2	134.6
Net pension surplus	32	15.1	—	—
Reinsurers' share of insurance contract liabilities	26	1,764.3	1,889.4	2,210.5
Reinsurers' share of claims outstanding		—	—	1.7
Reinsurance receivables		86.8	20.5	23.0
Insurance contract receivables		20.5	24.8	20.3
Deferred tax asset	22	58.2	23.9	54.3
Prepayments and accrued income	23	314.0	341.5	358.4
Other receivables	24	210.7	285.9	225.2
Cash and cash equivalents	25	2,137.6	3,151.5	2,349.1
Total Assets		**44,273.9**	**49,813.1**	**50,543.9**
Liabilities				
Insurance contract liabilities:	26			
Liabilities under insurance contracts		21,140.9	23,223.7	25,375.6
Unallocated divisible surplus		146.6	172.7	163.8
Investment contract liabilities	30	19,552.6	22,015.3	21,401.0
Provisions	31	20.4	19.8	15.5
Derivatives	21	112.5	128.2	219.5
Deposits received from reinsurers		103.9	124.9	138.4
Reinsurance payables		49.2	30.5	34.3
Payables related to direct insurance contracts		28.5	26.6	22.7
Claims outstanding		254.9	237.6	221.7
Current tax liability		50.3	191.7	96.1
Net pension deficit	32	1.8	10.4	42.9
Deferred revenue	33	7.2	8.1	8.8
Trade and other payables	34	308.6	312.2	299.7
Total liabilities		**41,777.4**	**46,501.7**	**48,040.0**
Equity				
Share capital	36	73.1	73.1	73.1
Share premium	37	83.9	83.9	83.9
Other reserves	38	1,364.4	1,364.1	713.5
Retained Earnings	39	975.1	1,790.3	1,633.4
Total Equity		**2,496.5**	**3,311.4**	**2,503.9**
Total liabilities and equity		**44,273.9**	**49,813.1**	**50,543.9**

Consolidated Statement of Changes to Equity

For the year ended 31 December 2018

	Attributable to owners of the Company				
	Share capital	Share premium	Other reserves	Retained earnings	Total equity
	£m	£m	£m	£m	£m
As at 1 January 2018	73.1	83.9	1,364.1	1,790.3	**3,311.4**
Profit for the financial year	—	—	—	91.7	**91.7**
Other comprehensive income for the year			0.3	14.1	**14.4**
Total comprehensive income for the year	**—**	**—**	**0.3**	**105.8**	**106.1**
Dividends paid during the year	—	—	—	(921.0)	**(921.0)**
As at 31 December 2018	**73.1**	**83.9**	**1,364.4**	**975.1**	**2,496.5**

For the year ended 31 December 2017

	Attributable to owners of the Company				
	Share capital	Share premium	Other reserves	Retained earnings	Total equity
	£m	£m	£m	£m	£m
As at 1 January 2017	73.1	83.9	713.5	1,633.4	**2,503.9**
Profit for the financial year	—	—	—	1,011.1	**1,011.1**
Other comprehensive income for the year	—	—	0.6	36.8	**37.4**
Total comprehensive income for the year			**0.6**	**1,047.9**	**1,048.5**
Capital contribution	—	—	650.0	—	**650.0**
Dividends paid during the year	—	—	—	(891.0)	**(891.0)**
As at 31 December 2017	**73.1**	**83.9**	**1,364.1**	**1,790.3**	**3,311.4**

For the year ended 31 December 2016

	Attributable to owners of the Company				
	Share capital	Share premium	Other reserves	Retained earnings	Total equity
	£m	£m	£m	£m	£m
As at 1 January 2016	73.1	83.9	0.8	1,190.9	**1,348.7**
Profit for the financial year	—	—	—	804.5	**804.5**
Other comprehensive income for the year	—	—	2.7	(28.5)	**(25.8)**
Total comprehensive income for the year	**—**	**—**	**2.7**	**776.0**	**778.7**
Capital contribution	—	—	710.0	12.5	**722.5**
Dividends paid during the year	—	—	—	(346.0)	**(346.0)**
As at 31 December 2016	**73.1**	**83.9**	**713.5**	**1,633.4**	**2,503.9**

Statement of Cash Flows

For the year ended 31 December

	Note	2018	2017	2016
		£m	**£m**	**£m**
Cash flows from operating activities				
Cash from operating activities	44	**94.8**	**1,169.3**	**71.9**
Taxation paid		(188.7)	(130.2)	(19.6)
Net cash (used in)/from operating activities		**(93.9)**	**1,039.1**	**52.3**
Cash flows from investing activities				
Net purchase of property, plant and equipment		(1.7)	(5.6)	(3.7)
Acquisition of subsidiary		—	—	1,430.9
Net cash (used in)/from investing activities		**(1.7)**	**(5.6)**	**1,427.2**
Net cash used in financing activities				
Ordinary and preference share dividends paid		(921.0)	(891.0)	(346.0)
Capital contribution received from parent company		—	650.0	12.5
Net cash used in financing activities		**(921.0)**	**(241.0)**	**(333.5)**
Net (decrease)/increase in cash and cash equivalents		**(1,016.6)**	**792.5**	**1,146.0**
Cash and cash equivalents at the beginning of the year		3,151.5	2,349.1	1,163.5
Effect of exchange rate fluctuations on cash held		2.7	9.9	39.6
Cash and cash equivalents at the end of the year		**2,137.6**	**3,151.5**	**2,349.1**

Notes to the Consolidated Financial Statements for the three years ended 31 December 2018

1. Accounting Policies

The principal accounting policies are summarised below. This is the first year of preparing Consolidated Historical Financial Information (referred to as Consolidated Financial Statements for the purposes of this Part of the Prospectus). The accounting policies have been applied consistently throughout the year and preceding years.

The Consolidated Historical Financial Information has been prepared in accordance with accounting policies that are materially consistent with those applied by Phoenix in its 31 December 2018 financial statements.

1.1 New standards, amendments and policies 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'; IFRS 17 'Insurance Contracts'; and IFRIC 23 'Uncertainty over Income Tax Treatments'.

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 concluded that it qualified for the temporary exemption from IFRS 9 because its activities are predominantly connected with insurance. The Group's percentage of its gross liabilities from contracts within the scope of IFRS 4 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 comprise the liabilities arising from contracts within the scope of IFRS 4 for a total amount of £13,273.6 million, liabilities from non-derivative investment contracts measured as at Fair Value Through Profit or Loss ('FVTPL') for a total amount of £14,627.8 million and liabilities that arise as the insurer fulfils obligations arising from contracts within the scope of IFRS 4 and non-derivative investment contract liabilities measured at FVTPL (e.g. liabilities for other payables directly associated with those obligations) for a total amount of £352.4 million.

Refer to note 9 for further details. Accordingly, 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 2022.

Since the balance sheet date there has been no significant change in activities of the Group that requires reassessment of the use of the temporary exemption from IFRS 9.

IFRS 17 'Insurance Contracts'

In May 2017, the IASB issued IFRS 17 'Insurance Contracts' to replace IFRS 4 'Insurance Contracts'. In November 2018 the IASB tentatively agreed that the effective date of IFRS 17 should be delayed by one year from periods ending on or after 1 January 2021 to 1 January 2022. The standard has not yet been endorsed for use in the EU. IFRS 17 is expected to significantly change the way the Group measures and reports its insurance contracts.

IFRS 17 brings in a single accounting approach which aims to:

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

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

IFRIC 23 'Uncertainty over Income Tax Treatments'

In June 2017, the IASB issued International Financial Reporting Interpretations Committee (IFRIC) Interpretation 23 'Uncertainty over Income Tax Treatments', which clarifies the application of recognition and measurement requirements in IAS 12 'Income Taxes', when there is uncertainty over income tax treatments. IFRIC 23 is effective for annual periods beginning on or after 1 January 2019 with early adoption permitted. The Group is in the process of assessing the impact of this new interpretation.

1.2 New and amended standards and interpretations

The Group has applied the following new and revised IFRSs; IFRS 15 'Revenue from Contracts with Customers' and IFRS 16 'Leases'.

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

The majority of the Group's revenue is outside the scope of IFRS 15. The financial statement line items impacted were: Fee Income; Other Income; Other Receivables; and Deferred Revenue. The adoption of IFRS 15 did not result in a material change in the reported results and financial condition of the Group, as no changes were required to be made to the Group's existing accounting policies.

IFRS 15 has been adopted by the Group and applied for the 2016, 2017, and 2018 reporting periods.

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 balance sheet for lessees. The standard replaces IAS 17 'Leases', and related interpretations.

IFRS 16 has been adopted by the Group and applied for the 2016, 2017, and 2018 reporting periods.

1.3 Basis of Preparation

Reassure Midco Limited ('the Company') together with its subsidiaries (collectively 'the Group') is a major life and pensions consolidator in the UK market.

The Consolidated Financial Statements have been prepared in accordance with the requirements of the Prospectus Directive regulation and the Listing Rules, and in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union, and therefore comply with Article 4 of the EU IAS Regulation. The accounting policies applied and disclosed below are materially consistent with those used by Phoenix Group Holdings plc in its annual financial statements for the year ended 31 December 2018 and these policies have been applied consistently to all periods presented unless stated otherwise.

This is the first year of preparing Consolidated Financial Statements.

Pursuant to section 435 of the Companies Act, this historical financial information does not constitute the company's statutory accounts for the years ended 31 December 2018, 2017 or 2016. Up until now, the Group has previously taken advantage of section 400 of the Companies Act not to prepare Consolidated Statutory Financial Statements as it previously formed part of a larger group, being Swiss Re Ltd, for which Consolidated Financial Statements are prepared. The company-only accounts of the Company for years ended 31 December 2018, 2017 and 2016 have been reported on by the company's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The Consolidated Financial Statements have been prepared on the historical cost basis, except 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 the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

The principal accounting policies adopted are set out below.

1.4 Going Concern

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 at least the next 12 months. Thus they continue to adopt the going concern basis of accounting in preparing the Consolidated Financial Statements.

1.5 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. Control is achieved when the Group:

- has the power over the investee;
- is exposed, or has rights, to variable return from its involvement with the investee; and
- has the ability to use its power to affects its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

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.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, 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 the non-controlling interests even if this results in the non-controlling interests having a deficit balance. 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.

1.6 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 transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group 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 that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised in accordance with IAS 12 'Income Taxes' and IAS 19 'Employee Benefits' respectively.

Acquired in-force insurance and investment contracts are measured at fair value at the time of acquisition in accordance with the criteria at note 1.22 below.

1.7 Contract classification

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 by agreeing to compensate the policyholder if a specified uncertain event adversely affects 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 under which the transfer of insurance risk to the Group from the policyholder is not significant are classified as investment contracts. Investment contracts without a discretionary participating feature are measured at fair value. The financial liability in respect of investment contracts without a discretionary participating feature, whose value is linked to a specific pool of financial assets, is matched to the net asset value of the underlying funds. The majority of the Group's investment contracts without a discretionary participating feature are unit-linked.

Some insurance and investment contracts contain a Discretionary Participation Feature ('DPF'). This feature entitles the policyholder to additional discretionary benefits as a supplement to guaranteed benefits. Investment contracts with a DPF are recognised, measured and presented as insurance contracts.

1.8 Premiums

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

1.9 Fee Income

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

1.10 Investment income and expenses

Investment income includes dividends, interest, rental income, fair value gains and losses on financial assets and gains on the realisation of investments and related expenses.

1.10.1 Dividends

Dividends are recorded on the date on which the shares are quoted ex-dividend.

1.10.2 Interest

For interest-bearing assets, interest is recognised as it accrues and is calculated using the effective interest rate method. The effective interest rate is defined as the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument (or, when appropriate, a shorter period) to the net carrying amount of the financial asset or financial liability. Fees and commissions that are an integral part of the effective yield of the financial assets or liabilities are recognised as an adjustment to the effective interest rate of the instrument.

1.10.3 Rental Income

Rental income is accounted for on an accruals basis.

1.10.4 Fair value gains and losses on financial assets

Fair values gains and losses comprise both realised and unrealised gains and losses.

Realised gains and losses recorded in the income statement include gains and losses on the disposal of financial assets and liabilities.

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

1.10.5 Gains on the realisation of investments and related expenses

Realised investment gains and losses are calculated as the difference between net sales proceeds and their original cost. Related expenses are accounted for on an accruals basis.

1.11 Other operating income – third party administration contracts

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. Revenue generated from TPA contracts is recognised over time as the services are performed and the contract obligations are fulfilled. Invoices are prepared based on rate tables specified in the contracts.

1.12 Leases

1.12.1 The Group as Lessor

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

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.

1.12.2 The Group as Lessee

At lease inception date, a right-of-use asset and corresponding lease liability are recognised at an amount equal to the present value of the minimum lease payments. As lease payments are made, these reduce the lease liability. Right-of-use assets are measured at cost less accumulated depreciation and accumulated impairment. The lease liability is subsequently remeasured to reflect any lease modifications.

For leases with a term of 12 months or less, or for low value assets, the lease expense is charged to the income statement on a straight line basis.

For empty or sub-let properties any anticipated shortfall, between projected rent expense and income, is provided for in full at appropriate discounted rates and the provision is released as this expense is incurred.

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

1.13 Foreign Currencies

1.13.1 Functional and presentation currency

Items included in the Consolidated Financial Statements for 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 Great British Pound, which is the Group's presentation and functional currency. Exchange differences arising upon consolidation of foreign entities and subsequent translation to the presentational currency are recorded in the Consolidated Statement of Comprehensive Income.

1.13.2 Transactions and balances

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined. Exchange differences on monetary items are recognised in the income statement when they arise.

1.14 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 contract 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.

1.15 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.

1.16 Retirement benefits

The Group operates one defined benefit pension scheme, the ReAssure Staff Pension Scheme, which is closed to future accruals. The Group follows the provisions on IAS 19 'Employee Benefits' in accounting for the scheme. The cost of providing benefits is determined using the projected unit credit valuation method.

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 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.

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

1.17 Current income tax

Current tax comprises tax payable on current period profits, adjusted for non-tax deductible or non-taxable items, and any adjustments to tax payable in respect of previous periods. 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.

1.18 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.

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

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

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 charged or credited directly to equity.

1.19 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.

For the years ended 31 December 2016 and 2017, the Group had a deferred tax asset in relation to its policyholders' assets such that the income tax arising on policyholders' investment returns is included within shareholder tax. For the year ended 31 December 2018, the deferred tax asset was unwound and therefore this income tax was not included in the shareholder tax.

1.20 Property, plant and equipment

Certain designated land and buildings are carried at fair value on the Consolidated Statement of Financial Position. Fair value is determined annually, using the revaluation model as set out in IAS 16 'Property, plant and equipment', by independent professional valuers, who are members of the Royal Institution of

Chartered Surveyors, and is based on market evidence. An increase in fair value is recognised in other comprehensive income, except to the extent that it is the reversal of a previous revaluation decrease which was recognised in profit or loss. A decrease in fair value is recognised immediately in the 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.

Other property, plant and equipment is stated at cost, net of depreciation and any provision for impairment. 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:

Computer equipment	Between 3-5 years
Fixtures, fittings and office equipment	Between 3-5 years

1.20.1 Impairment of tangible assets

The carrying amounts of tangible assets 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. An impairment loss is recognised whenever the asset's carrying amount or its cash-generating unit exceeds its recoverable amount. The recoverable amount is the greater of the net selling price and value in use. 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.

1.21 Investment property

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

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

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

Included within investment property is land and buildings which are subject to an in-force policy. These are valued on a reversionary basis. The reversionary basis represents the partnership'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 18. The partnership values properties that are no longer subject to an in-force policy on an open market vacant possession value basis.

1.22 Intangible assets

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

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

The asset is amortised and the discount unwound on a systematic basis in the 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 carrying value of the asset is assessed annually using current cashflow assumptions consistent with the cash flow assumptions used for associated insurance liabilities in order to determine whether any impairment has arisen compared to the amortised acquired value based on assumptions made at the time of acquisition and any impairment is recognised in full in the Consolidated Statement of Comprehensive Income in the year it is identified. For PVIF where an impairment has previously been recognised, if, in future years, the recoverability of the PVIF asset had it not been impaired is now recoverable then the earlier impairment recognised would not be reversed.

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

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

1.22.1 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.

1.22.2 Impairment of intangible assets

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

1.23 Financial Investments

The Group classifies on initial recognition, other financial investments into the following classes: financial assets at fair value through profit or loss (FVTPL) ; held to maturity; or loans and receivables.

Financial investments

The classification reflects the purpose for which investments were acquired or originated. Where the fair value category is used, this reflects the Group's strategy to manage its financial investments acquired to cover its long-term insurance contract liabilities. These financial investments are managed and their performance is evaluated by the Group on a fair value basis.

All regular way purchases and sales of financial investments are recognised on the trade date i.e. the date the 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 at FVTPL are initially recognised at fair value, being the consideration paid for the acquisition of the investments, excluding all transaction costs. Subsequent to initial recognition, these investments are measured at fair value, fair value being the price that would be received to sell that asset in an orderly transaction between market participants at the measurement date. Fair value adjustments are recorded in the Consolidated Income Statement. Financial assets at FVTPL include derivative financial instruments.

The fair values of financial instruments traded in active markets are based on quoted bid prices at the period end date.

The fair values of financial instruments that are not traded in an active market (for example, unlisted equities and certain corporate bonds) are established by the directors using valuation techniques such as quotations from independent third parties e.g. brokers or pricing services, or by using internally developed pricing models. Priority is given to publicly available prices from independent sources when available, but overall the source of pricing and/or the valuation technique is chosen with the objective of arriving at a fair value measurement which reflects the price at which an orderly transaction would take place between market participants on the measurement date. The valuation techniques include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow and embedded value analysis and may include a number of assumptions relating to variables such as credit risk and interest rates. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of these financial investments. Where discounting techniques are applied, the discount rate is based on current market rates applicable to financial instruments with similar characteristics. Interest accrued to date is not included in the fair value of the financial asset. In pricing bonds acquired in private placements, the Group utilises the services of external fund managers. The Group's fund managers are more adept to analysing assets at a granular level, in conjunction with industry experience of micro and macro market data, ultimately contributing to a value considered accurate and appropriate.

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

1.23.1.1 Derivative financial instruments

Derivatives are financial instruments, classified as held for trading financial assets, whose value changes in response to an underlying variable, which require little or no net initial investment and are settled at a future date. Derivatives with positive values are reported as assets and derivatives with negative values are reported as liabilities. All derivatives are recognised in the Consolidated Statement of Financial Position at fair value. All changes in fair value are recognised in the Consolidated Income Statement.

1.23.1.2 Collateral

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

1.23.1.3 Loans

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, that the Group does not intend to sell in the near future or for which the holder may not recover all of its initial investment, other than because of credit deterioration. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investments. All qualifying transaction costs directly attributable to the acquisition are also included in the cost of the investments. Subsequent to initial recognition, some of these investments are carried at amortised cost, using the effective interest rate method. Gains and losses are recognised in the Consolidated Income Statement when the investments are sold or impaired, as well as through the amortisation process. Loans not held at amortised cost are held at fair value.

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.

1.23.1.4 Impairment of financial assets

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

- significant financial difficulty of the issuer or debtor;
- breach of contract, such as a default or delinquency in payments;
- it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;

- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  – adverse changes in the payment status of issuers or debtors in the group; or
  – national or local economic conditions that correlate with defaults on the assets in the group.

The 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, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Where debtors have remained outstanding for more than three months, it is considered that the carrying value is impaired and as such these debtor balances are provided against in full. The impairment loss is recognised in the Consolidated Income Statement for the year.

1.23.1.5 De-recognition and offset of financial instruments

A financial asset is derecognised when the contractual rights to the asset's cash flows expire, when the Group has transferred 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.

1.24 Other assets and receivables

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

1.25 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.

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.

1.26 Insurance Contracts

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

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

The Group holds insurance contracts in non-profit, with-profit and unit-linked funds.

1.26.1. Insurance contracts in the non-profit funds

Insurance contracts in the non-profit funds are measured using a gross premium method. The liability is determined as the sum of the discounted value of the expected benefits, future administrative expenses directly related to the contract and investment expenses, less the discounted value of expected future premiums. The liabilities are based on demographic assumptions that are updated each year generally using recent experience and industry data. For annuities, the assumptions are best estimate assumptions and the liabilities include an explicit margin for risk based on 6% cost of capital calculated under Solvency II Standard Formula. For other liabilities, each individual assumption includes a margin for risk and adverse deviation.

Economic assumptions are required for future inflation of benefits and expenses and to derive the discount rates. The economic assumptions are based on market data at the period end date. For annuities within the Matching Adjustment ("MA") portfolios, the discount rates are equal to the European Insurance and Occupational Pensions Authority (EIOPA) risk-free rates plus relevant Matching Adjustment, whilst annuities outside the Matching Adjustment fund use the EIOPA risk-free rates. The Matching Adjustment includes a deduction for credit risk, this is based directly on the Fundamental Spread information published by EIOPA. For other liabilities, the discount rate is based on the yield on assets available to back these liabilities, with an allowance made for default risk.

The Group has three Management Service Agreements ("MSA") in place for the administration of the in-force policies: an MSA between ReAssure Limited and ReAssure UK Services Limited (RUKSL) covering the administration of the ReAssure business; an MSA between ReAssure Limited and 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 have been set to the fees expected to be paid under the MSAs, with the exception of Ark Life which bases its expense assumptions on planned expenses rather than expected fees under the MSA.

A provision is made in ReAssure Midco Limited ("Group Expenses") for the costs arising in the service companies in respect of managing the existing insurance business in ReAssure Limited in excess of the MSA fees. The additional costs are projected over the lifetime of the business and a reserve calculated using the same basis used in ReAssure Limited to determine the additional insurance liabilities required for the respective policies. The ReAssure Midco Limited provision is then the additional insurance liabilities determined from calculation above plus a prudent margin based on all costs required to manage the existing insurance business. In ReAssure Limited there is no margin on the expense due to the fixed nature of the service company agreement. When calculating the provision for 2017 and 2016 financial year ends, the estimated costs of managing the Group's existing insurance business have been increased by £4.0m and £25.0m respectively, to include some costs which were historically incurred outside of the Group and its subsidiary companies. This is due to the fact that post separation from the Swiss Re Group, these costs will be incurred within the ReAssure Group therefore, adjusting historic expenses ensures that the approach to calculating the provision is consistent and that the profitability of the Group is comparable throughout the entire period covered by the Historic Financial Information ("HFI"). The costs included were borne by one of the holding companies, ReAssure Jersey One Ltd, and relate to governance costs including the costs of internal audit.

1.26.2 Insurance contracts in the with-profit and unit-linked funds

For with-profits contracts in the Guardian Assurance, National Mutual and Windsor Life With-Profit Funds, 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.

In the Guardian Assurance With-Profits Fund the assets are closely matched to the liabilities and that allows the liabilities, including policy options and guarantees, to be calculated on a deterministic basis. For the National Mutual and Windsor Life With-Profit Funds (NMWPF and WLWPF respectively) an allowance has been included for the cost of policy options and guarantees using a stochastic model calibrated to market conditions applied as at the valuation date.

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

Contracts with unit-denominated payments are measured at current unit values, which reflect the fair values of the assets of the fund. For unit-linked contracts subject to actuarial funding, the Group recognises a liability at the funded amount of the units. The difference between the gross value of the units and the funded value is treated as an initial fee paid by the policyholder for future asset management services and is deferred. It is subsequently amortised over the period determined at the point of acquisition or a shorter period, if appropriate. An additional reserve is held where, on a prudent basis, it is estimated the future cash outflows cannot be covered by future cash inflows. With-profit policies are measured on a best estimate basis with an adjustment for unallocated divisible surplus. The Group has elected to classify the unallocated divisible surplus as an insurance contract liability in the balance sheet as it is not for the use of policyholders outside the with-profits fund or for other business purposes.

1.26.3 Liability adequacy testing

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

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

1.27 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 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 period end date is classified as a liability to the reinsurer. Reinsurance contracts that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Reinsurers' share of liabilities represent future balances due from reinsurance providers that are dependent on the expected claims and benefits arising under the related reinsured contracts. They are measured consistently with those amounts associated with the related insurance contracts and in accordance with recognised actuarial best practice having due regard to collectability including market data on the financial strength of each of the reinsurance companies. Reinsurance payables are primarily premiums payable for reinsurance contracts. Reinsurance contracts with insufficient insurance risk transfer are accounted for as investment or service contracts, depending on the nature of the agreement.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting period. Impairment occurs when there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Group may not receive all outstanding amounts due under the terms of the contract. Any impairment loss is recorded in net income in the statement of comprehensive income. They are subject to impairment testing and are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party. Gains or losses on purchasing reinsurance are recognised in the income statement at the date of purchase and are not amortised.

1.27.1 Intra-group retrocession arrangements ("IGRs")

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

1.28 Allocation of with-profits surpluses and unallocated divisible surplus

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

The National Mutual with-profits fund ("NMWPF") is a 100:0 fund. As such, all the surplus arising in the NMWPF is retained for future allocations to policyholders.

1.29 Embedded derivatives

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

1.30 Investment contracts

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

1.30.1 Investment contracts with discretionary participation features

Some investment contracts in the With-Profit Funds have participation features whereby the policyholder has the right to receive potentially significant additional benefits which are based on the performance of a specified pool of investments held by the Group. If the Group has discretion over the amount or timing of the distribution of the returns to customers, the investment contract liability is measured based on the accounting principles that apply to insurance contracts with similar features. Investment contracts with discretionary participation features are accounted for under IFRS 4.

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

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

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

1.30.2 Investment contracts without discretionary participation features

Investment contracts without discretionary participation features are designated as being held at fair value through profit or loss. Contracts with unit-denominated payments are measured at current unit values, which reflect the fair values of the assets of the fund. Investment contracts without discretionary participation features are accounted for under IAS 39 with premiums collected and claims paid being deposit accounted as a change in the investment contract liabilities in the Consolidated Income Statement.

1.31 Other financial liabilities

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

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

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

1.32 Deposits received from reinsurers

Cash or marketable securities are obtained to cover certain reinsurance transactions creating an obligation to repay until the conditions to utilise them are satisfied. Deposits received from reinsurers are recognised initially at fair value plus incremental direct transaction costs, and are subsequently measured at fair value through profit and loss.

1.33 Provisions and contingent assets/liabilities

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 contingency is disclosed in the notes to the Consolidated Financial Statements.

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

1.33.1 Contingent assets and liabilities

Contingent assets are disclosed in the notes if the inflow of economic benefits is probable, but not virtually certain. When the inflow of economic benefits becomes virtually certain, the asset is no longer contingent and its recognition is appropriate. A provision is recognised for present legal or constructive obligations arising from past events, when it is probable that it will result in an outflow of economic benefits and the amount can be reliably estimated. If the outflow of economic benefits is not probable, a contingent liability is disclosed, unless the possibility of an outflow of economic benefits is remote.

1.34 Offsetting of 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.

1.35 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.

1.36 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.

1.37 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 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.

1.38 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 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 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 insurance or investment contract, determining whether there is any indication that 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 PVIF and customer relationship intangible assets, the fair value of financial instruments and investment properties, and the measurement of defined benefit pension scheme obligations.

The Group's non-GAAP measure of performance (operating profit) involves both key accounting judgments and estimation uncertainty.

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 1.7. 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. Investment contracts that contain a discretionary participation feature are recognised and measured as insurance contracts. Insurance contracts and investment contracts with a discretionary participation feature are with-profits contracts and are measured in accordance with the accounting policy in note 1.26. Unit-linked investment contracts are measured in accordance with the accounting policy in note 1.30.

The Group's long-term insurance business is divided into five sub-funds: the NMWPF, the WLWPF, the GAWPF; the NPF and the Ark non-profit fund ("Ark NPF").

The NMWPF contains some of the business from the National Mutual Life Assurance Society when the latter demutualised in April 2002. This is predominantly with-profits business and a small amount of non-profit business. It is closed to new business (apart from a small number of increases to existing policies). The WLWPF is also predominantly with-profits business and a small amount of non-profit business. This fund was closed to new business in July 2012. Both NMWPF and WLWPF are being run so that over time, as the policies in each fund mature or otherwise discontinue, all assets are distributed. The GAWPF is closed to new business and is being run so that over time the distribution of the estate held within the fund is achieved by using bonus surplus to enhance asset share returns. Once the admissible value of the assets in the GAWPF falls below a stated level, then management actions can be considered to merge the fund with another with-profits fund and also consider potential conversion to non-profit status, subject to the appropriate approvals. Both the NPF and Ark NPF contain a mix of unit-linked and non-profit business.

Additional reserves for expenses are held at a group level for expenses in excess of those permitted at the solo level. For these reserves, judgement is applied in the allocation of expenses.

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

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

The Group is required to estimate the value of liabilities for asset shares and future guarantees and options for the with-profits contracts. The estimates of the value of future guarantees and options, in particular, are subject to estimation uncertainty and may not represent the ultimate amounts paid out to satisfy claims by policyholders (even before allowing for future enhancements to distribute the surplus assets). In all reasonably foreseeable circumstances any change in the estimates of the value of options and guarantees will result in an offsetting movement in asset shares, or the unallocated distributable surplus. Since the unallocated distributable surplus is presented as a liability, the total liabilities recognised for contracts within the with-profits funds is not subject to significant estimation uncertainty. Further details of the assumptions used to measure insurance contract liabilities is set out in note 26. Further details of the future guarantees and options in with-profits contracts is provided in note 27. Sensitivities are disclosed in note 28.

2.2 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. Financial instruments classified as Level 3 in the fair value hierarchy are particularly subject to estimation uncertainty. Note 20 provides a detailed analysis of the carrying value of financial instruments by their level in the fair value hierarchy and information about the sensitivity of the measurement of financial instruments classified as Level 3 in the fair value hierarchy.

2.3 Fair value of investment properties

The Group holds investments in investment 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. The reversionary basis represents the partnership'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 inputs used in the measurement and the range of possible values.

2.4 PVIF intangible assets

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

In situations where the recoverable amount is considered to be lower than the carrying amount an impairment charge is recognised in the income statement. There was no impairment identified in the current year. Carrying values of intangible assets are disclosed in note 16.

2.5 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. This view is considered to 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 are provided in note 32.

2.6 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. Having majority voting rights is not the deciding factor in the assessment of control of collective investment schemes. Therefore, the Group undertakes a full assessment of control by reference to factors such as whether the Group is able to influence the activities of the schemes and unilaterally appoint and remove key management personnel. As at 31 December 2018, the Group holds investments in nine collective investment schemes in which it has the majority of the voting rights. These are not consolidated into the financial statements of the Group as the definition of control under IFRS 10 is not judged to have been satisfied in relation to these entities. The carrying value of these schemes reported in the financial statements of the Group as at 31 December 2018 is £3.0bn. If these collective investment schemes were consolidated both assets and liabilities would increase by £0.6bn.

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 4. The long term economic assumptions 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 are a source of estimation uncertainty.

3. Premiums and reinsurance revenue

a) Gross premiums written

	2018	**2017**	**2016**
	£m	**£m**	**£m**
Gross premium income is made up of:			
Insurance contracts	442.4	352.6	386.4
Participating investment contracts	5.0	4.0	5.7
	447.4	**356.6**	**392.1**
Premiums ceded to reinsurers	(403.1)	(416.1)	(429.7)
Net premium revenue	**44.3**	**(59.5)**	**(37.6)**
Reinsurance Recoveries	462.1	481.3	492.1
Changes in reinsurers' share of insurance and investment contract liabilities	(131.3)	(337.8)	(139.1)
	330.8	**143.5**	**353.0**

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 an expense of £72.3m for the year ended 31 December 2018 (2017: £272.6m, 2016: £76.7m).

	2018	2017	2016
	£m	**£m**	**£m**
Premiums ceded to reinsurers	(403.1)	(416.1)	(429.7)
Reinsurance recoveries	462.1	481.3	492.1
Changes in reinsurers' share of insurance and investment contract liabilities	(131.3)	(337.8)	(139.1)
Expense	**(72.3)**	**(272.6)**	**(76.7)**

4. Operating segments

The Group defines and presents operating segments based on the information which is provided to the Board, and 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. For reporting purposes, business units are aggregated where they share similar economic characteristics including the nature of products and services, types of customers and the nature of the regulatory environment. As such, ReAssure Life is considered to be the Group's only reportable segment, which includes all the UK insurance activities. 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 costs arising in excess of the MSA (see note 1.26.1), as well as all consolidation adjustments.

Segment performance based on profit or loss and the assets and liabilities of the Group, in certain respects, is presented differently from profit or loss in 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 after 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

The acquisitive strategy of the Group results in significant one off costs being incurred for integration projects and the creation of PVIF 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.

Segmental income statement for the year ending 31 December 2018

	ReAssure Life 2018	Unallocated Group 2018	Total 2018
	£m	**£m**	**£m**
Revenue			
Gross premiums written	391.9	55.5	447.4
Less: premiums ceded to reinsurers	(363.5)	(39.6)	(403.1)
Net premium revenue	**28.4**	**15.9**	**44.3**
Fee income	166.4	17.4	183.8
Investment income	1,393.6	15.7	1,409.3
Net fair value movements on financial assets/liabilities held	(2,532.8)	(76.1)	(2,608.9)
Other income	6.2	28.3	34.5
Net (expense)/ income	**(938.2)**	**1.2**	**(937.0)**
Expenses			
Policyholder claims	(1,806.9)	(58.7)	(1,865.6)
Less: claims recovered from reinsurers	428.4	33.7	462.1
Change in insurance contract liabilities	2,132.5	(42.7)	2,089.8
Change in investment contract liabilities	836.4	41.4	877.8
Change in reinsurers' share of insurance contract liabilities	(197.5)	66.2	(131.3)
Change in reinsurers' share of investment contract liabilities	—	—	—
Transfer to unallocated divisible surplus	26.0	—	26.0
Net policyholder claims and benefits incurred	**1,418.9**	**39.9**	**1,458.8**
Administration expenses	(270.5)	(139.5)	(410.0)
Total income/(expense)	**1,418.4**	**(99.6)**	**1,048.8**
Profit/(loss) before finance costs and tax	**190.4**	**(98.4)**	**91.7**
Finance costs	(7.8)	0.8	(7.0)
Profit before tax	202.4	(97.6)	104.8
Policyholder Tax	11.2	(2.1)	9.1
Profit/(loss) before tax (attributable to owners of the Group)	**213.6**	**(99.7)**	**113.9**
Less:			
Economic experience and assumptions changes on long term business	(2.5)	(1.3)	(3.8)
Amortisation and impairments of intangible assets	86.9	34.5	121.4
External financing costs	1.0	(0.8)	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	12.9	(12.9)	—
Dividends received from subsidiaries, associates and joint ventures	(22.3)	22.3	—
Mandatory regulatory change	—	—	—
Integration, restructuring and other significant one-off projects	45.6	3.1	48.7
Any other items which, in the Directors' view, should be disclosed separately	—	—	—
Total Adjustments	**121.6**	**41.9**	**163.5**
Operating Profit	**335.2**	**(57.8)**	**277.4**

Segmental income statement for the year ending 31 December 2017

	ReAssure Life 2017	Unallocated Group 2017	Total 2017
	£m	£m	£m
Revenue			
Gross premiums written	298.4	58.2	356.6
Less: premiums ceded to reinsurers	(374.6)	(41.5)	(416.1)
Net premium revenue	**(76.2)**	**16.7**	**(59.5)**
Fee income	151.1	18.7	169.8
Investment income/(expense)	1,561.9	(69.3)	1,492.6
Net fair value movements on financial assets/liabilities held	1,776.1	62.3	1,838.4
Other income	1.0	30.4	31.4
Net income	**3,413.9**	**58.8**	**3,472.7**
Expenses			
Policyholder claims	(1,905.9)	(133.8)	(2,039.7)
Less: claims recovered from reinsurers	444.1	37.2	481.3
Change in insurance contract liabilities	2,101.4	50.6	2,152.0
Change in investment contract liabilities	(2,062.2)	(89.8)	(2,152.0)
Change in reinsurers' share of insurance contract liabilities	(378.9)	41.1	(337.8)
Change in reinsurers' share of investment contract liabilities	—	—	—
Transfer to unallocated divisible surplus	(8.8)	—	(8.8)
Net policyholder claims and benefits incurred	**(1,810.3)**	**(94.7)**	**(1,905.0)**
Administration expenses	(261.3)	(54.7)	(316.0)
Total expenses	**(2,071.6)**	**(149.4)**	**(2,221.0)**
Profit/(loss) before finance costs and tax	**1,365.3**	**(90.6)**	**1,274.7**
Finance costs	(6.8)	(0.6)	(7.4)
Profit/(loss) before tax	**1,358.5**	**(91.2)**	**1,267.3**
Policyholder Tax	(12.3)	(4.3)	(16.6)
Profit/(loss) before tax (attributable to owners of the Group)	**1,346.2**	**(95.5)**	**1,250.7**
Less:			
Economic experience and assumptions changes on long term business	(276.7)	(3.6)	(280.3)
Amortisation and impairments of intangible assets	3.2	36.5	39.7
External financing costs	0.9	0.6	1.5
Gains or losses on disposal of subsidiaries, associates and joint ventures (net of related costs of disposal)	—	—	—
Impairment of investments in subsidiaries, associates or joint ventures	97.6	(97.6)	—
Dividends received from subsidiaries, associates and joint ventures	(109.7)	109.7	—
Mandatory regulatory change	—	—	—
Integration, restructuring and other significant one-off projects	(157.5)	(10.4)	(167.9)
Any other items which, in the Directors' view, should be disclosed separately	—	—	—
Total Adjustments	**(442.2)**	**35.2**	**(407.0)**
Operating Profit/(loss)	904.0	(60.3)	843.7

Segmental income statement for the year ending 31 December 2016

	ReAssure Life 2016	Unallocated Group 2016	Total 2016
	£m	£m	£m
Revenue			
Gross premiums written	334.7	57.4	392.1
Less: premiums ceded to reinsurers	(388.9)	(40.8)	(429.7)
Net premium revenue	**(54.2)**	**16.6**	**(37.6)**
Fee income	150.0	17.9	167.9
Investment income/(expense)	1,570.9	(19.4)	1,551.5
Net fair value movements on financial assets/liabilities held	4,652.6	90.6	4,743.2
Other income	417.9	35.4	453.3
Net income	**6,737.2**	**141.1**	**6,878.3**
Expenses			
Policyholder claims	(2,341.1)	(549.8)	(2,890.9)
Less: claims recovered from reinsurers	465.5	26.6	492.1
Change in insurance contract liabilities	(784.0)	698.0	(86.0)
Change in investment contract liabilities	(2,842.1)	(111.8)	(2,953.9)
Change in reinsurers' share of insurance contract liabilities	53.0	(187.0)	(134.0)
Change in reinsurers' share of investment contract liabilities	(5.2)	—	(5.2)
Transfer to unallocated divisible surplus	(17.1)	—	(17.1)
Net policyholder claims and benefits incurred	**(5,471.0)**	**(124.0)**	**(5,595.0)**
Administration expenses	574.3	(923.3)	(349.0)
Total expenses	**(4,896.7)**	**(1,047.3)**	**(5,944.0)**
Profit/(loss) before finance costs and tax	**1,840.5**	**(906.2)**	**934.3**
Finance costs	(8.6)	0.8	(7.8)
Profit/(loss) before tax	**1,831.9**	**(905.4)**	**926.5**
Policyholder Tax	(18.7)	—	(18.7)
Profit/(loss) before tax (attributable to owners of the Group)	**1,813.2**	**(905.4)**	**907.8**
Less:			
Economic experience and assumptions changes on long term business	30.7	2.0	32.7
Amortisation and impairments of intangible assets	8.1	40.4	48.5
External financing costs	2.2	(0.9)	1.3
Gains or losses on disposal of subsidiaries, associates and joint ventures (net of related costs of disposal)	—	—	—
Impairment of investments in subsidiaries, associates or joint ventures	32.1	(32.1)	—
Dividends received from subsidiaries, associates and joint ventures	(57.1)	57.1	—
Mandatory regulatory change	—	—	—
Integration, restructuring and other significant one-off projects	(145.9)	3.7	(142.2)
Any other items which, in the Directors' view, should be disclosed separately	40.6	(457.1)	(416.5)
Total Adjustments	**(89.3)**	**(386.9)**	**(476.2)**
Operating Profit/(loss)	**1,723.9**	**(1,292.3)**	**431.6**

Integration, restructuring and other significant one-off projects include the impact of a Matching Adjustment extension project of £197.0m and £184.3m for 2017 and 2016, respectively. The project was a one-off exercise spanning 2016 and 2017 which assessed additional assets for compliance with Matching Adjustment criteria. Movements in and out of the Matching Adjustment fund are anticipated in the future but not to such a significant extent.

Other ReAssure Life items of £40.6m relates to the impact of the Part VII Transfer of the Guardian business into ReAssure Limited. Refer to note 43 for more detail.

Other Unallocated Group items of £457.1m relates to the release of negative acquired value of in force business to income upon the acquisition of Guardian. Refer to note 42 for more detail.

Segmental balance sheet as at 31 December 2018

	ReAssure Life 2018	**Unallocated Group 2018**	**Total 2018**
	£m	**£m**	**£m**
Assets			
Present value of in-force business	97.4	338.3	435.7
Deferred acquisition costs	566.2	24.7	590.9
Investments in group undertakings	469.6	(469.6)	—
Property, plant and equipment	3.7	14.1	17.8
Investment property	720.8	137.1	857.9
Financial assets	36,215.5	1,548.9	37,764.4
Assets relating to reinsurance activities	1,711.6	139.5	1,851.1
Insurance contract receivables	20.5	—	20.5
Cash and cash equivalents	1,627.8	509.8	2,137.6
Other assets	485.8	112.2	598.0
Reportable segment assets	**41,918.9**	**2,355.0**	**44,273.9**
Liabilities			
Insurance contract liabilities	(20,913.9)	(628.5)	(21,542.2)
Investment contract liabilities	(18,098.5)	(1,454.1)	(19,552.6)
Borrowings	(244.3)	244.3	—
Liabilities relating to reinsurance activities	(503.4)	350.3	(153.1)
Payables related to direct insurance contracts	(27.3)	(1.2)	(28.5)
Other Liabilities	(362.2)	(138.7)	(500.9)
Reportable segment liabilities	**(40,149.4)**	**(1,627.9)**	**(41,777.3)**
Reportable segment net assets	**1,769.5**	**727.1**	**2,496.6**

Segmental balance sheet as at 31 December 2017

	ReAssure Life 2017	Unallocated Group 2017	Total 2017
	£m	£m	£m
Assets			
Present value of in-force business	100.5	369.4	469.9
Deferred acquisition costs	—	27.9	27.9
Investments in group undertakings	482.2	(482.2)	—
Property, plant and equipment	3.5	17.6	21.1
Investment property	691.0	155.9	846.9
Financial assets	41,026.4	1,683.4	42,709.8
Assets relating to reinsurance activities	1,862.7	47.9	1,910.6
Insurance contract receivables	24.8	—	24.8
Cash and cash equivalents	2,670.6	480.9	3,151.5
Other assets	599.8	51.5	651.3
Reportable segment assets	**47,461.5**	**2,352.3**	**49,813.8**
Liabilities			
Insurance contract liabilities	(23,057.0)	(577.0)	(23,634.0)
Investment contract liabilities	(20,404.1)	(1,611.2)	(22,015.3)
Borrowings	(242.9)	242.9	—
Liabilities relating to reinsurance activities	(511.6)	356.2	(155.4)
Payables related to direct insurance contracts	(25.7)	(0.9)	(26.6)
Other Liabilities	(484.0)	(186.4)	(670.4)
Reportable segment liabilities	**(44,725.3)**	**(1,776.4)**	**(46,501.7)**
Reportable segment net assets	**2,736.2**	**575.9**	**3,312.1**

Segmental balance sheet as at 31 December 2016

	ReAssure Life 2016	Unallocated Group 2016	Total 2016
	£m	£m	£m
Assets			
Present value of in-force business	103.8	401.8	505.6
Deferred acquisition costs	—	30.8	30.8
Investments in group undertakings	(306.3)	306.3	—
Property, plant and equipment	3.0	16.1	19.1
Investment property	751.3	180.4	931.7
Financial assets	42,061.1	1,753.1	43,814.2
Assets relating to reinsurance activities	2,275.9	(40.7)	2,235.2
Insurance contract receivables	20.3	—	20.3
Cash and cash equivalents	1,746.4	602.7	2,349.1
Other assets	555.2	82.7	637.9
Reportable segment assets	**47,210.7**	**3,333.2**	**50,543.9**
Liabilities			
Insurance contract liabilities	(25,152.8)	(608.3)	(25,761.1)
Investment contract liabilities	(19,784.2)	(1,616.8)	(21,401.0)
Borrowings	(242.9)	242.9	—
Liabilities relating to reinsurance activities	(528.7)	356.0	(172.7)
Payables related to direct insurance contracts	(22.7)	—	(22.7)
Other liabilities	(456.7)	(225.8)	(682.5)
Reportable segment liabilities	**(46,188.0)**	**(1,852.0)**	**(48,040.0)**
Reportable segment net assets	**1,022.7**	**1,481.2**	**2,503.9**

Geographical Information

	(Expense)/ Revenue	Net Assets
	£m	£m
As at 31 December 2018		
United Kingdom	(928.7)	2,301.7
Europe	(8.3)	194.9
	(937.0)	**2,496.6**
As at 31 December 2017		
United Kingdom	3,342.3	3,113.2
Europe	130.4	199.0
	3,472.7	**3,312.2**
As at 31 December 2016		
United Kingdom	6,717.4	2,263.9
Europe	160.9	240.0
	6,878.3	**2,503.9**

5. Profit for the year

Profit for the year has been arrived at after charging/(crediting):

	2018	2017	2016
	£m	£m	£m
Depreciation of property, plant and equipment	4.5	4.0	4.2
Amortisation of PVIF	34.2	35.7	36.7
Release of negative acquired value of in force business to income	—	—	(457.1)
Audit fees (see note 13)	4.1	4.1	3.3
Staff costs (see note 14)	94.8	99.0	100.2
	137.6	**142.8**	**(312.7)**

6. Fee income

	2018	2017	2016
	£m	£m	£m
Annual management charges applied to linked funds	172.1	158.7	154.8
Policy administration fees	6.2	5.0	6.7
Bid/offer spread and other income	5.5	6.1	6.4
	183.8	**169.8**	**167.9**

Annual management charges are charged at a fixed percentage of the value of assets under administration. The percentage is set at contract inception with reference to the market rates and the type of assets under administration. For some contracts the percentage applied to existing contracts may be reviewed periodically, but for the majority of the contracts issued by the Group the percentages are fixed for the duration of the contract. The weighted average rates charged in 2018, excluding charges made at policy level via unit deductions, were 0.96% (2017: 0.97%, 2016: 0.97%).

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

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

7. Other income

	2018	2017	2016
	£m	**£m**	**£m**
Other income arising upon acquisition of subsidiary (see note 42)...	—	—	457.1
Impairment recognised on Part VII transfers (see note 43)	—	—	(40.6)
Revenue generated from third party administration contracts............	27.6	30.5	34.5
Profit on disposal of subsidiary (see note 47)	3.0	—	—
Other Income	3.9	0.9	2.3
	34.5	**31.4**	**453.3**

Following the Part VII transfer in 2016, as detailed in note 43, an impairment was immediately recognised of £40.6m.

8. Investment (Expense)/Income

	2018	2017	2016
	£m	£m	£m
Rental income from investment property	36.4	38.9	51.4
Income from other investments			
– Debt securities	753.1	814.8	864.1
– Equity securities	539.0	548.5	542.8
Interest income on loans and deposits at amortised cost	0.1	0.1	0.6
Other	80.7	90.4	92.6
Total income from other investments	**1,372.9**	**1,453.8**	**1,500.1**
Net (losses)/gains on the realisation of investments:			
Financial assets at fair value through profit or loss upon initial recognition:			
– Debt securities	(20.4)	128.2	277.2
– Equity securities	1,467.7	1,466.4	548.0
– Investment properties	5.6	48.3	22.1
Financial assets at fair value through profit or loss, held for trading:			
– Derivatives	(26.8)	24.5	0.9
– Other	35.0	(57.3)	4.5
Total net gains on the realisation of investments	**1,461.1**	**1,610.1**	**852.7**
Net unrealised (losses)/gains on investments:			
Financial assets at fair value through profit or loss upon initial recognition:			
– Debt securities	(883.9)	(33.8)	1,273.9
– Equity securities	(3.201.3)	275.5	2,287.2
– Investment properties	22.5	16.2	(6.8)
Financial assets at fair value through profit or loss, held for trading:			
– Derivatives	(4.2)	(14.3)	317.1
Other	(3.1)	(5.6)	34.4
Total net unrealised (losses)/gains on investments	**(4,070.0)**	**238.0**	**3,905.8**
Net fair value losses on financial liabilities	—	(9.8)	(15.3)
Total investment (expense)/income	**(1,199.6)**	**3,331.0**	**6,294.7**

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

9. IFRS 9 deferral

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

The Group applies the temporary exemption from IFRS 9 Financial instruments, as defined in the amendment "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – IFRS 4 amendments" issued by the IASB in September 2016. This amendment allows an entity to defer the implementation of IFRS 9 until 2021 if its activities are predominantly connected with insurance, to enable the introduction of IFRS 9 to be aligned to the introduction of IFRS 17, 'Insurance Contracts'. The IASB has recently announced that the introduction of IFRS 17 will be delayed by 12 months therefore, it is expected that IFRS 4 will be updated to enable entities to defer the implementation of IFRS 9 by a further 12 months until 2022, to re-align to IFRS 17. As a result, should this be approved, the Group expects that it will continue to apply IAS 39 'Financial Instruments: Recognition and Measurement' in its Consolidated Financial Statements until the reporting period beginning on 1 January 2022.The Group performed an assessment of the amendments and reached the conclusion that its activities are predominantly connected with insurance as at 31 December 2015.

The Group concluded that it qualified for the temporary exemption from IFRS 9 because its activities are predominantly connected with insurance. The Group's percentage of its gross liabilities from contracts within the scope of IFRS 4 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 comprise the liabilities arising from contracts within the scope of IFRS 4 for a total amount of £13,273.6 million, liabilities from non-derivative investment contracts measured as at Fair Value Through Profit or Loss ('FVTPL') for a total amount of £14,627.8 million and liabilities that arise as the insurer fulfils obligations arising from contracts within the scope of IFRS 4 and non-derivative investment contract liabilities measured at FVTPL (e.g. liabilities for other payables directly associated with those obligations) for a total amount of £352.4 million.

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

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

(i) 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; and,

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

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

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

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

Fair Values as at 31 December, 2018

	Financial instruments with contractual cash flows that have been assessed against SPPI criteria, excluding those held for trading				
Financial assets	**Financial assets that passed SPPI**	**Financial assets measured on a Fair Value basis**	**Total**	**Financial instruments held for trading**	**Total Fair Value Amount**
	£m	**£m**	**£m**	**£m**	**£m**
Debt Securities	—	15,323.0	15,323.0	3,876.4	19,199.4
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 receivables (excluding tax receivable)	196.0	—	196.0	—	196.0
Derivatives	—	—	—	13.7	13.7
Cash and cash equivalents	2,137.6	—	2,137.6	—	2,137.6
Total financial assets	**2,338.1**	**16,050.7**	**18,388.8**	**21,709.2**	**40,098.0**

Fair Values as at 31 December, 2017

Financial assets	Financial instruments with contractual cash flows that have been assessed against SPPI criteria, excluding those held for trading				
	Financial assets that passed SPPI	Financial assets measured on a Fair Value basis	Total	Financial instruments held for trading	Total Fair Value Amount
	£m	£m	£m	£m	£m
Debt Securities	—	17,357.4	17,357.4	3,850.6	21,208.0
Equity Securities	—	—	—	14,094.9	14,094.9
Loans	5.6	633.4	639.0	—	639.0
Collective Investment Schemes	—	—	—	6,749.7	6,749.7
Other receivables	274.3	—	274.3	—	274.3
Derivatives	—	—	—	18.2	18.2
Cash and cash equivalents	3,151.5	—	3,151.5	—	3,151.5
Total financial assets	**3,431.4**	**17,990.8**	**21,422.2**	**24,713.4**	**46,135.6**

Fair Values as of 31 December, 2016

Financial assets	Financial instruments with contractual cash flows that have been assessed against SPPI criteria, excluding those held for trading				
	Financial assets that passed SPPI	Financial assets measured on a Fair Value basis	Total	Financial instruments held for trading	Total Fair Value Amount
	£m	£m	£m	£m	£m
Debt Securities	—	18,123.6	18,123.6	4,313.0	22,436.6
Equity securities	—	—	—	13,413.8	13,413.8
Loans	776.7	—	776.7	—	776.7
Collective Investment Schemes	—	—	—	7,052.5	7,052.5
Other receivables	209.3	—	209.3	—	209.3
Derivatives	—	—	—	134.6	134.6
Cash and cash equivalents	2,349.1	—	2,349.1	—	2,349.1
Total financial assets	**3,335.1**	**18,123.6**	**21,458.7**	**24,913.9**	**46,372.6**

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

Change in fair value 2017 to 2018

Financial assets	Financial assets that passed SPPI	Financial assets measured on a Fair Value Basis	Total	Financial Instruments held for trading	Total Fair Value Amount
	£m	£m	£m	£m	£m
Debt Securities	—	(2,034.4)	(2,034.4)	25.8	(2,008.6)
Equity Securities	—	—	—	(899.1)	(899.1)
Loans	(1.1)	94.3	93.2	—	93.2
Collective Investment Schemes	—	—	—	(2,126.4)	(2,126.4)
Other receivables	(78.3)	—	(78.3)	—	(78.3)
Derivatives	—	—	—	(4.5)	(4.5)
Cash and cash equivalents	(1,013.9)	—	(1,013.9)	—	(1,013.9)
Total financial assets	**(1,093.3)**	**(1,940.1)**	**(3,033.4)**	**(3,004.2)**	**(6,037.6)**

Change in fair value 2016 to 2017

Financial assets	Financial assets that passed SPPI	Financial assets measured on a Fair Value basis	Total	Financial instruments held for trading	Total Fair Value Amount
	£m	£m	£m	£m	£m
Debt Securities	—	(766.3)	(766.3)	(462.4)	(1,228.7)
Equity Securities	—	—	—	681.1	681.1
Loans	(771.1)	633.4	(137.7)	—	(137.7)
Collective Investment Schemes	—	—	—	(302.8)	(302.8)
Other receivables	65.0	—	65.0	—	65.0
Derivatives	—	—	—	(116.4)	(116.4)
Cash and cash equivalents	802.4	—	802.4	—	802.4
Total financial assets	**96.3**	**(132.9)**	**(36.6)**	**(200.5)**	**(237.1)**

For financial assets whose cash flows represent SPPI, excluding any financial assets that meet the definition of held for trading in IFRS 9, or that are managed and whose performance is evaluated on a fair value basis, the table below provides information on credit risk exposure (rated by Ratings Inc.). The financial assets are categorised by asset class with a carrying amount measured in accordance with IAS 39 measurement requirements (in the case of financial assets measured at amortised cost, before adjusting for any impairment allowances).

As at 31 December 2018	Loans	Other receivables	Cash and Short term deposits
	£m	£m	£m
AAA	—	—	509.6
AA	—	1.6	848.5
A	—	—	673.8
BBB	—	—	87.1
BB	—	—	—
B	—	—	—
CCC	—	—	—
Without external rating	4.5	194.4	18.6
Total	**4.5**	**196.0**	**2,137.6**

As at 31 December 2017	Loans	Other receivables	Cash and Short term deposits
	£m	£m	£m
AAA	—	—	304.7
AA	—	1.8	1,786.3
A	—	—	1,030.2
BBB	—	—	13.3
BB	—	—	—
B	—	—	—
CCC	—	—	—
Without external rating	5.6	272.5	17.0
Total	**5.6**	**274.3**	**3,151.5**

As at 31 December 2016	Loans	Other receivables	Cash and Short term deposits
	£m	£m	£m
AAA	—	—	418.2
AA	—	1.1	787.3
A	—	—	999.3
BBB	—	—	101.2
BB	—	0.1	—
B	—	—	—
CCC	—	—	—
Without external rating	6.9	208.2	43.1
Total	**6.9**	**209.4**	**2,349.1**

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 from the financial assets held by the Group. The financial assets are categorized by asset class with a carrying amount and fair value measured in accordance with IAS 39 measurement requirements.

As at 31 December 2018	Carrying Amount	Fair Value
	£m	£m
– Loans	4.5	4.5
– Other receivables	194.4	194.4
– Cash and cash equivalents	14.4	14.4
	213.3	**213.3**

As at 31 December 2017	Carrying Amount	Fair Value
	£m	£m
– Loans	5.6	5.6
– Other receivables	272.5	272.5
– Cash and cash equivalents	—	—
	278.1	**278.1**

As at 31 December 2016	Carrying Amount	Fair Value
	£m	£m
– Loans	776.7	776.7
– Other receivables	208.2	208.2
– Cash and cash equivalents	14.2	14.2
	999.1	**999.1**

10. Administration expenses

	2018	2017	2016
	£m	**£m**	**£m**
Amortisation of PVIF asset	34.2	35.7	36.7
Amortisation of DAC asset	87.3	4.0	7.0
Amortisation of capitalised AMCs	—	—	4.9
Investment management expenses	57.3	48.0	54.6
FX differences arising on conversion of intercompany dividend payments	0.3	1.9	2.6
Other administrative expenses	230.9	226.4	243.2
	410.0	**316.0**	**349.0**

Other administrative expenses includes employee benefit related costs as disclosed in note 14 and other miscellaneous expenditure.

11. Finance costs

	2018	2017	2016
	£m	**£m**	**£m**
Interest costs on deposits received from reinsurers	6.3	5.9	7.3
Interest expense on lease liabilities	0.5	0.5	0.5
Net interest expense on defined benefit obligation (see note 32)	0.2	1.0	—
	7.0	**7.4**	**7.8**

12. Claims and benefits

a) Claims and benefits paid

	2018	2017	2016
	£m	**£m**	**£m**
Claims and benefits paid, before reinsurance			
Insurance contracts	1,712.5	1,956.0	2,785.8
Participating investment contracts	153.1	83.7	105.1
	1,865.6	**2,039.7**	**2,890.9**
Reinsurance recoveries			
Insurance contracts	**(462.1)**	**(481.3)**	**(492.1)**
Claims and benefits paid, after reinsurance			
Insurance contracts	1,250.4	1,474.7	2,293.7
Participating investment contracts	153.1	83.7	105.1
	1,403.5	**1,558.4**	**2,398.8**

b) 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.

13. Auditors' remuneration

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

	2018	2017	2016
	£m	£m	£m
Audit Services:			
Fees payable for the audit of the Group's annual Consolidated Financial Statements	0.1	0.1	0.1
Fees payable for the audit of the Group's subsidiaries	1.6	1.3	1.1
Total Audit Fees	**1.7**	**1.4**	**1.2**
Non-audit services:			
Audit related assurance services	1.9	2.0	1.3
Other assurance services	0.5	0.7	0.8
Total non-audit fees	**2.4**	**2.7**	**2.1**
Total fees	**4.1**	**4.1**	**3.3**

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

14. Staff costs

All staff are employed by RUKSL, ReAssure Companies Services Limited or ReAssure FSH UK Limited.

	2018	2017	2016
	£m	£m	£m
Wages and salaries	80.9	86.3	87.2
Social security costs	7.8	7.8	8.0
Other pension costs	6.1	4.9	5.0
	94.8	**99.0**	**100.2**

Other pension costs relate to the defined benefit and the defined contribution scheme. There were outstanding contributions of £nil (2017: £nil, 2016: £0.1m) at the period end date.

15. Tax on profit for the year

a) Analysis of charge in the year

	2018	2017	2016
	£m	£m	£m
Current taxation			
UK corporation tax	(42.5)	(218.3)	(71.6)
Other	—	—	(78.8)
Adjustments in respect of prior periods	2.9	0.5	3.6
Total current tax charge for the year	**(39.6)**	**(217.8)**	**(146.8)**
Business transfer reversal	—	—	108.7
Deferred taxation			
Origination and reversal of timing differences	17.4	(23.5)	(40.9)
Business transfer	—	—	(23.3)
Impact of rate change	—	—	(1.9)
Adjustment in respect of prior periods	—	1.7	0.9
Tax charge attributable to the shareholders	(22.2)	(239.6)	(103.3)
Tax credit/(charge) attributable to the policyholders	9.1	(16.6)	(18.7)
Total tax charge on profit on ordinary activities	**(13.1)**	**(256.2)**	**(122.0)**

b) Reconciliation of tax charge on profit attributable to shareholders

The tax assessed for the year is higher (2017: lower, 2016: lower) than the standard rate of corporation tax in the UK of 19% (2017: 19.25%, 2016: 20%). The differences are explained below:

	2018	2017	2016
	£m	£m	£m
Profit on ordinary activities before taxation	104.9	1,267.1	926.5
Tax on profit on ordinary activities at 19% (2017:19.25%, 2016: 20%)	(19.9)	(243.9)	(185.3)
Effects of:			
Non-taxable dividend income	(0.1)	(0.3)	1.3
Amounts written off investments	—	—	—
Permanent disallowable items	(0.4)	—	80.0
Transfer pricing adjustments	3.4	—	—
Impairment of subsidiaries	—	—	1.0
Adjustments in respect of prior years	2.9	2.0	4.1
Business transfer	—	—	(2.4)
Asset written off	—	—	4.1
Different basis of taxation for UK life insurance companies	(8.7)	(11.3)	(34.4)
Movement in value of deferred tax asset	3.0	(1.3)	38.0
Movement in value of tax provision	(5.1)	3.7	—
Foreign tax relief	2.7	1.8	1.7
Other	0.8	(3.3)	(1.6)
Impact of rate change	(2.4)	2.4	1.0
Tax charge attributable to the policyholders	1.7	10.6	(10.8)
Total tax charge for the year attributable to the shareholders	**(22.1)**	**(239.6)**	**(103.3)**
Effective tax rate	21.04%	18.92%	11.15%

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%.

16. Present value of in-force Business

	2018	2017	2016
	£m	£m	£m
Cost			
At 1 January	846.1	846.1	846.1
At 31 December	**846.1**	**846.1**	**846.1**
Accumulated amortisation			
At 1 January	376.2	340.5	303.8
Charge for the year	34.2	35.7	36.7
At 31 December	**410.4**	**376.2**	**340.5**
Net book value	**435.7**	**469.9**	**505.6**

PVIF assets are amortised consistently with the measurement of the related liabilities. The average period over which the PVIF assets are amortised is between 17 and 48 years. Annually, each PVIF asset is reviewed for impairment in accordance with the criteria outlined at note 1.22 above, there has been no impairment charge recorded in 2018 (2017: £nil, 2016: £nil).

17. Property, plant and equipment

i) Owner-occupied land and buildings

	2018	2017	2016
	£m	£m	£m
Cost or valuation and net book value of owner-occupied land and buildings			
At 1 January	3.4	3.0	3.0
Revaluation	0.3	0.4	—
At 31 December	**3.7**	**3.4**	**3.0**

ii) Property, plant and equipment

Included in the below are right-of-use assets under operating lease arrangements. See note 47.

	Land and Buildings	Computer equipment	Fixtures, fittings and office equipment	Total
	£m	£m	£m	£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
Revaluation	—	—	—	—
				(4.4)
Disposals	(1.7)	(0.5)	(2.2)	38.3
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

	Land and Buildings	Computer equipment	Fixtures, fittings and office equipment	Total
	£m	£m	£m	£m
Cost or valuation				
At 1 January 2017	10.6	19.1	5.0	34.7
Additions	—	5.2	0.4	5.6
Revaluation	—	—	—	—
Disposals	—	—	—	—
At 31 December 2017	**10.6**	**24.3**	**5.4**	**40.3**
Accumulated depreciation				
At 1 January 2017	2.6	12.8	3.2	18.6
Charge for the year	0.7	2.7	0.6	4.0
Disposals	—	—	—	—
At 31 December 2017	**3.3**	**15.5**	**3.8**	**22.6**
Carrying amounts				
At 31 December 2017	**7.3**	**8.8**	**1.6**	**17.7**
At 31 December 2016	8.0	6.3	1.8	16.1

	Land and Buildings	Computer equipment	Fixtures, fittings and office equipment	Total
	£m	£m	£m	£m
Cost				
At 1 January 2016	11.1	16.3	4.1	31.5
Additions	—	2.8	0.9	3.7
Revaluation	(0.5)	—	—	(0.5)
Disposals	—	—	—	—
At 31 December 2016	**10.6**	**19.1**	**5.0**	**34.7**
Accumulated depreciation				
At 1 January 2016	1.9	10.1	2.4	14.4
Charge for the year	0.7	2.7	0.8	4.2
Disposals	—	—	—	—
At 31 December 2016	**2.6**	**12.8**	**3.2**	**18.6**
Carrying amounts				
At 31 December 2016	**8.0**	**6.3**	**1.8**	**16.1**
At 31 December 2015	9.2	6.2	1.7	17.1

18. Investment property

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

	2018	2017	2016
	£m	£m	£m
Fair value at 1 January	846.9	931.7	990.4
Additions	2.4	0.7	21.5
Disposals	(25.4)	(101.3)	(69.9)
Change in fair value	34.0	15.8	(10.3)
Fair value at 31 December	**857.9**	**846.9**	**931.7**
Land and buildings at reversionary value	108.6	125.8	147.1
Land and buildings at open market value	749.3	721.1	784.6
	857.9	**846.9**	**931.7**

Land and buildings at open market value as at 31 December 2018 were valued by Knight Frank LLP or Savills, both firms of independent chartered surveyors. These are categorised as level 3 of the fair value hierarchy.

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.

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% (2017: 5% and 2016: 5%).

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

	Tables	Long term improvements
2018		
Male lives	PML08_HAWP 92.7%	CMI_2017_M [2.00%]
Female lives	PFL08_HAWP 96.3%	CMI_2017_F [2.00%]
2017		
Male lives	PML08 108.9%	CMI_2016_M [1.75%;S=7.75]
Female lives	PFL08 103.5%	CMI_2016_F [1.75%;S=7.75]
2016		
Male lives	PML08 111.6%	CMI_2014_M[LTR=1.75%]
Female lives	PFL08 108.9%	CMI_2014_F[LTR=1.75%]

The mortality assumption is based on the PML08_HAWP (2017: PML08, 2016: PML08) table for males and the PFL08_HAWP (2017: PFL08, 2016: PFL08) 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.

As at 31 December 2018 the Group had capital commitments in respect of Investment Properties of £1.8m (2017: £1.5m, 2016: £2.1m). There were no restrictions on the realisability of investment property or the remittance of income and proceeds of disposal (2017: £nil, 2016: £nil).

During the year there were no additions resulting from acquisitions through business combinations (2017: £nil, 2016: £12.5m).

19. Subsidiaries

a) Subsidiary undertakings

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

Company	Principal activity	Holding
Direct subsidiaries		
ReAssure Limited	Long-term insurance	100%
ReAssure UK Services Limited	Management service company	100%
ERIP General Partner Limited	Management service company	80%
ReAssure FSH UK Limited	Management service company	100%
G Life H Limited	Intermediate holding company	100%
BL Telford Limited	Non-trading	100%
Reassure UK Life Assurance Limited	Non-trading	100%
Reassure Life Limited	Non-trading	100%
NM Life Trustees Limited	Non-trading	100%
NM Pensions Limited	Non-trading	100%
ReAssure Pension Trustees Limited	Dormant	100%
Indirect subsidiaries		
Ark Life Assurance Company Dac (Ireland)	Long-term insurance	100%
ReAssure Companies Services Limited	Management service company	100%
ERIP Limited Partnership	Manage real estate	99.5%
G Assurance & Pension Services Limited	Non-trading	100%
ReAssure Linked Life Limited	Non-trading	100%
ReAssure Pensions Management Limited	Non-trading	100%
Namulas Pension Trustees Limited	Dormant	100%
Gresham Life Assurance Society Limited	Dormant	100%
ReAssure Trustees Limited	Dormant	100%
G Financial Services Limited	Dormant	100%
G Trustees Limited	Dormant	100%
ReAssure Nominees Limited	Dormant	100%
ReAssure FS Limited	Dormant	100%

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

During the year, the Group disposed of two dormant subsidiaries, C Financial Management Limited and Guardian Assurance Limited, refer to note 48 'Disposal of Subsidiary'.

b) Interests in unconsolidated structured entities

The following table details the Group's interests in unconsolidated structured entities (included in debt securities in the Statement of Financial Position) and the maximum exposure to loss from holding these investments in 2018 (2017: £458.4m, 2016: £679.6m):

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

20. Financial Instruments

a) Carrying value by measurement category

Financial Assets	Carrying value 2018	Carrying value 2017	Carrying value 2016	Fair value 2018	Fair value 2017	Fair value 2016
	£m	£m	£m	£m	£m	£m
Financial assets at fair value through profit and loss designated upon initial recognition	37,876.4	42,899.5	43,834.6	37,876.4	42,899.5	43,834.6
Derivatives at fair value through profit and loss	13.7	18.2	134.6	13.7	18.2	134.6
Loans at fair value through profit and loss	727.7	633.4	769.8	727.7	633.4	769.8
Loans at amortised cost	4.5	5.6	6.9	4.5	5.6	6.9
Total financial assets	**38,622.3**	**43,556.7**	**44,745.9**	**38,622.3**	**43,556.7**	**44,745.9**
Included in balance sheet as follows:						
Listed investments:						
Shares and other variable yield securities	13,195.8	14,094.9	13,413.8	13,195.8	14,094.9	13,413.8
Debt securities and other fixed income securities	19,199.4	21,208.0	22,436.6	19,199.4	21,208.0	22,436.6
Total listed investments	**32,395.2**	**35,302.9**	**35,850.4**	**32,395.2**	**35,302.9**	**35,850.4**
Unlisted investments:						
Units in unit trusts	4,623.3	6,749.7	7,052.5	4,623.3	6,749.7	7,052.5
Loans secured by mortgages	0.5	0.5	0.5	0.5	0.5	0.5
Other loans	731.7	638.5	776.2	731.7	638.5	776.2
Derivatives	13.7	18.2	134.6	13.7	18.2	134.6
Investment Property	857.9	846.9	931.7	857.9	846.9	931.7
Total unlisted investments	**6,227.1**	**8,253.8**	**8,895.5**	**6,227.1**	**8,253.8**	**8,895.5**
Total financial investments	**38,622.3**	**43,556.7**	**44,745.9**	**38,622.3**	**43,556.7**	**44,745.9**

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 costs for which the carrying value is an approximation of fair value.

Financial Liabilities	Carrying value 2018	Carrying value 2017	Carrying value 2016	Fair value 2018	Fair value 2017	Fair value 2016
	£m	£m	£m	£m	£m	£m
Investment contract liabilities	19,552.6	22,015.3	21,401.0	19,552.6	22,015.3	21,401.0
Derivatives	112.5	128.2	219.5	112.5	128.2	219.5
Deposits received from reinsurers	103.9	124.9	138.4	103.9	124.9	138.4
Total financial liabilities	**19,769.0**	**22,268.4**	**21,758.9**	**19,769.0**	**22,268.4**	**21,758.9**

b) Determination of fair values and fair value hierarchy

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

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Level 1 inputs are the most persuasive evidence of fair value and are to be used whenever possible.
- Level 2 inputs are market-based inputs that are directly or indirectly observable but not considered level 1 quoted prices. Level 2 inputs consist of (i) quoted prices for similar assets or liabilities in active markets; (ii) quoted prices for identical assets or liabilities in non-active markets (e.g. markets which have few transactions and prices that are not current or price quotations vary substantially); (iii) inputs other than quoted prices that are observable (e.g. interest rates, yield curves, volatilities, prepayment speeds, credit risk and

default rates); and (iv) inputs that are derived from or corroborated by observable market data.

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

The following tables present the Group's assets and liabilities measured at fair value at 31 December 2018; 31 December 2017; and 31 December 2016.

Assets as at 31 December 2018	**Level 1**	**Level 2**	**Level 3**	**Total items held at FVTPL**
	£m	**£m**	**£m**	**£m**
Financial assets at FVTPL:				
Debt Securities	—	18,484.8	714.6	19,199.4
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
Investment Property	—	—	857.9	857.9
Derivatives	0.7	13.0	—	13.7
	17,811.7	18,505.8	2,300.3	38,617.8

Assets as at 31 December 2017	**Level 1**	**Level 2**	**Level 3**	**Total items held at FVTPL**
	£m	**£m**	**£m**	**£m**
Financial assets at FVTPL				
Debt Securities	170.4	20,320.9	716.7	21,208.0
Equity Securities	14,087.0	7.8	0.1	14,094.9
Loans	—	—	633.4	633.4
Collective Investment Schemes	6,539.1	210.6	—	6,749.7
Investment Property	—	—	846.9	846.9
Derivatives	0.8	17.4	—	18.2
	20,797.3	20,556.7	2,197.1	43,551.1

Assets as at 31 December 2016	**Level 1**	**Level 2**	**Level 3**	**Total items held at FVTPL**
	£m	**£m**	**£m**	**£m**
Financial assets at FVTPL				
Debt Securities	213.3	21,804.8	418.5	22,436.6
Equity Securities	13,404.2	9.6	—	13,413.8
Loans	—	—	769.8	769.8
Collective Investment Schemes	7,004.0	48.5	—	7,052.5
Investment Property	—	—	931.7	931.7
Derivatives	9.5	124.8	0.3	134.6
	20,631.0	21,987.7	2,120.3	44,739.0

Liabilities as at 31 December 2018	Level 1	Level 2	Level 3	Total balance
	£m	£m	£m	£m
Financial liabilities under investment contracts		17,384.3	—	**17,384.3**
Derivative liabilities	0.7	13.8	98.0	**112.5**
Deposits received from reinsurers	—	—	103.9	**103.9**
	0.7	17,398.1	201.9	**17,600.7**

Liabilities as at 31 December 2017	Level 1	Level 2	Level 3	Total balance
	£m	£m	£m	£m
Financial liabilities under investment contracts	—	19,592.1	—	**19,592.1**
Derivative liabilities	0.7	16.4	111.1	**128.2**
Deposits received from reinsurers	—	—	124.9	**124.9**
	0.7	19,608.5	236.0	**19,845.2**

Liabilities as at 31 December 2016	Level 1	Level 2	Level 3	Total balance
	£m	£m	£m	£m
Financial liabilities under investment contracts	—	19,019.2	—	**19,019.2**
Derivative liabilities	9.9	83.4	126.2	**219.5**
Deposits received from reinsurers	—	—	138.4	**138.4**
	9.9	19,102.6	264.6	**19,377.1**

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.

Where we use broker quotes or valuations from independent third parties and no information as to the observability of inputs is provided, the investments are classified as follows:

- Where the valuation is validated by using internal models with market observable inputs and the values are similar, we classify the investment as Level 2.
- In circumstances where internal models are not used to validate valuations, or the observability of inputs used is unavailable, the investment is classified as Level 3.

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

c) Transfers between levels of the fair value hierarchy

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

2018	**From Level 1 to Level 2**	**From Level 2 to Level 1**
	£m	**£m**
Financial assets designated at FVTPL upon initial recognition:		
Collective Investment Schemes	—	175.9

2017	**From Level 1 to Level 2**	**From Level 2 to Level 1**
	£m	**£m**
Financial assets designated at FVTPL upon initial recognition:		
Collective Investment Schemes	205.1	—

2016	**From Level 1 to Level 2**	**From Level 2 to Level 1**
	£m	**£m**
Financial assets designated at FVTPL upon initial recognition:		
Debt Securities	1,256.3	—
Equity Securities	—	8.0
Collective Investment Schemes	—	266.7
	1,256.3	**274.7**

The above transfers in 2018 and 2017 were due to a change in pricing methodology. The transfers in 2016 were related to the Part VII of the Guardian business.

The following tables present the changes in Level 3 instruments for the years ended 31 December 2018; 31 December 2017; and 31 December 2016.

2018	**Opening balance at 1 January**	**Purchases during this year**	**Disposed during the year**	**(Losses)/gains recognised in the income statement**	**Transfer into Level 3**	**Foreign exchange impact upon translation**	**Closing balance at 31 December**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Financial Assets							
Financial assets designated at fair value through profit or loss upon initial recognition:							
Debt Securities	716.7	27.7	(9.5)	(20.2)	—	—	**714.6**
Equity Securities	0.1	—	—	—	—	—	**0.1**
Loans	633.4	235.5	(136.6)	(4.7)	—	—	**727.7**
Investment Property	846.9	2.4	(25.4)	34.0	—	—	**857.9**
	2,197.1	**265.6**	**(171.5)**	**9.1**	**—**	**—**	**2,300.3**
Financial Liabilities							
Derivative liabilities	111.1	—	(25.4)	12.3	—	—	**98.0**
Deposits received from reinsurers	124.9	—	—	(21.0)	—	—	**103.9**
	236.0	**—**	**(25.4)**	**(8.7)**	**—**	**—**	**201.9**

2017	**Opening balance at 1 January**	**Purchases during this year**	**Disposed during the year**	**Gains/(losses) recognised in the income statement**	**Transfer into Level 3**	**Foreign exchange impact upon translation**	**Closing balance at 31 December**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Financial Assets							
Financial assets designated at fair value through profit or loss upon initial recognition:							
Debt Securities	418.5	367.9	(42.3)	15.7	(43.1)	—	716.7
Equity Securities	—	0.1	—	—	—	—	0.1
Loans	769.8	168.0	(301.8)	(2.6)	—	—	633.4
Investment Property	931.7	0.7	(101.3)	15.8	—	—	846.9
	2,120.0	**536.7**	**(445.4)**	**28.9**	**(43.1)**	**—**	**2,197.1**
Financial assets designated at fair value through profit or loss (held for trading):							
Derivatives	0.3	—	(0.3)	—	—	—	**—**
	2,120.3	**536.7**	**(445.7)**	**28.9**	**(43.1)**	**—**	**2,197.1**
Financial Liabilities							
Derivative liabilities	126.2	—	(12.9)	(2.2)	—	—	**111.1**
Deposits received from reinsurers	138.4	—		(13.5)	—	—	**124.9**
	264.6	**—**	**(12.9)**	**(15.7)**	**—**	**—**	**236.0**

2016	Opening balance at 1 January	Purchases during this year	Disposed during the year	Gains/(losses) recognised in the income statement	Transfer into Level 3	Foreign exchange impact upon translation	Closing balance at 31 December
	£m	£m	£m	£m	£m	£m	£m
Financial Assets							
Financial assets designated at fair value through profit or loss upon initial recognition:							
Debt Securities	—	372.5	(1.7)	10.8	36.9	—	**418.5**
Equity Securities	0.1	—	(0.1)	—	—	—	**—**
Loans	31.3	727.9	(3.0)	13.6	—	—	**769.8**
Investment Property	990.4	21.5	(69.9)	(12.3)	—	2.0	**931.7**
	1,021.8	**1,121,9**	**(74.7)**	**12.1**	**36.9**	2.0	**2,120.0**
Financial assets designated at fair value through profit or loss (held for trading):							
Derivatives	—	—	(2.7)	3.0	—	—	**0.3**
	1,021.8	**1,121.9**	**(77.4)**	**15.1**	**36.9**	2.0	**2,120.3**
Financial Liabilities							
Derivative liabilities	143.9	—	(24.8)	7.1	—	—	**126.2**
Deposits received from reinsurers	141.4	—	—	(3.0)	—	—	**138.4**
	285.3	**—**	**(24.8)**	**4.1**	**—**	—	**264.6**

The above transfers were due to a change in pricing methodology.

d) 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 such small quantities do not have observable market prices. 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 using discounted cash flow models which are based on discount curves and spread inputs that require management's judgement.

Investment property: Land and buildings at open market value: Policyholder investment property

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

– The titles are good and marketable and free from rights of way or easements, restrictive covenants, disputes or onerous or unusual outgoings;

- The buildings have been constructed in full compliance with valid town planning and building regulations approvals and, if necessary, the benefit of current Fire Certificates;
- The information provided by the Fund and its advisors is correct; and
- The tenants are financial in a position to meet their obligations

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

Land and buildings at reversionary value

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

ii) Liabilities

Derivative liabilities – ERIP total return swap

The total return swap represents future generated cashflows 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% 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 21.

The cumulative change in fair value of the swap arrangement attributable to changes in credit risk to 31 December 2018 was £nil (2017: £nil, 2016: £nil).

Deposits received from reinsurers

Certain reinsurance arrangements require the reinsurer to deposit with the Group, the reinsured value of the reserves, and entitles the reinsurer to receive interest based on that deposit. The reinsured value of the reserves is equal to 90% 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 2018 was £nil (2017: £nil, 2016: £nil).

iii) Sensitivities

The tables below shows the sensitivity of the fair value of Level 3 assets and liabilities at 31 December 2018, 31 December 2017; and 31 December 2016 to changes in unobservable inputs to a reasonable alternative:

	2018 Fair Value	Most significant unobservable input	Reasonable alternative	Positive impact	Negative impact
	£m			£m	£m
Financial assets					
Debt securities					
Corporate	712.4	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)
Investment property					
At reversionary value	108.6	Discount Rate	+/- 1%	4.9	(4.7)
		Mortality assumption	-5%	—	(0.9)
Financial liabilities					
Derivative liabilities					
ERIP total return swap	98	Discount Rate	+/- 1%	3.8	(3.9)
		Mortality assumption	-5%	0.6	
Deposits received from reinsurers	103.9	Discount Rate	+/- 100bps	8.0	(9.1)
		Mortality assumption	-5%	—	(1.9)

	2017 Fair Value	Most significant unobservable input	Reasonable alternative	Positive impact	Negative impact
	£m			£m	£m
Financial assets					
Debt securities					
Corporate	714.2	Discount Rate	+/- 100bps	50.8	(50.8)
Government	2.4	Discount Rate	+/- 100bps	0.07	(0.1)
Loans					
Infrastructure	184.1	Discount Rate	+/- 100bps	13	(13.0)
Mortgage	449.3	Discount Rate	+/- 100bps	15.9	(15.9)
Investment property					
At reversionary value	125.8	Discount Rate	+/- 1%	5.7	(5.4)
		Mortality assumption	-5%	—	(1.0)
Financial liabilities					
Derivative liabilities					
ERIP total return swap	111.1	Discount Rate	+/- 1%	4.4	(4.8)
		Mortality assumption	-5%		
Deposits received from reinsurers	124.9	Discount Rate	+/- 100bps	10.5	(12.1)
		Mortality assumption	-5%	—	(2.8)

	2016 Fair Value	Most significant unobservable input	Reasonable alternative	Positive impact	Negative impact
	£m			£m	£m
Financial assets					
Debt securities					
Corporate	418.5	Discount Rate	+/- 100bps	21.9	(21.9)
Government	—	Discount Rate	+/- 100bps	—	—
Loans					
Infrastructure	423.7	Discount Rate	+/- 100bps	27.6	(27.6)
Mortgage	346.1	Discount Rate	+/- 100bps	16.2	(16.2)
Investment property					
At reversionary value	147.1	Discount Rate	+/- 1%	7.1	(6.6)
		Mortality assumption	-5%		(1.1)
Financial liabilities					
Derivative liabilities					
ERIP total return swap	126.2	Discount Rate	+/- 1%	5.1	(5.7)
		Mortality assumption	-5%	0.6	
Deposits received from reinsurers	138.4	Discount Rate	+/-100bps	12.1	(14.1)
		Mortality assumption	-0.05		(3.1)

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

21. Derivative assets and liabilities

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 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

		Fair Values	
2018	**Contract/ Notional Amount**	**Assets**	**Liabilities**
	£m	**£m**	**£m**
Non-profit/shareholder derivatives			
Interest rate contracts	1,498.5	4.8	(9.3)
Equity/Index derivatives	(191.1)	2.0	(0.1)
Forward foreign currency contracts	322.0	1.6	(0.8)
Other derivatives	1.0	—	(98.0)
	1,630.4	**8.4**	**(108.2)**
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**	**(112.5)**

2017	Contract/ Notional Amount	Fair Values Assets	Fair Values Liabilities
	£m	£m	£m
Non-profit/shareholder derivatives			
Interest rate contracts	987.9	9.5	(9.2)
Equity/Index derivatives	37.2	0.1	—
Forward foreign currency contracts	350.2	2.5	(1.9)
Other derivatives	1.0	—	(111.2)
	1,376.3	**12.1**	**(122.3)**
With-profit derivatives			
Interest rate contracts	649.1	3.1	(4.9)
Equity/Index derivatives	(215.4)	0.8	(0.7)
	433.7	**3.9**	**(5.6)**
Unit-linked derivatives			
Interest rate contracts	(61.7)	—	—
Equity/Index derivatives	76.9	2.2	(0.3)
	15.2	**2.2**	**(0.3)**
Total derivative assets and liabilities	**1,825.2**	**18.2**	**(128.2)**

2016	Contract/ Notional Amount	Fair Values Assets	Fair Values Liabilities
	£m	£m	£m
Non-profit/shareholder derivatives			
Interest rate contracts	2,126.1	72.7	(28.8)
Equity/Index derivatives	(200.2)	1.2	(3.8)
Forward foreign currency contracts	379.8	0.2	(4.7)
Other derivatives	4.5	0.3	(126.2)
	2,310.2	**74.4**	**(163.5)**
With-profit derivatives			
Interest rate contracts	(452.3)	51.2	(54.4)
Equity/Index derivatives	0.5	0.5	—
	(451.8)	**51.7**	**(54.4)**
Unit-linked derivatives			
Interest rate contracts	(28.3)	—	(0.2)
Equity/Index derivatives	49.7	5.8	(0.9)
Forward foreign currency contracts	2.2	2.7	(0.5)
	23.6	**8.5**	**(1.6)**
Total derivative assets and liabilities	**1,882.0**	**134.6**	**(219.5)**

Other derivatives primarily include the ERIP total return swap representing future generated cashflows 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.

b) The Group does not have any derivatives that are designated as hedging instruments (2017: same, 2016: same).

c) Maturity analysis – gross undiscounted cashflows.

The tables below shows 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.

2018	**Within 1 year**	**1-5 years**	**Over 5 years**	**Total**
	£m	**£m**	**£m**	**£m**
Cash inflows				
Non-profit/shareholder derivatives				
Derivative assets	276.2	49.3	105.1	430.6
Derivative liabilities	63.2	15.5	103.5	182.2
With-profit derivatives				
Derivative assets	4.6	13.8	22.7	41.1
Derivative liabilities	1.0	3.8	11.0	15.8
Unit-linked derivatives				
Derivative assets	0.6	—	—	0.6
	345.6	**82.4**	**242.3**	**670.3**
Cash outflows				
Non-profit/shareholder derivatives				
Derivative assets	271.7	34.5	71.8	378.0
Derivative liabilities	80.5	101.6	197.4	379.5
With-profit derivatives				
Derivative assets	4.4	13.8	17.3	35.5
Derivative liabilities	1.5	5.9	17.2	24.6
Unit-linked derivatives				
Derivative assets	0.7	—	—	0.7
Derivative liabilities	(1.8)	—	—	(1.8)
	357.0	**155.8**	**303.7**	**816.5**
Net non-profit/shareholder	(12.8)	(71.3)	(60.6)	(144.7)
Net with-profit derivative cashflows	(0.3)	(2.1)	(0.8)	(3.2)
Net unit-linked derivative cashflows	1.7	—	—	1.7

2017	Within 1 year	1-5 years	Over 5 years	Total
	£m	£m	£m	£m
Cash inflows				
Non-profit/shareholder derivatives				
Derivative assets	193.0	18.9	71.8	283.7
Derivative liabilities	164.2	8.8	36.8	209.8
With-profit derivatives				
Derivative assets	1.6	4.9	19.2	25.7
Derivative liabilities	1.8	7.2	9.9	18.9
Unit-linked derivatives				
Derivative assets	2.2	—	—	2.2
	362.8	**39.8**	**137.7**	**540.3**
Cash outflows				
Non-profit/shareholder derivatives				
Derivative assets	192.7	11.2	58.9	262.8
Derivative liabilities	180.5	101.2	119.2	400.9
With-profit derivatives				
Derivative assets	1.6	4.3	7.3	13.2
Derivative liabilities	4.1	16.3	26.0	46.4
Unit-linked derivatives				
Derivative liabilities	(0.3)	—	—	(0.3)
	378.6	**133.0**	**211.4**	**723.0**
Net non-profit/shareholder	(16.0)	(84.7)	(69.5)	(170.2)
Net with-profit derivative cashflows	(2.3)	(8.5)	(4.2)	(15.0)
Net unit-linked derivative cashflows	2.5	—	—	2.5

2016	Within 1 year	1-5 years	Over 5 years	Total
	£m	£m	£m	£m
Cash inflows				
Non-profit/shareholder derivatives				
Derivative assets	25.1	99.3	1,829.3	1,953.7
Derivative liabilities	7.7	156.4	453.2	617.3
With-profit derivatives				
Derivative assets	3.0	29.1	179.9	212.0
Derivative liabilities	53.4	260.1	293.0	606.5
Unit-linked derivatives				
Derivative assets	8.5	—	—	8.5
	97.7	**544.9**	**2,755.4**	**3,398.0**
Cash outflows				
Non-profit/shareholder derivatives				
Derivative assets	8.9	61.9	1,819.7	1,890.5
Derivative liabilities	32.1	246.8	514.1	793.0
With-profit derivatives				
Derivative assets	0.6	19.6	138.5	158.7
Derivative liabilities	60.9	283.3	318.9	663.1
Unit-linked derivatives				
Derivative liabilities	1.6	—	—	1.6
	104.1	**611.6**	**2,791.2**	**3,506.9**
Net non-profit/shareholder derivative cashflows	(8.2)	(53.0)	(51.3)	(112.5)
Net with-profit derivative cashflows	(5.1)	(13.7)	15.5	(3.3)
Net unit-linked derivative cashflows	6.9	—	—	6.9

22. Deferred tax

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

2018	Net tax asset/ (liability) as at 1 January	Adjustments in respect of prior years	Transfer	Tax (charge)/ credit to equity	Tax (charge)/ credit to income statement	Charged to Part VII loss on transfer	Net tax asset/ (liability) as at 31 December
	£m	£m	£m	£m	£m	£m	£m
Capital Losses	36.7	—	—	—	(5.6)	—	31.1
Pension scheme	7.7	(7.7)	—	(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)	—	—
Deferred tax attributable to business transfer	—	—	—	—	—	—	—
Consolidation adjustment	82.8	—	—	—	28.4	—	111.2
Other deferred	6.6	—	—	1.2	(10.6)	—	(2.8)
Total Deferred tax asset	**23.9**	**(8.3)**	**—**	**(2.8)**	**45.4**	**—**	**58.2**

2017	Net tax asset/ (liability) as at 1 January	Adjustments in respect of prior years	Transfer	Tax (charge)/ credit to equity	Tax (charge)/ credit to income statement	Charged to Part VII loss on transfer	Net tax asset/ (liability) as at 31 December
	£m	£m	£m	£m	£m	£m	£m
Capital Losses	38.0	—	—	—	(1.3)	—	36.7
Pension scheme	13.3	—	—	(5.6)	—	—	7.7
Present value of future profits	(70.2)	—	—	—	5.8	—	(64.4)
Transitional adjustment arising on movement to new tax regime	38.9	—	(16.8)	—	(3.6)	—	18.5
Excess expenses	21.4	0.4	—	—	(19.4)	—	2.4
Unrealised chargeable gains	(71.7)	1.1	(7.6)	—	3.8	—	(74.4)
Deferred acquisition expenses	0.7	—	0.4	—	(0.3)	—	0.8
Change of reserving basis	9.8	—	—	—	(2.6)	—	7.2
Deferred tax attributable to business transfer	(23.3)	0.4	22.9	—	—	—	—
Consolidation Adjustment	89.6	—	—	—	(6.8)	—	82.8
Other deferred	7.8	(0.1)	1.1	—	(2.2)	—	6.6
Total Deferred tax asset	**54.3**	**1.8**	**—**	**(5.6)**	**(26.6)**	**—**	**23.9**

2016	Net tax asset/ (liability) as at 1 January	Adjustments in respect of prior years	Transfer	Tax (charge)/ credit to equity	Tax (charge)/ credit to income statement	Charged to Part VII loss on transfer	Net tax asset/ (liability) as at 31 December
	£m	£m	£m	£m	£m	£m	£m
Capital Losses	—	—	—	—	38.0	—	38.0
Pension scheme	0.1	—	—	13.2	—	—	13.3
Present value of future profits	(81.5)	—	—	—	7.1	4.2	(70.2)
Transitional adjustment arising on movement to new tax regime	27.4	—	—	—	(5.3)	16.8	38.9
Excess expenses	59.4	1.0	—	—	(39.0)	—	21.4
Unrealised chargeable gains	(58.1)	—	—	—	(20.1)	6.5	(71.7)
Deferred acquisition expenses	1.0	—	—	—	(0.3)	—	0.7
Change of reserving basis	82.4	—	—	—	(72.6)	—	9.8
Deferred tax attributable to business transfer	—	—	—	—	(23.3)	—	(23.3)
Consolidation adjustment	53.9	—	—	—	35.7	—	89.6
Other deferred	56.8	—	—	—	(49.0)	—	7.8
Total Deferred tax asset	141.4	1.0	—	13.2	(128.8)	27.5	54.3

Consolidation adjustments principally relate to the Group expense provision (refer to note 1.26.1).

23. Prepayments and accrued income

	2018	2017	2016
	£m	£m	£m
Accrued investment income	313.9	341.5	358.2
Accrued rent receivable	0.1	—	0.2
	314.0	**341.5**	**358.4**

All amounts stated above are due within one year.

24. Other receivables

	2018	2017	2016
	£m	£m	£m
Current income tax receivable	14.7	11.6	15.9
Collateral debtor	91.3	105.0	71.7
Other debtors	71.7	126.6	90.1
Net amounts from Swiss Re Group	33.0	42.7	47.5
	210.7	**285.9**	**225.2**

These balances are receivable within one year from the period end date.

Collateral debtors represent amounts receivable as collateral on certain reinsurance arrangements, with a corresponding liability recorded. The total liabilities recorded under these arrangements are disclosed in note 34.

25. Cash and cash equivalents

	2018	2017	2016
	£m	£m	£m
Cash	179.3	234.2	301.6
Cash equivalents	1,958.4	2,917.3	2,047.5
	2,137.6	**3,151.5**	**2,349.1**

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.

26. Insurance contract liabilities

ReAssure Limited

For non-profit insurance contracts, in-force business liabilities are determined using a gross premium valuation method which entails projecting forward cashflows on a policy by policy basis. For annuity business in the Matching Adjustment funds, the technical provisions under IFRS are set equal to the Solvency II best estimate liabilities discounted using the Matching Adjustment rate with an explicit margin for risk based on a 6% cost of capital calculated using the Solvency II Standard Formula. The matching adjustment is determined on the yield on the assets in the matching adjustment fund allowing for deductions for credit risk based on the EIOPA fundamental spread. Annuities outside the matching adjustment are set equal to the Solvency II best estimate cashflows discounted at the EIOPA risk free rate with an explicit margin for risk based on a 6% cost of capital calculated using the Solvency II Standard Formula. For income protection claims in payment, the liability is determined by projecting cashflows (with an allowance for prudence) and discounting them at a rate based on the yield available on the backing assets with a deduction for risk (the discount rate used at 31 December 2018 was 2.52% which included an overall deduction for risk of 0.63%.) For all other non-profit policies the liabilities for insurance contracts are determined projecting cashflows (with an allowance for prudence in the demographic assumptions) and discounting them using a rate based on the 15 year gilt yield. As the liabilities for insurance contracts are predominantly annuities in payment, the most material assumptions are the discount rate used to discount future annuity payments and annuitant mortality.

For with-profit policies in the NMWPF and the WLWPF the technical provisions have been calculated using an approach that takes into account the contractual obligations to pay future bonuses and uses market consistent techniques to value options and guarantees. Full provision has been made for all future bonuses expected to be paid. An allowance has also been included for the cost of policy options and guarantees using a stochastic economic model calibrated to market prices 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 are based on historic experience. The assumptions for mortality, persistency and the take-up rate of guarantees are realistic best estimate, based on own and industry experience. The liabilities in the NMWPF allow for the full distribution of the assets in the fund. The liabilities in the WLWPF allow for the full distribution of the assets in the fund, other than those allocated to non-participating business in which the with-profits policyholders have no interest.

For insurance contracts in respect of with-profit and unit-linked policies, the policyholder bears the majority of the risks associated with the underlying investments. Shareholders' future profits are affected by future investment returns. For with-profit business, reduced investment returns lead to lower with profit fund surpluses and thus to reduced future bonuses. For unit linked business, annual management charges ("AMCs") are reduced if the unit linked fund suffers poor investment returns.

For the with-profits policies in the GAWPF stochastic modelling has not been used reflecting the matched position of GAWPF where a close matching investment philosophy has been adopted to such an extent that the fixed interest portfolio is effectively a replicate portfolio for the guarantees and options within the fund.

A prospective basis has been used for all other contracts, namely deferred annuities. Future cash flows have been calculated and then discounted at a risk free rate of zero coupon swap rates plus a spread adjustment. The spread adjustment is an allowance for liquidity (70 basis points) less investment expenses (6 basis points). The liquidity adjustment is the spread over the risk free rate of zero coupon swaps required to reproduce the market value of these contracts adjusted for liquidity. The amount of liquidity is calculated as the minimum of the total available liquidity or the liquidity as a percentage of total market value of assets backing these contracts. These future cash flows include the shareholders' share of reversionary bonus on with-profits deferred annuities that have been reassured to the NPF. The equity component of the asset share has also been calculated and added to the with-profits benefit reserve.

Ark Life

The Ark Life insurance business consists of non-profit life and pension, savings, protection and unit-linked policies. Non-linked actuarial liabilities are valued using a gross premium valuation method, while the 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.

Given the nature of the business, the most material assumptions are policyholder mortality, persistency and the rates used to discount future cashflows.

Main valuation assumptions

For annuity business in the Non-Profit Fund, the discount rates used are determined by reference to basic risk-free interest rates prescribed by EIOPA. A Matching Adjustment is applied to certain blocks of annuity business. The business covered by the Matching Adjustment is discounted using the MA rate that is calculated using a risk-adjusted yield in excess of the risk-free rates taking a specified portfolio of assets and matching cashflows on the liabilities. The size of the Matching Adjustment depends on the actual spread on the Matching Portfolio of assets, and the credit quality of those assets. The Matching Adjustment rate applied at 31 December 2018 is 1.05%. Annuities not covered by the 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 annuities in payment, the mortality assumption is generally based on the PMA08 table for males and the PFA08 table for females with CMI High Age Mortality Working Party (HAMWP) adjustments at high ages, adjusted to reflect the historic experience of the business concerned. The mortality rates are projected using future mortality improvements from the CMI_2017 model. The mortality improvements have been set using the extended version of the CMI model (with a smoothing parameter S(k)=7.75) and a long-term rate of improvement of 1.50% for both males and females. For annuities written on enhanced terms, the base mortality rates are adjusted to allow for the pattern of additional mortality the lives concerned are expected to exhibit, according to the circumstances that gave rise to the enhancement with no further adjustment to mortality improvements.

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

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

The Group has three Management Service Agreements ("MSA") in place for the administration of the in-force policies: an MSA between ReAssure Limited and RUKSL covering the administration of the ReAssure business; an MSA between ReAssure 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 have been set to the fees expected to be paid under the MSAs, with the exception of Ark Life which bases its expense assumptions on planned expenses rather than expected fees under the MSA.

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

	2018	2017	2016
Discount rates (p.a.)			
Non-profit business			
Annuities-in-payment (NPF) – ex-RAL MA......	EIOPA RFR + MA rate of 1.05%	EIOPA RFR + MA rate of 0.79%	EIOPA RFR + MA rate of 1.00%
Annuities-in-payment (NPF) – ex-Guardian MA	EIOPA RFR + MA rate of 1.05%	EIOPA RFR + MA rate of 0.81%	EIOPA RFR + MA rate of 0.94%
Annuities-in-payment (NPF) – non-MA............	EIOPA RFR	EIOPA RFR	EIOPA RFR
Other NPF products – ex-RAL (IP claims in payment).......................................	2.52%	1.72%	1.71%
Other NPF products – ex-Guardian (IP claims in payment).......................................	2.52%	1.72%	0.69%
Ark Life insurance contracts	0.92%	1.05%	0.77%
With-profit business (WLWPF / NMWPF)			
Risk free rate	Gilt yields plus 10bp	Gilt yields plus 10bp	Gilt yields plus 10bp
UK equity volatility..	Market consistent	Market consistent	Market consistent
Property volatility	12.7%	12.7%	12.7%

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

Sensitivities to changes in interest rates, equity prices and property prices are shown in note 28.

	2018	2017	2016
Mortality tables			
Non-profit business ex-RAL			
Annuities-in-payment (ZAL)..............................	97% PMA08_HAMWP 100%PFA08_HAMWP	103% PMA08 101% PFA08	104% PMA08 103% PFA08
Annuities-in-payment (ex-NML)........................	Modified PMA08_HAMWP Modified PFA08_HAMWP	Modified PMA08 Modified PFA08	ModifiedPMA08 Modified PFA08
Annuities-in-payment (ex-NMP)........................	92%PMA08_HAMWP 90%PFA08_HAMWP	102% PMA08 87% PFA08	117% PMA08 85% PFA08
Annuities-in-payment (WLA).............................	123% PMA08_HAMWP up to age 65, then decreasing linearly to 100% PMA08_HAMWPby age 85 130% PFA08_HAMWP up to age 65, then decreasing linearly to 106% PFA08_HAMWP by age 90	123% PMA08 128% PFA08	117%PMA08 85% PFA08
RCBPF Mortality swap	112% S2PMA 92% S2PFA	107% S2PMA 90% S2PFA	109% S2PMA 95% S2PFA
Akzo Nobel swap	107% S2PMA 101% S2PFA	107% S2PMA 104% S2PFA	109% S2PMA 106% S2PFA
LV= swap...	102% S2PMA 98% S2PFA	99% S2PMA 96% S2PFA	101% S2PMA 99% S2PFA

Non-profit business ex-Guardian

	Amount band (£)	2018	2017	2016
Guardian Legacy....................	0-2000	90% PMA08_HAMWP 104% PFA08_HAMWP	108% PMA08 107% PFA08	112% PML08 108% PFL08
	2000-4000	90% PMA08_HAMWP 104% PFA08_HAMWP	108% PMA08 107% PFA08	106% PML08 102% PFL08
	4000-10000	90% PMA08_HAMWP 104% PFA08_HAMWP	108% PMA08 107% PFA08	97% PML08 96% PFL08
	10000+	90% PMA08_HAMWP 104% PFA08_HAMWP	108% PMA08 107% PFA08	90% PML08 88% PFL08
Phoenix (BA).........................	0-2000	123% PMA08_HAMWP up to age 65, then decreasing linearly to 100% PMA08_HAMWP by age 85 130%PFA08_HAMWP up to age 65, then decreasing linearly to 106% PFA08_HAMWP by age 90	130% PMA08 130% PFA08	122% PML08 120% PFL08
	2000-4000	123% PMA08_HAMWP up to age 65, then decreasing linearly to 100% PMA08_HAMWP by age 85 130%PFA08_HAMWP up to age 65, then decreasing linearly to 106% PFA08_HAMWP by age 90	130% PMA08 130% PFA08	115% PML08 114% PFL08
	4000-10000	123% PMA08_HAMWP up to age 65, then decreasing linearly to 100% PMA08_HAMWP by age 85 130%PFA08_HAMWP up to age 65, then decreasing linearly to 106% PFA08_HAMWP by age 90	130% PMA08 130% PFA08	108% PML08 103% PFL08
	10000+	123% PMA08_HAMWP up to age 65, then decreasing linearly to 100% PMA08_HAMWP by age 85 130%PFA08_HAMWP up to age 65, then decreasing linearly to 106% PFA08_HAMWP by age 90	130% PMA08 130% PFA08	96% PML08 100% PFL08
Phoenix	0-2000	100% PMA08_HAMWP 101% PFA08_HAMWP	107% PMA08 123% PFA08	110% PML08 106% PFL08
(Century)................................	2000-4000	100% PMA08_HAMWP 101% PFA08_HAMWP	107% PMA08 123% PFA08	103% PML08 99% PFL08
	4000-10000	100% PMA08_HAMWP 101% PFA08_HAMWP	107% PMA08 123% PFA08	96% PML08 94% PFL08
	10000+	100% PMA08_HAMWP 101% PFA08_HAMWP	107% PMA08 123% PFA08	90% PML08 87% PFL08
Phoenix (SMA)......................	0-2000	92% PMA08_HAMWP 90% PFA08_HAMWP	92% PMA08 98% PFA08	110% PML08 108% PFL08
	2000-4000	92% PMA08_HAMWP 90% PFA08_HAMWP	92% PMA08 98% PFA08	87% PML08 85% PFL08
	4000-10000	92% PMA08_HAMWP 90% PFA08_HAMWP	92% PMA08 98% PFA08	81% PML08 80% PFL08
	10000+	92% PMA08_HAMWP 90% PFA08_HAMWP	92% PMA08 98% PFA08	75% PML08 74% PFL08
Phoenix (SPL)	0-2000	92% PMA08_HAMWP 90% PFA08_HAMWP	107% PMA08 93% PFA08	110% PML08 108% PFL08
	2000-4000	92% PMA08_HAMWP 90% PFA08_HAMWP	107% PMA08 93% PFA08	103% PML08 102% PFL08
	4000-10000	92% PMA08_HAMWP 90% PFA08_HAMWP	107% PMA08 93% PFA08	82% PML08 80% PFL08
	10000+	92% PMA08_HAMWP 90% PFA08_HAMWP	107% PMA08 93% PFA08	75% PML08 75% PFL08
Phoenix (Pearl)	0-2000	123% PMA08_HAMWP up to age 65, then decreasing linearly to 100% PMA08_HAMWP by age 85 130%PFA08_HAMWP up to age 65, then decreasing linearly to 106% PFA08_HAMWP by age 90	130% PMA08 130% PFA08	116% PML08 115% PFL08

	Amount band (£)	2018	2017	2016
2000-4000	123%	PMA08_HAMWP up to age 65, then decreasing linearly to 100% PMA08_HAMWP by age 85 130%PFA08_HAMWP up to age 65, then decreasing linearly to 106% PFA08_HAMWP by age 90	130% PMA08 130% PFA08	109% PML08 109% PFL08
	4000-10000	123% PMA08_HAMWP up to age 65, then decreasing linearly to 100% PMA08_HAMWP by age 85 130%PFA08_HAMWP up to age 65, then decreasing linearly to 106% PFA08_HAMWP by age 90	130% PMA08 130% PFA08	101% PML08 100% PFL08
	10000+	123% PMA08_HAMWP up to age 65, then decreasing linearly to 100% PMA08_HAMWP by age 85 130%PFA08_HAMWP up to age 65, then decreasing linearly to 106% PFA08_HAMWP by age 90	130% PMA08 130% PFA08	91% PML08 92% PFL08
Phoenix (NPI)........................	0-2000	92% PMA08_HAMWP 90% PFA08_HAMWP	102% PMA08 98% PFA08	106% PML08 98% PFL08
	2000-4000	92% PMA08_HAMWP 90% PFA08_HAMWP	102% PMA08 98% PFA08	93% PML08 88% PFL08
	4000-10000	92% PMA08_HAMWP 90% PFA08_HAMWP	102% PMA08 98% PFA08	88% PML08 86% PFL08
	10000+	92% PMA08_HAMWP 90% PFA08_HAMWP	102% PMA08 98% PFA08	72% PML08 72% PFL08
Phoenix (PWP)......................	0-2000	100% PMA08_HAMWP 101% PFA08_HAMWP	100% PMA08 98% PFA08	103% PML08 102% PFL08
	2000-4000	100% PMA08_HAMWP 101% PFA08_HAMWP	100% PMA08 98% PFA08	94% PML08 93% PFL08
	4000-10000	100% PMA08_HAMWP 101% PFA08_HAMWP	100% PMA08 98% PFA08	88% PML08 87% PFL08
	10000+	100% PMA08_HAMWP 101% PFA08_HAMWP	100% PMA08 98% PFA08	82% PML08 80% PFL08
Phoenix (Alba).......................	0-2000	100% PMA08_HAMWP 101% PFA08_HAMWP	98% PMA08 95% PFA08	102% PML08 100% PFL08
	2000-4000	100% PMA08_HAMWP 101% PFA08_HAMWP	98% PMA08 95% PFA08	96% PML08 93% PFL08
	4000-10000	100% PMA08_HAMWP 101% PFA08_HAMWP	98% PMA08 95% PFA08	88% PML08 86% PFL08
	10000+	100% PMA08_HAMWP 101% PFA08_HAMWP	98% PMA08 95% PFA08	82% PML08 80% PFL08
Phoenix (SAL).......................	0-2000	100% PMA08_HAMWP 101% PFA08_HAMWP	101% PMA08 98% PFA08	103% PML08 101% PFL08
	2000-4000	100% PMA08_HAMWP 101% PFA08_HAMWP	101% PMA08 98% PFA08	96% PML08 93% PFL08
	4000-10000	100% PMA08_HAMWP 101% PFA08_HAMWP	101% PMA08 98% PFA08	88% PML08 88% PFL08
	10000+	100% PMA08_HAMWP 101% PFA08_HAMWP	101% PMA08 98% PFA08	81% PML08 80% PFL08

Mortality improvements are CMI_2017_M [1.50%; S=7.75] for males and CMI_2017_F [1.50%; S=7.75] for females (2017: CMI_2016_M [1.25%; S=7.75] for males and CMI_2016_F [1.25%; S=7.75] for females; 2016: CMI_2014_M (1.25%) for males and CMI_2014_F (1.25%) for females).

A sensitivity to changes in mortality rates is shown in note 28.

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 type of guarantee 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, while, for the WLWPF, they vary depending upon the investment conditions being modelled. The asset mix is reset each year to the weightings assumed at the start of the projection. Pay-outs are assumed to move in line with underlying asset shares, before taking into account the impact of smoothing and guarantees. For WLWPF and NMWPF, a fixed assumption is used to allow for the take-up rate of the guarantees. For GAWPF, with-profits deferred annuities have a guaranteed minimum cash value at their maturity date.

Analysis of the change in insurance contracts liabilities

A summary of the changes in insurance contracts liabilities is shown in the table below. The main drivers of the change during 2018 were: a decrease to the liabilities due to the run-off of the business (including experience variances) and a decrease due to assumption changes (mainly from changes in economic assumptions).

Analysis of the change in insurance contract liabilities

2018	Opening balance	Impact of new business	Business transfer in	Impact of run-off / experience effects	Impact of assumption changes	Other Impact	Currency impact	Closing balance
	£m	£m	£m	£m	£m	£m	£m	£m
With-profits insurance contracts	1,439.2	—	—	(127.5)	(12.6)	—	—	**1,299.1**
Non-profit insurance contracts	18,659.1	15.5	—	(1,231.4)	(189.4)	—	5.8	**17,259.6**
Unit-linked insurance contracts	3,125.6	—	—	(545.3)	1.0	—	0.9	**2,582.2**
	23,223.9	**15.5**	**—**	**(1,904.2)**	**(201.0)**	**—**	**6.7**	**21,140.9**
Reinsurers' share of with-profit provisions	(1.0)	—	—	(2.0)	—	—	—	**(3.0)**
Reinsurers' share of non-profit provisions	(1,888.4)	—	—	193.4	(60.3)	—	(5.9)	**(1,761.3)**
	21,334.5	15.5	—	(1,712.7)	(261.3)	—	0.8	**19,376.6**

2017	Opening balance	Impact of new business	Business transfer in	Impact of run-off / experience effects	Impact of assumption changes	Other impact	Currency impact	Closing balance
	£m	£m		£m	£m		£m	£m
With-profits insurance contracts	1,486.0	—	—	(38.1)	(8.7)	—	—	**1,439.2**
Non-profit insurance contracts	20,534.8	12.3	—	(1,380.2)	(525.7)	—	17.9	**18,659.1**
Unit-linked insurance contracts	3,354.8	—	—	(233.2)	—	—	3.8	**3,125.4**
	25,375.6	**12.3**	**—**	**(1,651.5)**	**(534.4)**	**—**	**21.7**	**23,223.7**
Reinsurers' share of with-profit provisions	(1.9)	—	—	0.9	—	—	—	**(1.0)**
Reinsurers' share of non-profit provisions	(2,208.6)	—	—	162.9	175.2	—	(17.9)	**(1,888.4)**
	23,165.1	12.3	—	(1,487.7)	(359.2)	—	3.8	**21,334.3**

2016	Opening balance	Impact of new business	Business transfer in	Impact of run-off / experience effects	Impact of assumption changes	Other impact	Currency impact	Closing balance
	£m	£m		£m	£m		£m	£m
With-profits insurance contracts	929.6	—	748.7	61.2	(11.4)	(242.1)	—	**1,486.0**
Non-profit insurance contracts	8,633.2	5.9	10,694.5	(557.9)	916.0	788.7	54.4	**20,534.8**
Unit-linked insurance contracts	2,696.1	—	1,149.4	(395.7)	(1.0)	(119.6)	25.6	**3,354.8**
	12,258.9	**5.9**	**12,592.6**	**(892.4)**	**903.6**	**427.0**	**80.0**	**25,375.6**
Reinsurers' share of with-profit provisions	—	—	(2.8)	—	—	0.9	—	**(1.9)**
Reinsurers' share of non-profit provisions	(842.2)	—	(1,509.4)	88.5	110.2	(1.3)	(54.4)	**(2,208.6)**
	11,416.7	5.9	11,080.4	(803.9)	1,013.8	426.6	25.6	**23,165.1**

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 1.27.

The 'Other Impact' disclosed above for 2016 relates to the movement during the year on the Guardian business purchased on 6th January 2016, see note 42. This movement represents the balancing difference between 6th January 2016 and 31st December 2016 that cannot be accurately analysed further due to a limitation of available information.

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

2018	**Impact on liabilities before reinsurance**	**Impact of reinsurance**	**Impact on liabilities after reinsurance**
	£m	**£m**	**£m**
Demographic changes	97.7	(69.7)	28.0
Economic changes	(286.1)	9.4	(276.7)
	(188.4)	**(60.3)**	**(248.7)**

2017	**Impact on liabilities before reinsurance**	**Impact of reinsurance**	**Impact on liabilities after reinsurance**
	£m	**£m**	**£m**
MA2 extension	(197.0)	—	(197.0)
Demographic changes	(437.6)	77.6	(360.0)
Economic changes	112.5	97.6	210.1
Other	(3.5)	—	(3.5)
	(525.6)	**175.2**	**(350.4)**

2016	**Impact on liabilities before reinsurance**	**Impact of reinsurance**	**Impact on liabilities after reinsurance**
	£m	**£m**	**£m**
Model Changes	1.1	—	1.1
Demographic changes	(301.9)	293.9	(8.0)
Economic changes	1,215.8	(183.7)	1,032.1
	915.0	**110.2**	**1,025.2**

27. Management of insurance risk

Group fund structure

The Group's long-term insurance business is divided into five sub-funds: within ReAssure Limited there is the NMWPF, the WLWPF, NPF and the GAWPF; within Ark Life, there is only a non-profit fund, the Ark non-profit fund ("Ark 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)

2018	NMWPF	WLWPF	GAWPF	NPF	Ark Life	Group Expenses	Total
	£m	£m	£m	£m	£m	£m	£m
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	**15,521.2**
Total	**1,435.8**	**481.4**	**1,721.7**	**33,108.0**	**1,534.3**	**648.2**	**38,929.3**

2017	NMWPF	WLWPF	GAWPF	NPF	Ark Life	Group Expenses	Total
	£m	£m	£m	£m	£m	£m	£m
With-profits	1,539.1	494.5	1,827.0	—	—	0.8	**3,861.4**
Unit-linked	—	—	103.4	20,876.0	1,713.9	—	**22,693.3**
Other life assurance	53.4	12.9	49.8	16,185.6	0.1	493.3	**16,795.1**
Total	**1,592.5**	**507.4**	**1,980.2**	**37,061.6**	**1,714.0**	**494.1**	**43,349.8**

2016	NMWPF	WLWPF	GAWPF	NPF	Ark Life	Group Expenses	Total
	£m	£m	£m	£m	£m	£m	£m
With-profits	1,539.2	488.6	1,838.2	—	—	—	**3,866.0**
Unit-linked	—	—	124.4	20,416.1	1,804.8	—	**22,345.3**
Other life assurance	57.2	14.2	55.2	17,700.9	0.1	527.2	**18,354.8**
Total	**1,596.4**	**502.8**	**2,017.8**	**38,117.0**	**1,804.9**	**527.2**	**44,566.1**

Risk management policy

The Group has a documented set of Risk Management Standards and Risk Appetite Framework. The Risk Management Standards and Risk Appetite Framework cover the risk appetite statement for the Group, as approved by the ReAssure Board. The Standards set out the processes for identifying, monitoring, measuring and controlling risk and are split in to a series of risk category standards in line with the requirements of Solvency II. The maintenance of the Standards is the overall responsibility of the Risk Management function and is approved annually by the Board with assistance from various other committees. 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 Risk Management Standards and Risk Appetite Framework are to: (i) to control the risks to which each fund is exposed to a level that can be supported by the capital available, given the agreed risk appetite statement; and (ii) within that constraint, to allocate capital so as to maximise the profitability of the business, given the agreed strategy.

From 1 January 2016 new regulatory requirements under the European Union's Solvency II Directive have been implemented, replacing the previous regulatory requirements. From 31 December 2018, the Group has received approval to use a Partial Internal Model to determine its Solvency II capital requirements. Within the Group, the three with-profits funds continue to be modelled on the Standard Formula whilst the remaining business is modelled via an Internal Model.

The Group, where possible, avoids a heavy concentration in any one risk type and aim to have a diversified portfolio of underwriting risks. The most material insurance risks for the 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 Statement of Financial Position. 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 28. The Group does not have any significant concentration of policyholders by geographic area.

The Group is exposed to a mass lapse event, defined as a significant portion of policyholders lapsing over a short time horizon due to internal or external factors. The risk is modelled to inform the amount of Solvency Capital the Group is required to hold.

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 28.

Expense risk is defined as the risk that actual expenses are higher than reserved for by the Group. Expense risk is primarily managed by the Group through the budget-setting process and frequent monitoring of expense levels.

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 £117.3m (2017: £141.1m, 2016: £127.5m). This is calculated using a market-consistent stochastic valuation, with best-estimate assumptions for the other elements of the basis. Annual bonus rates are assumed to be unchanged. The asset mix is maintained at its approved weightings at the start of the projection. Pay-outs are assumed to move in line with underlying asset shares, before taking into account the impact of guarantees.

The cost of the annuity guarantee in the WLWPF is £26.0m (2017: £30.7m, 2016: £32.7m). This is calculated using a market-consistent stochastic valuation, with best-estimate assumptions for the other elements of the basis. Annual bonus rates vary according to the economic scenario being modelled in line with the approach set out in the PPFM. The asset mix is maintained at its approved weightings at the start of the projection. Pay-outs are assumed to move in line with the underlying asset share.

The cost of the cash guarantees under the with-profit policies in both funds (NMWPF: £4.5m (2017: £4.6m, 2016: £9.2m), WLWPF: £17.8m (2017: £17.3m, 2016: £23.9m) is also calculated using a market-consistent stochastic approach, similar to that described for calculating the cost of annuity guarantees.

With-profits deferred annuities in GAWPF have a guaranteed minimum cash value at their maturity date. A prospective basis has been used for deferred annuities. Future cash flows are discounted at a risk free rate of zero coupon swap rates plus 70bps less 6bps. These future cash flows include the shareholders' share of reversionary bonus on with-profits deferred annuities that have been reassured to the Non Profit Fund. The equity component of the asset share has also been calculated and added to the with-profits benefit reserve.

ReAssure Limited'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. Ark Life unit-linked policies have no material guarantees.

28. 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), insurance risk (including expense risk) and liquidity risk. The management of insurance risk is discussed in note 27. The management of credit, liquidity and market risk are discussed below.

Credit risk

Credit risk is the risk that the Group will suffer loss from the failure of a third party to discharge its obligations to the relevant contracting company within the Group. In addition, it takes account of the increase in risk represented by any deterioration in credit ratings of those counterparties. Credit risk arises directly from investment activities, as well as from counterparty risk related to external credit risk and to intra-group counterparties. The 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 group outsources credit risk management activities to Swiss Re Group Credit Risk Management and the Actuarial function monitors and reports on credit ratings; however, the ultimate responsibility for ReAssure credit risk rests with Risk Management.

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.

a) Fixed interest securities

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

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

2018	AAA	AA	A	BBB	Sub investment grade & not rated	Total
	£m	£m	£m	£m	£m	£m
Government and government related debt	499.2	5,866.7	48.3	45.3	4.0	6,463.5
Corporate and asset backed securities debt	527.9	1,242.4	4,441.8	6,103.2	420.6	12,735.9
Loans	—	—	147.1	206.5	378.6	732.2
Accrued Interest	21.1	61.4	63.6	122.0	9.5	277.6
Derivative assets	—	—	—	—	13.7	13.7
Cash and cash Equivalents	509.6	848.5	673.8	87.1	18.6	2,137.6
Total	**1,557.8**	**8,019.0**	**5,374.6**	**6,564.1**	**845.0**	**22,360.5**

2017	AAA	AA	A	BBB	Sub investment grade & not rated	Total
	£m	£m	£m	£m	£m	£m
Government and government related debt	459.2	6,192.9	18.9	62.7	1.3	6,735.0
Corporate and asset backed securities debt	613.2	1,348.8	5,211.2	6,823.5	476.3	14,473.0
Loans	—	—	186.9	237.3	214.8	639.0
Accrued Interest	22.9	63.0	75.1	132.2	8.0	301.2
Derivative assets	—	—	—	—	18.2	18.2
Cash and cash Equivalents	304.7	1,786.3	1,030.2	13.3	17.0	3,151.5
Total	**1,400.0**	**9,391.0**	**6,522.3**	**7,269.0**	**735.6**	**25,317.9**

2016	AAA	AA	A	BBB	Sub investment grade & not rated	Total
	£m	£m	£m	£m	£m	£m
Government and government related debt	475.3	6,501.1	255.2	174.7	1.3	7,407.6
Corporate and asset backed securities debt	661.2	1,801.0	5,531.2	6,687.9	347.7	15,029.0
Loans	—	—	202.7	555.6	18.4	776.7
Accrued Interest	25.0	69.6	88.6	143.3	4.3	330.8
Derivative assets	—	—	—	—	134.6	134.6
Cash and cash Equivalents	418.2	787.3	999.3	101.2	43.1	2,349.1
Total	**1,579.7**	**9,159.0**	**7,077.0**	**7,662.7**	**549.4**	**26,027.8**

There were no losses incurred as a result of defaults during the year (2017: no losses, 2016: no losses) and at 31 December 18 there were no assets in default (2017: no defaults, 2016: no defaults).

b) 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.

c) Reinsurance

Both ReAssure Limited and Ark Life have counterparty exposure via reinsurance contracts. The Group manages this risk by only placing reinsurance with highly rated counterparties and monitoring the credit quality of its reinsurers.

d) Collateral

Investments pledged as collateral for derivative liabilities totalled £98.8m (2017: £62.9m, 2016: £170.1m). Cash pledged as collateral for derivative liabilities totalled £0.8m (2017: £6.0m, 2016: £41.3m).

Investments received as collateral for derivative assets totalled £3.8m (2017: £nil, 2016: £nil). 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 £nil (2017: £9.2m, 2016: £13.9m).

Investments received as collateral for reassured annuity business within the Non-Profit fund of ReAssure Limited totalled £778.4m (2017: £844.5m, 2016: £981.0m). 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.

ReAssure Limited is party to a longevity swap with RGA in order to transfer mortality risk on £1.5bn of annuities to RGA. As part of this agreement, Reassure Limited is required to post collateral, which is assessed quarterly, to support the difference between the fixed payments to RGA and the variable payments from RGA. At 31 December 2018, £46.5m of financial assets (principally corporate bonds) were posted as collateral (2017: £47.3m, 2016: £43.5m). These assets continue to be recognised on the Group balance sheet. The title to these assets has been transferred to RGA although ReAssure Limited can swap assets provided the total market value of the assets supports the overall collateral required to be posted.

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

	Related amounts not set off in the Balance Sheet			
2018	**Gross amounts recognised**	**Enforceable master netting arrangements**	**Collateral**	**Net exposure**
	£m	**£m**	**£m**	**£m**
Derivative financial instruments	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 instruments	(12.5)	10.2	2.3	—
Total	**(12.5)**	**10.2**	**2.3**	**—**

2017	**Gross amounts recognised**	**Enforceable master netting arrangements**	**Collateral**	**Net exposure**
	£m	**£m**	**£m**	**£m**
Derivative financial instruments	15.9	(1.9)	(9.2)	4.8
Reinsurance assets	855.1	—	(844.5)	10.6
Total	**871.0**	**(1.9)**	**(853.7)**	**15.4**
Derivative financial instruments	(16.2)	1.9	9.1	(5.2)
Total	**(16.2)**	**1.9**	**9.1**	**(5.2)**

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

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

Liquidity risk

Funding 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 ReAssure Limited and at the Group level for each liquidity pool. The Group operates its own Group Funding Liquidity Risk Management Framework, which applies to non-profit non-linked businesses only. This establishes the requirement to maintain a Liquidity Coverage Ratio ("LCR") above 100%. The LCR is the 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.

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.

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 Company within the unit-linked funds is commercial property. To manage this risk the Company has the ability under the terms of the relevant policy documents for its linked business to defer for a period the encashment of units invested partly or entirely in property, should it be necessary to protect the interests of the remaining investors.

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

2018	**No contractual maturity date**	**< 1Year**	**Between 1 year and 5 years**	**> 5 Years**	**Total cash flows**	**Carrying value**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
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	—	1,904.6	5,957.8	18,859.3	**26,721.7**	19,199.4
Secured and unsecured loans	4.5	54.6	498.8	359.0	**916.9**	732.2
Cash at bank and in hand	179.2	1,958.4	—	—	**2,137.6**	2,137.6
Other financial assets	—	—	—	91.3	**91.3**	91.3
Total	**18,002.8**	**3,917.6**	**6,456.6**	**19,309.6**	**47,686.6**	**39,979.6**

2017	**No contractual maturity date**	**< 1Year**	**Between 1 year and 5 years**	**> 5 Years**	**Total cash flows**	**Carrying value**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Shares and other variable yield securities and units in unit trusts	20,844.7	—	—	—	**20,844.7**	20,844.7
Debt securities and other fixed-income securities	—	1,587.2	6,101.8	20,478.1	**28,167.1**	21,208.0
Secured and unsecured loans	1.4	26.4	518.1	245.6	**791.5**	639.0
Cash at bank and in hand	234.2	2,917.3	—	—	**3,151.5**	3,151.5
Other financial assets	—	0.1	—	94.9	**95.0**	95.0
Total	**21,080.3**	**4,531.0**	**6,619.9**	**20,818.6**	**53,049.8**	**45,938.2**

2016	**No contractual maturity date**	**< 1Year**	**Between 1 year and 5 years**	**> 5 Years**	**Total cash flows**	**Carrying value**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Shares and other variable yield securities and units in unit trusts	20,466.3	—	—	—	**20,466.3**	20,466.3
Debt securities and other fixed-income securities	—	1,773.0	6,711.7	21,559.5	**30,044.2**	22,436.6
Secured and unsecured loans	5.1	30.0	448.6	455.5	**939.2**	776.7
Cash at bank and in hand	301.6	2,047.5	—	—	**2,349.1**	2,349.1
Other financial assets	—	0.5	—	63.1	**63.6**	63.6
Total	**20,773.0**	**3,851.0**	**7,160.3**	**22,078.1**	**53,862.4**	**46,092.3**

The following tables show the financial liabilities of the Group which relate to the Group's 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

2018	No contractual maturity date	< 1Year	Between 1 year and 5 years	> 5 Years	Total	Carrying value
	£m	£m	£m	£m	£m	£m
Financial liabilities under unit-linked investment contracts	—	2,058.2	3,233.7	12,069.4	**17,361.3**	17,361.3
Financial liabilities under non-profit investment contracts	—	22.9	—	—	**22.9**	22.9
Financial liabilities under investment with DPF contracts	—	147.6	540.8	1,480.0	**2,168.4**	2,168.4
Claims outstanding	254.9	—	—	—	**254.9**	254.9
Deposits received from reinsurers	—	9.1	32.7	78.7	**120.5**	103.9
Lease liabilities	—	1.8	3.9	1.9	**7.6**	6.1
Other financial liabilities	—	—	—	79.5	**79.5**	79.5
Total	**254.9**	**2,239.6**	**3,811.1**	**13,709.5**	**20,015.1**	**19,997.0**

2017	No contractual maturity date	< 1Year	Between 1 year and 5 years	> 5 Years	Total	Carrying value
	£m	£m	£m	£m	£m	£m
Financial liabilities under unit-linked investment contracts	—	2,074.9	3,558.4	13,934.4	**19,567.7**	19,567.7
Financial liabilities under non-profit investment contracts	—	24.4	—	—	**24.4**	24.4
Financial liabilities under investment with DPF contracts	—	159.6	563.5	1,700.1	**2,423.2**	2,423.2
Claims outstanding	237.6	—	—	—	**237.6**	237.6
Deposits received from reinsurers	—	9.3	34.2	96.8	**140.3**	124.9
Lease liabilities	—	2.2	5.8	2.4	**10.4**	8.3
Other financial liabilities	—	—	—	108.5	**108.5**	108.5
Total	**237.6**	**2,270.4**	**4,161.9**	**15,842.2**	**22,512.1**	**22,494.6**

2016	No contractual maturity date	< 1Year	Between 1 year and 5 years	> 5 Years	Total	Carrying value
	£m	£m	£m	£m	£m	£m
Financial liabilities under unit-linked investment contracts	—	1,678.8	3,612.3	13,699.4	**18,990.5**	18,990.5
Financial liabilities under non-profit investment contracts	—	24.8	1.6	2.3	**28.7**	28.7
Financial liabilities under investment with DPF contracts	—	144.4	536.7	1,700.7	**2,381.8**	2,381.8
Claims outstanding	221.7	—	—	—	**221.7**	221.7
Deposits received from reinsurers	—	9.7	35.9	117.9	**163.5**	138.4
Lease Liabilities	—	1.5	4.4	3.0	**8.9**	6.7
Other financial liabilities	—	—	—	109.1	**109.1**	109.1
Total	**221.7**	**1,859.2**	**4,190.9**	**15,632.4**	**21,904.2**	**21,876.9**

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

	2018	2017	2016
	£m	£m	£m
Due in 1 year or less	2,228.7	2,258.9	1,848.1
Due after 1 year but less than 5 years	3,774.5	4,122.0	4,150.6
Due after 5 years but less than 10 years	5,265.4	5,720.1	5,428.3
Due after 10 years	7,232.2	8,575.5	8,457.3
Due after 20 years	1,051.8	1,338.8	1,516.7
	19,552.6	**22,015.3**	**21,401.0**

The above total of £19,552.6m does not include claims outstanding of £254.9m (2017: £237.6m, 2016: £221.7m), deposits received from reinsurers of £103.9m (2017: £124.9m, 2016: £138.4m) and other financial liabilities of £79.5m (2017: £108.5m, 2016: £109.1m).

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. The three most material risks arise from movements in interest rates, credit spreads and equity prices, whether due to factors specific to the individual instrument or its issuer or to factors affecting all similar financial instruments in the market. The assessment of materiality of risks was based on the contribution each risk factor has on the post-diversified Solvency Capital Requirement ("SCR") and also the impact that each risk has on the Solvency II surplus.

Market risk – Equity securities

Exposure to global equity markets 2018	**Non-profit/ shareholder**	**With-profit**	**Unit-linked**	**Total**
	£m	£m	£m	£m
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**

Exposure to global equity markets 2017	**Non-profit/ shareholder**	**With-profit**	**Unit-linked**	**Total**
	£m	**£m**	**£m**	**£m**
United Kingdom	—	384.4	7,518.3	7,902.7
USA	—	51.5	3,463.5	3,515.0
Europe	—	41.0	1,821.8	1,862.8
Japan	—	—	664.8	664.8
Asia Pacific	—	—	145.9	145.9
Other	—	—	1.6	1.6
Listed Equities	**—**	**476.9**	**13,615.9**	**14,092.8**
Unlisted Equities	—	—	2.2	2.2
Collective investment schemes	—	1,149.9	5,599.8	6,749.7
Total	**—**	**1,626.8**	**19,217.9**	**20,844.7**

Exposure to global equity markets 2016	**Non-profit/ shareholder**	**With-profit**	**Unit-linked**	**Total**
	£m	**£m**	**£m**	**£m**
United Kingdom	—	375.3	7,256.5	7,631.8
USA	—	51.7	2,632.6	2,684.3
Europe	—	37.2	2,465.9	2,503.1
Japan	—	—	429.1	429.1
Asia Pacific	—	—	158.7	158.7
Other	—	—	3.3	3.3
Listed Equities	**—**	**464.2**	**12,946.1**	**13,410.3**
Unlisted Equities	—	—	3.5	3.5
Collective investment schemes	89.0	1,148.7	5,814.8	7,052.5
Total	**89.0**	**1,612.9**	**18,764.4**	**20,466.3**

Market risk – Debt securities 2018	Non-profit/ shareholder	With-profit	Unit-linked	Total
	£m	£m	£m	£m
United Kingdom	10,067.6	1,461.4	1,454.7	12,983.7
USA	1,872.9	217.6	22.4	2,112.9
Netherlands	446.2	66.7	26.5	539.4
France	969.2	101.4	76.2	1,146.8
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	832.0	165.2	61.1	1,058.3
Rest of world	512.4	68.2	11.5	592.1
Total	**15,552.1**	**2,138.7**	**1,784.8**	**19,475.6**
Debt securities	15,323.1	2,107.9	1,768.4	19,199.4
Accrued interest	229.0	30.8	16.4	276.2
Total	**15,552.1**	**2,138.7**	**1,784.8**	**19,475.6**

Market risk – Debt securities 2017	Non-profit/ shareholder	With-profit	Unit-linked	Total
	£m	£m	£m	£m
United Kingdom	11,281.4	1,612.1	1,279.8	14,173.3
USA	2,090.4	250.7	27.5	2,368.6
Netherlands	541.3	68.1	23.6	633.0
France	1,095.2	103.9	61.6	1,260.7
Germany	633.3	42.1	40.0	715.4
Ireland	67.4	11.4	6.2	85.0
Italy	225.9	3.3	39.4	268.6
Portugal	—	—	1.7	1.7
Spain	64.4	—	25.1	89.5
Rest of Europe	1,015.7	173.7	45.7	1,235.1
Rest of world	596.2	62.4	19.0	677.6
Total	**17,611.2**	**2,327.7**	**1,569.6**	**21,508.5**
Debt securities	17,357.4	2,294.5	1,556.1	21,208.0
Accrued interest	253.8	33.2	13.5	300.5
Total	**17,611.2**	**2,327.7**	**1,569.6**	**21,508.5**

Market risk – Debt securities 2016	Non-profit/ shareholder	With-profit	Unit-linked	Total
	£m	£m	£m	£m
United Kingdom	11,193.4	1,598.9	1,543.1	14,335.4
USA	2,202.0	225.2	43.7	2,470.9
Netherlands	711.3	65.4	44.9	821.6
France	1,149.9	120.5	85.2	1,355.6
Germany	618.4	32.9	47.7	699.0
Ireland	77.9	11.8	14.3	104.0
Italy	222.8	3.3	45.1	271.2
Portugal	—	—	—	—
Spain	65.8	—	24.4	90.2
Rest of Europe	1,108.1	138.2	57.7	1,304.0
Rest of world	1,156.7	120.3	38.2	1,315.2
Total	**18,506.3**	**2,316.5**	**1,944.3**	**22,767.1**
Debt securities	18,230.6	2,281.8	1,924.2	22,436.6
Accrued interest	275.7	34.7	20.1	330.5
Total	**18,506.3**	**2,316.5**	**1,944.3**	**22,767.1**

a) Interest rate risk

Interest rate risk is defined as the impact of movement in the risk free yield curve on the Group's assets, liabilities and capital requirements. Interest rate risk arises primarily from investments in fixed interest securities. In addition to the extent that claims costs are related to interest rates, liabilities to policyholders are exposed to interest rate risk. Non-profit insurance and investment contracts have benefit payments that are fixed at the inception of the contract. The Group's primary financial risk on these contracts is that the interest income and capital redemptions from the financial assets backing the liabilities are insufficient to fund the policy benefits payable. Therefore, changes in interest rates will impact the cash flows available to meet liabilities as they fall due. Movements in market interest rates affect the liabilities of the Group as well as the assets. Investment policy is designed to limit the amount of any mismatch between the two, when interest rates fluctuate. 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.

b) Equity price risk

The Group is exposed to equity price risk through its holdings of equity investments. Exposure to equity price risk in its unit-linked funds is largely reduced due to the policyholder retaining the investment risk. The Defined Benefit Pension Scheme and with-profits funds expose the firm to changes in the value of equity investments.

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

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.

c) Credit spread risk

The Group defines credit spread risk as the risk of losses on assets and liabilities due to changes in the value of credit spreads. 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 by the Investment Committee. The Group's Risk Management department also monitor and report the Group's exposure to the ReAssure Board and Risk Committee through monthly and quarterly risk and solvency reporting. The regular reporting ensures that the Group are operating in line with their Risk Appetite Framework – which is set to control the credit spread exposure of the Group.

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

d) 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).

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.

e) 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.

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% (2017: 1.00%; 2016: 1.00%) in fixed-interest yields; (ii) a uniform fall of 1.00% (2017: 1.00%; 2016: 1.00%) in fixed-interest yields; (iii) a uniform rise of 1.00% (2017: 1.00%; 2016: 1.00%) in credit spreads; (iv) a 10% increase in expenses (2017: 10%; 2016: 10%); and (v) a reduction of 5% (2017: 5%; 2016: 5%) in the base mortality rate used to value annuities-in-payment.

2018	Interest rate rise	Interest rate fall	Credit spreads rise	Increase of 10% in expenses	Reduction of 5% in mortality (annuities)
	(i) £m	(ii) £m	(iii) £m	(iv) £m	(v) £m
Change in shareholder equity	58.4	(96.8)	(115.0)	(87.3)	(221.4)

2017	Interest rate rise	Interest rate fall	Credit spreads rise	Increase of 10% in expenses	Reduction of 5% in mortality (annuities)
	(i) £m	(ii) £m	(iii) £m	(iv) £m	(v) £m
Change in shareholder equity	96.4	(164.5)	(118.8)	(76.3)	(221.6)

2016	Interest rate rise	Interest rate fall	Credit spreads rise	Increase of 10% in expenses	Reduction of 5% in mortality (annuities)
	(i) £m	(ii) £m	(iii) £m	(iv) £m	(v) £m
Change in shareholder equity	(19.4)	(45.3)	(301.4)	(81.1)	(216.6)

The impact on the Consolidated Income Statement and 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% (2017: 20%; 2016: 20%) in worldwide equity prices; (ii) a uniform fall of 20% (2017: 20%; 2016: 20%) in worldwide equity prices; (iii) a rise in inflation of 0.50% (2017: 0.50%; 2016: 0.50%); (iv) a reduction of 20% (2017: 20%; 2016: 20%) in property prices; and (v) a 20% fall in sterling relative to other foreign currencies (2017: 20%; 2016: 20%).

2018	Equity rise +20%	Equity fall -20%	Inflation +0.5%	Property -20%	GBP -20%
	(i) £m	(ii) £m	(iii) £m	(iv) £m	(v) £m
Change in shareholder equity	(15.3)	15.3	(43.4)	(0.9)	(11.3)

2017	Equity rise +20%	Equity fall -20%	Inflation +0.5%	Property -20%	GBP -20%
	(i) £m	(ii) £m	(iii) £m	(iv) £m	(v) £m
Change in shareholder equity	(20.3)	20.3	(41.7)	(7.3)	(15.6)

2016	Equity rise +20%	Equity fall -20%	Inflation +0.5%	Property -20%	GBP -20%
	(i) £m	(ii) £m	(iii) £m	(iv) £m	(v) £m
Change in shareholder equity	(11.3)	11.3	(63.5)	(8.9)	(8.2)

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

The assumptions provide an indication of the impact of the scenarios that could reasonably occur. The estimates are calculated on a portfolio basis, stressing the assets and liabilities as at 31 December 2018. Actual experience may differ due to changes in the investment portfolio mix and to management actions. The market price sensitivities shown cover both investment and insurance contracts as the exposure is monitored on an aggregate basis.

29. 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 Company maintains a prudent level of regulatory capital. The Company covered its regulatory capital resources requirement at all times during the year.

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

	2018	**2017**	**2016**
	£m	**£m**	**£m**
Total shareholders' funds under IFRS	2,496.5	3,311.4	2,503.9
Replace IFRS reserves with SII Technical Provisions	2,731.7	3,185.3	2,762.0
Unallocated divisible surplus	146.6	172.7	163.8
Changes in deferred tax under SII	(203.9)	(271.2)	(274.6)
Intangible asset with nil value under SII	(1,019.4)	(489.7)	(527.5)
Legal and General Risk Transfer Agreement ("RTA") liability payment	—	(650.0)	—
Other	0.1	(4.4)	4.1
Solvency II excess assets	4,151.6	5,254.1	4,631.7
Restriction to Own Funds	(466.0)	(463.1)	(413.1)
Foreseeable Dividends	—	(921.0)	(891.0)
Own Funds under Solvency II	**3,685.6**	**3,870.0**	**3,327.6**

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 20% of the SCR or 50% of the longevity risk ceded to other Swiss Re Group entities. The Capital Management Policy is reviewed following significant changes to the risk profile of the business.

The Solvency ratio as at 31 December 2018 was 129% (2017: 153%; 2016: 153%). The excess regulatory capital is quantified in the following table:

	2018	2017	2016
	£m	**£m**	**£m**
Capital resources available	3,685.6	4,786.3	4,218.6
Capital resources required	2,851.4	3,122.5	2,764.2
Excess regulatory capital	**834.2**	**1,663.8**	**1,454.4**

30. Investment contract liabilities

	2018	2017	2016
	£m	**£m**	**£m**
Investment contract liabilities – unit-linked	17,361.3	19,567.7	18,990.5
Investment contract liabilities – non-profit	22.9	24.4	28.7
Investment contracts with discretionary participating features	2,168.4	2,423.2	2,381.8
	19,552.6	**22,015.3**	**21,401.0**

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

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 2018, 2017 or 2016 on derecognising these instruments.

Movements in investment contract liabilities (excluding contracts with DPF)

	2018	2017	2016
	£m	**£m**	**£m**
At 1 January	19,592.1	19,019.2	14,627.7
Linked cash flows arising (premiums, claims, fees)	(1,443.4)	(1,358.3)	(1,133.2)
Business transfer in	—	—	2,664.2
Linked investment return	(779.0)	1,872.7	2,543.5
Other linked	—	—	93.3
Change in non-profit non linked investment contract liabilities	(1.5)	(4.3)	(0.6)
Business transfer in non-profit non-linked	—	—	3.6
Other non-profit	—	—	0.9
Currency impact	16.1	62.8	219.8
At 31 December	**17,384.3**	**19,592.1**	**19,019.2**

Movements in investment contract with DPF liabilities

	2018	2017	2016
	£m	£m	£m
At 1 January	2,423.2	2,381.8	1,014.7
Business transfer in with profit	—	—	1,192.3
Impact of experience effects	(265.2)	38.2	22.4
Impact of assumption changes	10.4	3.2	11.2
Other impacts	—	—	141.2
At 31 December	**2,168.4**	**2,423.2**	**2,381.8**

31. Provisions and contingent liabilities

a) Provisions

2018	Part VII migration costs	Restructuring provision	Property provision	Other provisions	Total
	£m	£m	£m	£m	£m
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**

2017	Part VII migration costs	Restructuring provision	Property provision	Other provisions	Total
	£m	£m	£m	£m	£m
At 1 January 2017	—	7.5	1.5	6.5	15.5
Additional provisions	—	5.5	—	0.4	5.9
Utilisation of provision	—	—	—	(1.6)	(1.6)
At 31 December 2017	**—**	**13.0**	**1.5**	**5.3**	**19.8**

2016	Part VII migration costs	Restructuring provision	Property provision	Other provisions	Total
	£m	£m	£m	£m	£m
At 1 January 2016	9.0	—	—	—	9.0
Additional provisions	—	7.5	1.5	6.5	15.5
Utilisation of provision	(9.0)	—	—	—	(9.0)
At 31 December 2016	**—**	**7.5**	**1.5**	**6.5**	**15.5**

Included within restructuring provisions in 2016, is a £5m termination provision for the settlement of a former director's contract (refer to note 45: Related Parties).

Other provisions includes a £3.0m (2017: £3.0m, 2016: £3.0m) provision for remediation activities arising out of an agreement with a third party and a provision for an onerous contract in relation to an outsourced IT arrangement. The amount of the provision is based on the contractual terms of the agreement and is valued at £0.4m (2017: £1.01m, 2016: £1.93m). As a result of an internal thematic review, an additional provision of £10.0m has been recognised as at 31 December 2018 within other provisions (2017: £nil, 2016: £nil) in respect of charges for the attached benefits of paid-up policies. This is the Group's best estimate of its obligations arising from the review given past experience from similar remediation exercises.

b) Contingent Liabilities

Where the Group has a possible future obligation as a result of a past event, or a present legal or constructive obligation but it is not probable that there will be an outflow of resources to settle the obligation or the amount cannot be reliably estimated, this is disclosed as a contingent liability. There are no contingent liabilities as at 31 December 2018.

In 2015, two self-invested pension plan ("SIPP") holders instigated proceedings against a Group company for perceived losses in respect of the sale of a property held within that SIPP, and other deductions made from the proceeds of that sale. The Group received legal advice concluding that the claim did not have merit, and it was recommended that the claim be contested. For the years ended 31 December 2017 and 2016 no provision was made for any settlement as the directors did not consider that there was any probable loss. At that time it was not possible to estimate the sum of any potential loss. This matter was settled and all legal fees paid during the year ended 31 December 2018.

32. Retirement benefit schemes

The Group operates one defined benefit scheme, the ReAssure Staff Pension Scheme ("RSPS") which is closed to future accruals. 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 ReAssure UK Services Limited, 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 company balance sheet.

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 Trustee 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, the Group has agreed to pay a monetary amount of £17 million into a Custody Account by 31 March 2019. 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.

	2018	2017	2016
Discount rate	2.9%	2.6%	2.6%
Inflation rate	3.4%	3.4%	3.5%
Rate of increase in salaries	3.4%	3.4%	3.5%
Rate of increase in pensions	3.4%	3.4%	3.5%
Rate of increase in deferred benefits during deferment	2.4%	2.4%	2.5%

	2018	2017	2016
Mortality assumptions:			
Longevity at age 60 for current pensioners			
– Men	28.6 years	28.9 years	29.3 years
– Women	30.1 years	30.4 years	30.9 years
Longevity at age 60 for future pensioners currently aged 45			
– Men	29.9 years	30.3 years	30.9 years
– Women	31.5 years	31.8 years	32.6 years

	2018	2017	2016
Weighted Average Duration of Defined Benefit Obligation	22.0 years	24.0 years	24.0 years

	2018	2017	2016
	£m	£m	£m
Expected Contributions for periods ended 31 December:			
Employer	2.3	2.0	1.9
Scheme participants	—	—	—

	2018	2017	2016
	£m	£m	£m
Maturity Profile of Defined Benefit Obligation:			
– Expected benefit payments during fiscal year ended 31-Dec-17	—	—	9.2
– Expected benefit payments during fiscal year ended 31-Dec-18	—	12.8	9.5
– Expected benefit payments during fiscal year ended 31-Dec-19	13.5	13.0	9.7
– Expected benefit payments during fiscal year ending 31-Dec-20	13.8	13.2	9.9
– Expected benefit payments during fiscal year ending 31-Dec-21	14.0	13.5	10.2
– Expected benefit payments during fiscal year ending 31-Dec-22	14.3	13.7	—
– Expected benefit payments during fiscal year ending 31-Dec-23	14.5	—	—
– Expected benefit payments during fiscal years ending 31-Dec-22 through 31-Dec-26	—	—	55.8
– Expected benefit payments during fiscal years ending 31-Dec-23 through 31-Dec-27	—	72.6	—
– Expected benefit payments during fiscal years ending 31-Dec-24 through 31-Dec-28	76.7	—	—

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.

There were no contributions made in respect of current service for the current and prior years. The company 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. During the year, the company paid £Nil (2017: £nil, 2016: £3.5m) to reduce the deficit in the scheme.

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. Uncertainties in the provisions arise from the requirement to equalise benefits between males and females in respect of the accrual of GMP after 17 May 1990 following the 26 October 2018 High Court judgment relating to the Lloyds GMP Equalisation case. A provision of 0.1% of the defined benefit obligation has been made to allow for the cost of GMP equalisation. The impact of GMP equalisation on the Company's Disclosures has been recognised as a Past Service cost.

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

	2018	2017	2016
	£m	£m	£m
Equities	137.4	149.0	139.8
Bonds	151.3	162.5	224.5
Gilts	73.7	91.2	27.2
Other	21.5	6.5	2.1
	383.9	**409.2**	**393.6**

The equity investments and bonds 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 (within administrative expenses) and Consolidated Statement of Comprehensive Income:

	Fair value of scheme assets	Present value of obligation	Asset/ (liability) recognised on balance sheet
	£m	£m	£m
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)
Administrative expenses	(1.0)	—	(1.0)
Total amounts recognised in income statement	**9.5**	**(12.1)**	**(2.6)**
Actuarial gain – experience	—	15.6	15.6
Actuarial gain – demographic assumptions	—	5.7	5.7
Actuarial gain – financial assumptions	—	25.5	25.5
Net actuarial gains	**—**	**46.8**	**46.8**
Return on scheme assets less than discount rate	(23.4)	—	(23.4)
Total remeasurement in 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
At 31 December 2018	**383.9**	**(368.8)**	**15.1**

	Fair value of scheme assets	Present value of obligation	Asset/ (liability) recognised on balance sheet
	£m	£m	£m
At 1 January 2017	393.6	(434.7)	(41.1)
Current service cost	—	(1.1)	(1.1)
Interest income/(cost)	10.1	(11.1)	(1.0)
Administrative expenses	(1.0)	—	(1.0)
Total amounts recognised in income statement	**9.1**	**(12.2)**	**(3.1)**
Actuarial loss – experience	—	(4.2)	(4.2)
Actuarial gain – demographic assumptions	—	10.5	10.5
Actuarial gain – financial assumptions	—	9.2	9.2
Net actuarial gains	**—**	**15.5**	**15.5**
Return on scheme assets greater than discount rate	17.1	—	17.1
Total remeasurement in other comprehensive income	**17.1**	**15.5**	**32.6**
Contributions paid by employer	2.0	—	2.0
Benefits paid	(12.6)	13.6	1.0
At 31 December 2017	**409.2**	**(417.8)**	**(8.6)**

	Fair value of scheme assets	Present value of obligation	Asset/ (liability) recognised on balance sheet
	£m	£m	£m
At 1 January 2016	347.2	(317.3)	29.9
Current service cost	—	(1.1)	(1.1)
Interest income/(cost)	13.1	(11.9)	1.2
Administrative expenses	(1.2)	—	(1.2)
Total amounts recognised in income statement	**11.9**	**(13.0)**	**(1.1)**
Actuarial gain – experience	—	3.4	3.4
Actuarial gain/(loss) – demographic assumptions	—	—	—
Actuarial loss – financial assumptions	—	(118.2)	(118.2)
Net actuarial loss	**—**	**(114.8)**	**(114.8)**
Return on scheme assets greater than discount rate	37.0	—	37.0
Total remeasurement in other comprehensive income	**37.0**	**(114.8)**	**(77.8)**
Contributions paid by employer	6.7	—	6.7
Benefits paid	(9.2)	10.4	1.2
At 31 December 2016	**393.6**	**(434.7)**	**(41.1)**

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 0.1%	Decrease/increase by 2%
RPI inflation*	Increase/decrease by 0.1%	Decrease/increase by 2%
Long term trend in future mortality improvements	Increase/decrease by 0.25% pa	Increase/decrease by 0.9%

* 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.

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 company 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 2018, the Scheme holds 19.2% of its assets in index-linked bonds (2017: 22.3%, 2016: 7%) and 29.5% in corporate bonds (2017: 32.1%, 2016: 57%) and 10% (2017: 8.0%, 2016: 10.0%) 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.

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:

	2018	2017	2016
	£m	£m	£m
Equities	0.3	0.3	0.2
Other	0.1	0.1	0.1
	0.4	**0.4**	**0.3**

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 other comprehensive income relating to the private retirement trust.

	Fair value of scheme assets	Present value of obligation	Liability recognised on balance sheet
	£m	£m	£m
At 1 January 2018	0.4	(2.2)	(1.8)
Actuarial gain taken to other comprehensive income	—	—	—
At 31 December 2018	**0.4**	**(2.2)**	**(1.8)**

	Fair value of scheme assets	Present value of obligation	Liability recognised on balance sheet
	£m	£m	£m
At 1 January 2017	0.3	(2.1)	(1.8)
Actuarial gain taken to other comprehensive income	0.1	—	0.1
Interest income/(cost)	—	(0.1)	(0.1)
At 31 December 2017	**0.4**	**(2.2)**	**(1.8)**

	Fair value of scheme assets	Present value of obligation	Liability recognised on balance sheet
	£m	£m	£m
At 1 January 2016	0.3	(1.6)	(1.3)
Actuarial loss taken to other comprehensive income	—	(0.5)	(0.5)
At 31 December 2016	**0.3**	**(2.1)**	**(1.8)**

33. Deferred revenue

	2018	2017	2016
	£m	£m	£m
Deferred revenue	**7.2**	**8.1**	**8.8**

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

34. Trade and other payables

	2018	2017	2016
	£m	**£m**	**£m**
Social security and other taxes	8.6	5.2	3.9
Collateral payables	79.5	108.5	109.1
Other creditors	214.4	196.0	181.0
Operating Lease Liability	6.1	8.3	6.7
Amounts owed to group undertakings	—	(5.8)	(1.0)
	308.6	**312.2**	**299.7**

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

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

35. 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 Group is not aware of any significant liabilities in this regard.

36. Share capital

	2018	2017	2016
	£m	**£m**	**£m**
Issued and fully paid			
7,305,069,423 ordinary shares of £0.01 each	**73.1**	**73.1**	**73.1**

37. Share premium account

	2018
	£m
Balance brought forward at 1 January 2018	83.9
Premium arising on issue of equity shares	—
Expenses of issue of equity shares	—
Balance at 31 December 2018	**83.9**

	2017
	£m
Balance brought forward at 1 January 2017	83.9
Premium arising on issue of equity shares	—
Expenses of issue of equity shares	—
Balance at 31 December 2017	**83.9**

	2016
	£m
Balance brought forward at 1 January 2016	83.9
Premium arising on issue of equity shares	—
Expenses of issue of equity shares	—
Balance at 31 December 2016	**83.9**

38. Other reserves

	2018
	£m
Balance brought forward at 1 January 2018	1,364.1
Exchange differences on translating the net assets of foreign operations	—
Revaluation increase on land and buildings	0.3
Balance at 31 December 2018	**1,364.4**

	2017
	£m
Balance brought forward at 1 January 2017	713.5
Capital contributions	650.0
Exchange differences on translating the net assets of foreign operations	0.2
Revaluation increase on land and buildings	0.4
Balance at 31 December 2017	**1,364.1**

	2016
	£m
Balance brought forward at 1 January 2016	0.8
Capital contributions	710.0
Exchange differences on translating the net assets of foreign operations	2.7
Balance at 31 December 2016	**713.5**

Capital contributions received do not have any conditions attached to them and are not repayable. The 2016 capital contribution of £710m relates to the gifting of Guardian to the Group. The 2017 capital contribution of £650m relates to the provision of funding for the purchase of the Legal & General book of business, this transaction completed in January 2018.

39. Retained Earnings

	2018
	£m
Balance brought forward at 1 January 2018	1,790.3
Dividends paid in the year (see note 41)	(921.0)
Net profit for the year	91.7
Foreign exchange impact upon translation	2.4
Other comprehensive income arising from measurement of defined benefit obligation (net of income tax)	11.7
Balance at 31 December 2018	975.1

	2017
	£m
Balance brought forward at 1 January 2017	1,633.4
Dividends paid in the year (see note 41)	(891.0)
Net profit for the year	1,011.1
Foreign exchange impact upon translation	10.0
Other comprehensive income arising from measurement of defined benefit obligation (net of income tax)	26.8
Balance at 31 December 2017	1,790.3

	2016
	£m
Balance brought forward at 1 January 2016	1,190.9
Dividends paid in the year (see note 41)	(346.0)
Net profit for the year	804.5
Capital contribution	12.5
Foreign exchange impact upon translation	38.8
Other comprehensive income arising from measurement of defined benefit obligation (net of income tax)	(67.3)
Balance at 31 December 2016	1,633.4

40. Dividends

	2018	2017	2016
	£m	£m	£m
Amounts recognised as distributions to equity holders in the year:			
Final dividend for the year ended 31 December 2017, 31 December 2016 and 31 December 2015	921.0	891.0	346.0
Total dividends paid in the year	**921.0**	**891.0**	**346.0**
Dividend per share (£)	**0.13**	**0.12**	**0.05**

During 2018, an ordinary dividend of £921.0m was paid in respect of the year ended 31 December 2017 (2017: £891.0m in respect of 31 December 2016, 2016: £346.0m in respect of 31 December 2015).

41. 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 and diluted EPS computations:

From continuing operations

		2018	2017	2016
Earnings for the purposes of basic/diluted earnings per share being net profit attributable to owners of the Company	£m	91.7	1,011.1	804.5
Weighted average number of ordinary shares for the purposes of basic/diluted earnings per share	Number million	7,305.1	7,305.1	7,305.1
Basic/diluted earnings per share (pence)	**pence**	**1.26**	**13.84**	**11.01**

42. Acquisition of subsidiary

On 6 January 2016, Swiss Re Life Capital Ltd acquired ReAssure Jersey One Limited (formerly Guardian Holdings Europe Limited) and its subsidiary entities. As part of the acquisition, the investment held by Swiss Re Finance Midco (Jersey) Limited (formerly Swiss Re ReAssure Midco Limited, formerly Guardian Finance Limited) in ReAssure Financial Services Holdings UK Limited (formerly Guardian Financial Services Holdings UK Limited) was contributed to the company at book value of £710.0m. The rationale of the acquisition was for strategic growth.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are set out in the table below.

	£m
Intangible Assets	62.6
Financial Investments	14,512.7
Derivative assets	366.9
Reinsurance Receivables	1,512.2
Insurance contract receivables	8.9
Other receivables	363.6
Cash and cash equivalents	1,428.7
Total assets	**18,255.6**
Net Liabilities under insurance contracts	(12,592.6)
Unallocated divisible surplus	(114.6)
Investment contract liabilities	(3,860.2)
Claims outstanding	(16.3)
Other liabilities	(266.2)
Borrowings	(74.4)
Derivative liabilities	(131.1)
Tax	(33.1)
Total Liabilities	**(17,088.5)**
Total identifiable assets	**1,167.1**
Negative acquired in-force business	**(457.1)**
Total consideration (by way of capital contribution)	**710.0**
Net cash outflow arising on acquisition:	
Cash consideration	**—**
Less: cash and cash equivalent balances acquired	**1,428.7**
	1,428.7

The negative acquired in-force business was credited to the Consolidated Income Statement (see note 5).

43. Part VII transfer – Guardian

On 31 December 2016, the long term business of Guardian Assurance Limited, a subsidiary entity of ReAssure Jersey One Limited, was transferred to the fellow Group entity, ReAssure Limited, for no consideration via a Business Transfer scheme under Part VII of the Financial Services and Markets Act 2000 ("FSMA"). The scheme resulted in the transfer of all assets and liabilities to ReAssure Limited, with the exception of £4.0m of assets retained to ensure that regulatory capital requirements are met. The assets and liabilities were transferred at their book value as IFRS 3: Business Combinations excludes transfers of assets and liabilities between entities under common control from acquisition accounting requirements. Following the transfer of the business, Guardian Assurance Limited ceased to trade.

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

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

	ReAssure Limited	Guardian Assurance Limited	Net Impact
	£m	£m	£m
Investments in group undertakings	256.1	(256.1)	—
Intangible assets	—	(24.5)	(24.5)
Financial Investments	14,046.5	(14,080.5)	(34.0)
Derivatives	127.4	(127.4)	—
Reinsurance receivables	16.8	—	16.8
Insurance contract receivables	5.7	—	5.7
Other receivables	226.6	(217.2)	9.4
Cash and cash equivalents	549.6	(545.6)	4.0
Provisions	(1.9)	6.1	4.2
Borrowings	(8.9)	8.9	—
Derivatives	(89.9)	89.9	—
Claims outstanding	(37.3)	—	(37.3)
Other financial liabilities	(361.3)	361.3	—
Other liabilities	(72.2)	188.8	116.6
Net assets acquired	**14,657.2**	**(14,596.3)**	**60.9**
Net Liabilities under insurance contracts	(11,879.5)	11,859.3	(20.2)
Reinsurers' share of insurance contract liabilities	1,410.2	(1,410.2)	—
Unallocated divisible surplus	(131.3)	131.3	—
Investment contract liabilities	(2,672.0)	2,672.0	—
Tax	(108.7)	27.4	(81.3)
Net insurance, investment and tax liabilities created on acquisition	**(13,381.3)**	**13,279.8**	**(101.5)**
Net assets recognised on acquisition	**1,275.9**	**(1,316.5)**	**(40.6)**

The impact on the 2016 Consolidated Income Statement after tax of the Part VII transfer of the Guardian business into ReAssure Limited is a debit of £40.6m, being the net of a £1,275.9m profit in ReAssure Limited and a £1,316.5m loss in Guardian Assurance Limited. The £40.6m loss arising on Part VII relates to the write off of an intangible asset for Acquired Value of In Force business, capitalised AMCs and an ineffective hedge asset that were being carried within the accounts of Guardian Assurance Limited.

44. Cash flows used in operating activities

	2018	2017	2016
	£m	£m	£m
Profit for the year before tax	104.8	1,267.3	926.5
Non-cash income statement changes in operating assets & liabilities:			
Fair value (gains)/loss on:			
– Investment property	(28.1)	(64.5)	(15.3)
– Financial assets	2,637.9	(1,836.3)	(4,386.3)
– Derivatives	(31.0)	(10.2)	(318.0)
Defined benefit contributions	2.0	(2.0)	(6.5)
Non cash defined benefit expenditure	(2.6)	2.0	—
Depreciation of property, plant and equipment	4.5	4.0	4.2
Revaluation of property, plant and equipment	0.3	0.1	—
Release of negative present value of in force business to income	—	—	(457.1)
Amortisation of PVIF assets and capitalised AMCs	34.2	35.7	41.6
Purchase of DAC	(650.0)	—	—
Release of deferred acquisition costs	87.0	2.9	2.1
Change in unallocated divisible surplus	(26.0)	8.8	168.6
Finance costs	6.3	7.4	7.8
Decrease/(increase) in reinsurance assets	58.8	325.5	(196.1)
(Decrease)/increase in insurance contracts & investment contract liabilities	(4,522.0)	(1,522.4)	2,005.4
Increase in other financial liabilities	—	—	286.9
Decrease in deposits received from reinsurers	(8.6)	(24.6)	(1.9)
Purchase of financial assets	—	—	1,288.1
Net disposal of investment properties	17.1	149.2	74.0
Net disposal of financial assets	2,303.1	2,824.3	—
Net disposal of derivatives	19.8	35.3	494.7
Net decrease/(increase) in working capital	99.0	(27.8)	215.5
Net impact of Guardian Transfer (Part VII)	—	—	40.6
Tax receipts	(11.7)	(5.4)	(102.9)
Net cash from operating activities	**94.8**	**1,169.3**	**71.9**

45. Related parties

Balances and transactions between the Group 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 company is incorporated and domiciled in England and Wales. The immediate parent company is Swiss Re Finance Midco (Jersey) Limited (formerly Swiss Re ReAssure Midco Ltd), incorporated in Jersey.

Swiss Re Ltd is the ultimate and controlling parent undertaking of the Group. The Consolidated Financial Statements of Swiss Re Ltd may be obtained on www.swissre.com or from its registered office at Mythenquai 50/60, P.O. Box 8022, Zurich Switzerland.

b) Services received from related parties

	2018	2017	2016
	£m	£m	£m
Other subsidiary undertakings of Swiss Re Ltd	15.0	17.4	14.9
	15.0	**17.4**	**14.9**

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

	2018	2017	2016
	£m	**£m**	**£m**
Other subsidiary undertakings of Swiss Re Ltd	32.9	34.7	46.4
	32.9	**34.7**	**46.4**

d) **Intra-group retrocession arrangements**

	2018	2017	2016
	£m	**£m**	**£m**
All with other subsidiary undertakings of Swiss Re Ltd			
Premiums ceded to reinsurers	359.8	373.8	387.6
Claims recovered from reinsurers	(305.0)	(361.7)	(370.6)
Commissions	—	(0.7)	(0.7)
Change in reinsurers' share of investment contract liabilities	—	—	(90.0)
Change in reinsurers' share of insurance contract liabilities	(0.7)	19.2	212.6
	54.1	**30.6**	**138.9**
At 31 December			
Reinsurers' share of insurance contract liabilities	239.3	229.2	226.9
Reinsurance payables	(16.6)	(14.8)	(14.5)
	222.7	**214.4**	**212.4**

e) **Remuneration of key management personnel**

Key management includes the Directors of the holding company of the Group and members of the Group's management committee. The aggregate emoluments of 15 members of key management (2017: 14, 2016: 13) are shown in the table below. All members of key management were remunerated by RUKSL or by other Group undertakings.

	2018	2017	2016
	£m	**£m**	**£m**
Salaries and other short-term employee benefits	3.0	2.9	3.5
Termination benefits	—	—	5.1
	3.0	**2.9**	**8.6**

Termination benefits in 2016 included a £5m provision for the settlement of a former director's contract.

None of the directors are part of the Group's defined benefit pension scheme. There are 3 key management personnel (2017: 4, 2016: 2) who are accruing benefits under the defined contribution pension scheme.

None of the directors are part of money purchase schemes.

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

46. **Leases**

Where the Group is the lessee, upon lease commencement, the Group recognises a right-of-use asset and a corresponding lease liability. Where the Group is a lessor, operating lease payments are recognised as income on a straight-line basis.

The Group as Lessee

The Group's principal operating lease commitments as a lessee are in respect of office space located in Priory Park, Hitchin and Nassau Street, Dublin.

a) Right-to-use assets

The following right-to-use assets are included within Property, plant and equipment (note 17).

	Land and Buildings	Computer equipment	Total
	£m	£m	£m
Cost of 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

	Land and Buildings	Computer equipment	Total
	£m	£m	£m
Cost of valuation			
At 1 January 2017	7.6	1.3	8.9
Additions	—	2.4	2.4
At 31 December 2017	**7.6**	**3.7**	**11.3**
Accumulated depreciation			
At 1 January 2017	2.6	0.4	3.0
Charge for the Year	0.7	0.4	1.1
At 31 December 2017	**3.3**	**0.8**	**4.1**
Carrying Amounts			
At 31 December 2017	**4.3**	**2.9**	**7.2**
At 31 December 2016	5.0	0.9	5.9

	Land and Buildings	Computer equipment	Total
	£m	£m	£m
Cost of valuation			
At 1 January 2016	7.6	0.5	8.1
Additions	—	0.8	0.8
At 31 December 2016	**7.6**	**1.3**	**8.9**
Accumulated depreciation			
At 1 January 2016	1.9	—	1.9
Charge for the Year	0.7	0.4	1.1
At 31 December 2016	**2.6**	**0.4**	**3.0**
Carrying Amounts			
At 31 December 2016	**5.0**	**0.9**	**5.9**
At 31 December 2015	5.7	0.5	6.2

Lease Liability

The interest expense on lease liabilities charged to the income statement for the year was £0.5m (2017: £0.5m, 2016: £0.4m).

The lease expense charged to the income statement for short-term leases for the year was £0.1m (2017: £0.1m, 2016: £0.1m).

The total cash outflow for leases for the year was £2.1m (2017: £1.6m, 2016: £1.3m).

The Group as Lessor

The Group's principal operating lease commitments as a lessor are in respect of investment properties leased out by the Group.

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

	2018	2017	2016
	£m	£m	£m
Not later than 1 year	27.8	25.3	28.5
Later than 1 year and not later than 2 years	24.6	24.8	25.7
Later than 2 year and not later than 3 years	23.8	21.5	22.4
Later than 3 year and not later than 4 years	22.2	20.7	22.4
Later than 4 year and not later than 5 years	21.0	19.1	21.7
Later than 5 years	103.2	113.8	232.5

Included within investment income for the year is £36.4m (2017: £38.9m, 2016: £51.4m) relating to rental income from investment properties. Included within administration expenses for the year is £3.0m of direct operating expenses relating to leased properties (2017: £1.4m, 2016: £0.8m) and £0.1m in relation to vacant properties (2017: £0.2m, 2016: £0.3m).

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, and clauses that gives the Group rights of recourse in the event on non-payment.

47. Disposal of Subsidiary

The Group entered into a sale agreement to dispose of Guardian Assurance Limited ("GAL"), which was dormant following the part VII transfer as described in note 45. Control of Guardian Assurance Limited was passed to the acquirer on 10 September 2018.

On 27 July 2018, the Group disposed of C Financial Management Limited ("CFM"), on which date control of C Financial Management Limited was passed to the acquirer. CFM was dormant prior to disposal.

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

	GAL £m	CFM £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 operating income (see note 7)

48. Deferred Acquisition Costs

	2018	2017	2016
	£m	£m	£m
At 1 January 2018	27.9	30.8	—
Additions	650.0	—	32.9
Amortisation	(87.3)	(4.0)	(7.0)
Impact of foreign exchange	0.3	1.1	4.9
At 31 December 2018	**590.9**	**27.9**	**30.8**

During 2017, the Group received a capital contribution of £650m 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 £650m.

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 2018 (2017: n/a, 2016: n/a).

It is anticipated that a Part VII arrangement will occur in relation to these policies during the first half of 2020.

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

49. Post Balance Sheet Events

In May 2019 a newly incorporated UK private limited company, ReAssure Group Ltd, became the parent of the ReAssure Group following the transfer of shares in ReAssure Midco Ltd. The insertion of the ReAssure Group Ltd as a new holding company constitutes a group reorganisation and will be accounted for as a capital reorganisation under common control.

As part of this reorganisation, ReAssure Group Ltd has entered into subscription agreements for a total of £1 billion of Subordinated Notes. Upon receipt of the proceeds of the Subordinated Notes an immediate dividend of £519 million was paid to SRRML, a Swiss Re group company. ReAssure will maintain the liability associated with the Subordinated Notes and associated obligations but the majority of the cash will not be retained within the ReAssure Group.

Following a competitive auction process, ReAssure Group Ltd announced on 5 August 2019 that it had agreed to acquire the UK Heritage business of Quilter. The transaction is structured as an acquisition of 100% of the voting shares in the legal entity Old Mutual Wealth Life Assurance Limited ("OMWLA") and indirectly of its subsidiary, Old Mutual Wealth Pensions Trustees Limited.

On 6 December 2019, Phoenix Group Holdings plc announced the proposed acquisition of ReAssure Group plc (formerly ReAssure Group Ltd) from Swiss Re for a total consideration of £3.2 billion. The transaction is expected to be completed during 2020, subject to regulatory approval.

On 31 December 2019, the acquisition of OMWLA by ReAssure Group plc for a total consideration of £446 million was completed. The Part VII transfer of the OMWLA business into ReAssure Limited is expected to occur by the end of 2021. As part of the transaction, a new Intra-Group Reinsurance ("IGR") agreement between OMWLA and ReAssure Limited was entered into, transferring the shareholder risks and rewards of the insurance business from OMWLA to ReAssure Limited. Policyholders are not impacted by this agreement, and the IGR will extinguish upon successful completion of the Part VII transfer. Approximately 300 employees have transferred to the ReAssure Group upon completion. ReAssure Group remains a consolidator of closed life insurance business and successfully acquiring and integrating such books is key to the future success of the business.

The Directors are not aware of any other significant post balance sheet events that require disclosure in the statements.

PART C: ACCOUNTANT'S REPORT IN RELATION TO THE CONSOLIDATED HISTORICAL FINANCIAL INFORMATION OF THE REASSURE GROUP FOR THE THREE YEARS ENDED 31 DECEMBER 2018

The Directors
Phoenix Group Holdings plc
Juxon House
100 St Paul's Churchyard
London
EC4M 8BU

HSBC Bank plc
8 Canada Square
London
E14 5HQ

17 January 2020

Dear Ladies and Gentlemen

ReAssure Midco Limited

We report on the financial information of the Target Group (being ReAssure Midco Limited and its subsidiaries) for the three years ended 31 December 2018 set out in Part B of Part VIII above (the "**Target Financial Information Table**"). The Target Financial Information Table has been prepared for inclusion in the combined prospectus and circular dated 17 January 2020 (the "**Prospectus**") of Phoenix Group Holdings plc (the "**Company**") on the basis of the accounting policies set out in note 1 to the Target Financial Information Table. This report is required by item 18.3.1 of Annex 1 to the PR Regulation and 13.5.21R of the Listing Rules of the Financial Conduct Authority (the "**Listing Rules**") and is given for the purpose of complying with those items and for no other purpose.

Responsibilities

The Directors of the Company are responsible for preparing the Target Financial Information Table in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion as to whether the Target Financial Information Table gives a true and fair view, for the purposes of the Prospectus and to report our opinion to you.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and for any responsibility arising under item 5.3.2R(2)(f) of the Prospectus Regulation Rules to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 1.3 of Annex 1 to the PR Regulation and 13.4.1R(6) of the Listing Rules, consenting to its inclusion in the Prospectus.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the Target Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the Target Financial Information Table gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of the Target Group as at the dates stated and of its profits, cash flows and changes in equity for the periods then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Declaration

For the purposes of Prospectus Regulation Rule 5.3.2R(2)(f) we are responsible for this report as part of the Prospectus and we declare that, to the best of our knowledge, the information contained in this report is in accordance with the facts and makes no omission likely to affect its import. This declaration is included in the Prospectus in compliance with item 1.2 of Annex 1 and item 1.2 of Annex 11 to the PR Regulation.

Yours faithfully

PricewaterhouseCoopers LLP
Chartered Accountants

PART IX – FINANCIAL INFORMATION OF OLD MUTUAL WEALTH LIFE ASSURANCE LIMITED

PART A: HISTORICAL FINANCIAL INFORMATION OF OLD MUTUAL WEALTH LIFE ASSURANCE LIMITED FOR THE THREE YEARS ENDED 31 DECEMBER 2018

INCOME STATEMENT

for the three years ended 31 December 2018

	Notes	2018	2017	2016
		£m	£m	£m
REVENUE				
Investment contracts				
Fee income and other income from service activities	4	69.1	170.4	177.8
Insurance contracts				
Gross premiums written	5	146.2	146.7	140.2
Outward reinsurance premiums		(86.7)	(86.0)	(83.1)
Earned premiums, net of reinsurance		59.5	60.7	57.1
Other revenue				
Investment return	6	(767.4)	1,113.3	1,563.8
TOTAL REVENUE		(638.8)	1,344.4	1,798.7
EXPENSES				
Insurance contract claims				
Claims incurred – gross amount		(85.6)	(75.8)	(71.3)
Claims incurred – reinsurers' share		59.3	54.1	49.7
Claims incurred – net of reinsurance	7	(26.3)	(21.7)	(21.6)
Change in insurance provisions – gross amount		(108.5)	(78.3)	(125.3)
Change in insurance provisions – reinsurers' share		103.0	84.9	118.7
Change in insurance provisions – net of reinsurance	14	(5.5)	6.6	(6.6)
Other charges				
Change in investment contract liabilities		771.2	(1,108.9)	(1,538.4)
Commission expenses	8	(32.5)	(40.6)	(41.7)
Change in deferred acquisition costs	13	(20.7)	(23.4)	(29.6)
Administrative expenses	9	(46.4)	(145.3)	(72.7)
Finance costs	11	(0.5)	(0.3)	(1.0)
Other expenses		—	—	(5.6)
		671.1	(1,318.5)	(1,689.0)
TOTAL EXPENSES		639.3	(1,333.6)	(1,717.2)
PROFIT BEFORE TAX		0.5	10.8	81.5
Policyholder tax	12	97.4	(15.4)	(57.8)
Profit/(loss) after policyholder tax before shareholder tax		97.9	(4.6)	23.7
Taxation	12	88.5	(29.8)	(62.4)
Less: policyholder tax		(97.4)	15.4	57.8
Shareholder tax	12	(8.9)	(14.4)	(4.6)
PROFIT/(LOSS) FOR THE YEAR		**89.0**	**(19.0)**	**19.1**
Attributable to equity holders		89.0	(19.0)	19.1

All the above amounts in the current and prior year derive from continuing activities.

The notes to these financial statements which follow are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

for the three years ended 31 December 2018

	2018	2017	2016
	£m	£m	£m
PROFIT/(LOSS) FOR THE YEAR	89.0	(19.0)	19.1
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR			
All attributable to equity holders	89.0	(19.0)	19.1

The notes to these financial statements which follow are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018

	Notes	Share capital	Retained earnings	Non-distributable reserves	Total equity-holder's funds
		£m	£m	£m	£m
Balance at 1 January 2016		26.5	228.3	4.1	258.9
Profit for the year		—	19.1	—	19.1
Transfer to retained earnings		—	4.1	(4.1)	—
Balance at 1 January 2017		26.5	251.5	—	278.0
Loss for the year		—	(19.0)	—	(19.0)
Issue of Share Capital		38.0	—	—	38.0
Balance at 31 December 2017		64.5	232.5	—	297.0
Profit for the year		—	89.0	—	89.0
Balance at 31 December 2018		64.5	321.5	—	386.0

Non-distributable reserves represent surplus retained in the long term assurance fund for UK regulatory purposes. From 1 January 2016 the regulatory capital regime changed to reflect the implementation of the European Solvency II directive. Under the Solvency II regime, the company has own funds which exceed its internal solvency target. On this basis all IFRS reserves are deemed to be distributable and therefore have been re-allocated to retained earnings

The notes to these financial statements which follow are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

at 31 December 2018

	Notes	2018	2017	2016
		£m	**£m**	**£m**
ASSETS				
Deferred acquisition costs	13	63.3	84.0	107.4
Reinsurers' share of insurance provisions	14	490.2	382.5	302.6
Reinsurers' share of investment contract liabilities	15	1,671.4	2,525.3	2,560.2
Debt securities	17	172.9	149.3	148.0
Collective investment schemes	17	9,939.7	12,390.8	12,632.1
Current tax assets		23.0	—	—
Other receivables	19	29.1	38.9	50.8
Other prepayments and accrued income	20	1.3	1.0	1.2
Cash and cash equivalents	21	87.1	88.1	58.9
Total assets		12,478.0	15,659.9	15,861.2
EQUITY AND LIABILITIES				
CAPITAL AND RESERVES				
Share capital	22	64.5	64.5	26.5
Retained earnings		321.5	232.5	251.5
Total equity attributable to equity holders		386.0	297.0	278.0
LIABILITIES				
Insurance provisions	14	602.1	488.8	416.4
Liabilities for linked investment contracts	15	11,238.9	14,498.5	14,866.8
Deferred tax liabilities	24	18.8	105.2	95.9
Deferred fee income	25	31.0	41.9	54.7
Other provisions	26	34.8	71.7	1.3
Current tax liabilities		8.4	38.2	14.1
Other payables	27	158.0	118.6	134.0
Total liabilities		12,092.0	15,362.9	15,583.2
Total equity and liabilities		12,478.0	15,659.9	15,861.2

The notes to these financial statements which follow are an integral part of these financial statements.

Company registered number: 1363932

STATEMENT OF CASH FLOWS

for the three years ended 31 December 2018

	2018	2017	2016
	£m	£m	£m
OPERATING ACTIVITIES			
Cash received from policyholders – insurance contracts	69.9	67.2	60.2
Cash received from policyholders – investment contracts	506.7	989.5	882.8
Risk reinsurance – net payments to reinsurers	(28.1)	(31.5)	(38.2)
Cash paid to policyholders – insurance contracts	(27.7)	(33.0)	(23.6)
Cash paid to policyholders – investment contracts	(2,896.2)	(2,666.0)	(2,035.1)
Commissions paid	(32.6)	(41.0)	(41.0)
Net cash paid to service providers, suppliers and employees	(61.4)	(33.9)	(74.6)
	(2,469.4)	(1,748.7)	(1,269.5)
Investments for the benefit of policyholders			
Interest received	0.1	0.1	0.1
Investment income on equities and collective investments	194.7	210.1	232.8
Investment administration expenses	(1.5)	(2.7)	(2.0)
Net sales of investments	2,355.3	1,619.9	1,123.5
	2,548.6	1,827.4	1,354.4
Cash generated from operations	79.2	78.7	84.9
Taxes and group relief (paid)/received	(50.8)	3.6	(16.8)
Net cash from operating activities	28.4	82.3	68.1
INVESTING ACTIVITIES			
Interest received	2.7	1.1	1.8
Investment income on fixed interest securities	2.5	3.1	4.3
Investment income on equities and unit trusts	—	0.1	—
Net purchases of investments	(34.3)	(91.5)	(149.0)
Net cash used in investing activities	(29.1)	(87.2)	(142.9)
FINANCING ACTIVITIES			
Other interest paid	(0.5)	(0.3)	(1.0)
Issue of share capital	—	38.0	—
Increase/(decrease) in bank overdraft	0.2	(3.6)	3.6
Net cash (used in)/from financing activities	(0.3)	34.1	2.6
Net (decrease)/increase in cash and cash equivalents	(1.0)	29.2	(72.2)
Cash and cash equivalents at beginning of the year	88.1	58.9	131.1
Cash and cash equivalents at end of the year	87.1	88.1	58.9

The notes to these financial statements which follow are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the three years ended 31 December 2018

1 GENERAL INFORMATION

Old Mutual Wealth Life Assurance Limited ("the company") is a limited company incorporated in England & Wales. The address of its registered office is disclosed in the company information section on page 1. The principal activities of the company are disclosed in the strategic report.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

Pursuant to section 435 of the Companies Act, this historical financial information does not constitute the company's statutory accounts for the years ended 31 December 2018, 2017 or 2016. The HFI has been prepared specifically for the purpose of this document. OMW prepares its standalone financial statements under IFRS adopted by the EU. The OMW HFI has been prepared in accordance with the requirements of the Listing Rules and the Prospectus Regulation Rules, and in accordance with this basis of preparation. This basis of preparation describes how the OMW HFI has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the IFRS Interpretation Committee interpretations (together "IFRS") and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The principal accounting policies that have been applied to the OMW HFI are set out below. These policies have been consistently applied to all years presented, with the exception of IFRS 15 (see below). In preparing the OMW HFI the IFRS information has been extracted from the individual entity financial statements. The OMW HFI has been prepared in accordance with accounting policies that are consistent with those applied by Phoenix in its 31 December 2018 financial statements. Adjustments have therefore been made to align the entity financial statements with Phoenix accounting policies. These adjustments impact the presentation of line items within the income statement and statement of financial position and do not affect profit after tax or equity attributable to shareholders. Additionally, the reinsurers' share of investment contract liabilities has been moved from Level 1 to Level 2 in the fair value hierarchy in note 23. An adjustment has also been made in preparing the OMW HFI to correct an overstatement of provisions reported in the entity financial statements, which has had a £4 million impact on the profit after tax for the year ended 31 December 2018 and the equity attributable to shareholders as at that date. Further details are provided in note 26.

In preparing the OMW HFI certain accounting conventions commonly used for the preparation of historical financial information for inclusion in investment circulars as described in the Annexure to SIR 2000 "Standards for Investment Reporting applicable to public reporting engagements on historical financial information" issued by the U.K. Auditing Practices Board have been applied.

The OMW HFI is presented in millions of pounds ('£') and is prepared on an historical cost basis.

Going concern

The Directors of Phoenix have a reasonable expectation that the company has adequate resources to continue in operational existence for at least the next 12 months. Consequently, this HFI has been prepared on a going concern basis.

Assessing post balance sheet events

For the periods presented prior to 31 December 2018, the dates of authorisation of the underlying financial statements of OMW have been used when assessing post balance sheet events, i.e. events have only been considered up to the dates on which the relevant underlying financial statements were authorised. For the period ended 31 December 2018 the impact of post balance sheet events occurring up to the date of approval of the HFI has been considered.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except as noted below.

Standards, amendments to standards, and interpretations adopted in these annual financial statements

The company adopted IFRS 15 Revenue from Contracts with Customers for the first time in 2018.

In addition to IFRS 15, the following amendments to the accounting standards, issued by the IASB and endorsed by the EU, have been adopted by the company from 1 January 2018 with no material impact on the company's results, financial position or disclosures:

— Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

— Amendments to IFRS 1 and IAS 28: Annual improvements to IFRSs 2014-2016 cycle

— IFRIC 22 Foreign currency transactions and advance consideration

Impact of adopting IFRS 15

The company adopted IFRS 15 *Revenue from Contracts with Customers* for the first time in 2018. Although a significant standard, it did not have a material impact on the company because it was already largely compliant in the way it recognises fee income. The impact of adopting this new standard is outlined below.

The company used the cumulative effect method when adopting IFRS 15. Accordingly, the information presented for 2017 has not been restated, i.e. it is presented, as previously reported, under IAS 18 Revenue.

Under IFRS 15, revenue is recognised when a customer obtains control of goods or services. Determining the timing of the transfer of control, at a point in time or over time, requires judgment. IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised.

The company performed an assessment to determine the impact of the new standard on the company's statement of financial position and performance. It considered the five-step analysis prescribed by the standard, taking into account the different types of contracts it has with its customers, the corresponding types of services provided to customers and when these service obligations are satisfied. In addition, the company considered the types of fee income generated across all products from the contracts with its customers and when the fee income is recognised. The assessment concluded that new requirements would not result in the company having to change the nature or timing of satisfaction of performance obligations and significant payment terms. Consequently, the cumulative impact of adoption was nil and as a result no adjustment to the company's opening retained earnings as at 1 January 2018 has been recognised.

The introduction of IFRS 15 did not result in changes to the company's significant accounting policies.

Future standards, amendments to standards, and interpretations not early-adopted in these financial statements

At the date of authorisation of these financial statements the following standards, amendments to standards, and interpretations, which are relevant to the company, have been issued by the International Accounting Standards Board.

IFRS 9 Financial Instruments

Under IFRS 9, all financial assets will be measured either at amortised cost or fair value and the basis of classification will depend on the business model and the contractual cash flow characteristics of the financial assets. In relation to the impairment of financial assets, IFRS 9 requires the use of an expected credit loss model, as opposed to the incurred credit loss model required under IAS 39 *Financial Instruments*. The expected credit loss model will require the company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition.

The company has taken advantage of the temporary exemption granted to insurers in IFRS 4 Insurance Contracts from applying IFRS 9 until 1 January 2021 (recommended deferral period extended by IASB to 2022) as a result of both the company and the Phoenix Group meeting the exemption criteria as at 31 December 2015. As at this date both the company and the Phoenix Group's activities were considered to be predominantly connected with insurance as the percentage of the total carrying amount of its liabilities connected with insurance relative to the total carrying amount of all its liabilities was greater than 90%. Following the acquisition by the Phoenix Group of Standard Life Assurance in August 2018, this assessment was reperformed and the Phoenix Group's activities were still considered to be predominantly connected with insurance. It is expected that the Phoenix Group will continue to meet the exemption criteria following the proposed acquisition of ReAssure and, accordingly, the company.

IFRS 9 will be implemented at the same time as the new insurance contracts standard (IFRS 17 *Insurance Contracts*) effective from 1 January 2021 (IASB recommended extending the implementation date to 2022). The company expects to continue to value the majority of its financial assets as at fair value through profit or loss on initial recognition, as these financial assets are managed on a fair value basis. A number of disclosures have been made in note 23 to provide information to allow comparison with entities adopting IFRS 9 effective from 1 January 2018.

IFRS 17 Insurance Contracts

The IASB issued IFRS 17 *Insurance Contracts* in May 2017. IFRS 17 replaces its interim predecessor, IFRS 4 *Insurance Contracts,* and is a comprehensive standard which provides a single accounting model for all insurance contracts. IFRS 17 replaces a wide range of different accounting practices previously permitted, improving transparency and enabling investors and regulators to understand and compare the financial position and performance of an insurer, irrespective of where they are based geographically.

A specific impact for the company is that in addition to the non-linked contracts currently recognised as insurance contracts under IFRS 4, there are a number of unit-linked contracts containing insurance elements that are currently unbundled under IFRS 4. This treatment will no longer be acceptable under IFRS 17, which in turn will increase the value of contract balances subject to IFRS 17.

The measurement model

The use of current estimates at each reporting date and an explicit risk adjustment to measure obligations created by insurance contracts, provides up to date information about cash flows and associated risk and timing. 'Day one' profits are deferred and recognised in the income statement through the release of the contractual service margin ('CSM'), which has the effect of recognising revenue as services are provided. This is consistent with the treatment in IFRS 15.

Presentation and disclosure

Insurers' financial statements will look different under IFRS 17. Insurers will be required to provide information about sources of profit or losses from insurance and investment related services, comprising insurance revenue and insurance service expenses (underwriting activity), as well as finance income or expense (investing activity). New performance metrics and KPIs will be required to explain business results to the investment community. Disclosure requirements focus on amounts recognised in the financial statements, significant judgments and changes in those judgments, as well as information about the nature and extent of risks that arise from insurance contracts.

Effective date

The IASB has recently recommended an extension of the implementation date of IFRS 17 to 2022, with early adoption available. The standard is yet to be endorsed by the EU. Management is currently assessing the impact of this standard on the company and is establishing a multi-functional project team involving Finance, Actuarial, Risk and IT.

IFRIC 23 Uncertainty over income tax treatments

The IASB issued IFRIC 23 Uncertainty over Income Tax Treatments in June 2017. This Interpretation sets out how to determine taxable profits / losses, tax bases, unused tax losses, unused tax credits and tax rates (collectively referred to as the 'accounting tax position') where there is uncertainty over treatment. The company is concluding on the impact of the adoption of this Interpretation. All tax provisions for the company are currently calculated consistent with the requirements of IAS 12 Income taxes.

Effective date

IFRIC 23 is effective for the company for the accounting period beginning on 1 January 2019.

IFRS 16 Leases (endorsed by the EU) has been issued by the International Accounting Standards Board, and is expected to be not applicable to the company.

Critical accounting estimates and judgments

The preparation of financial statements requires management to exercise judgment in applying accounting policies and make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements. Critical accounting estimates and judgments are those that involve the most complex or subjective assessments and assumptions. Management uses its knowledge of current facts and circumstances and applies estimation and assumption setting techniques that are aligned with relevant actuarial and accounting guidance to make predictions about future actions and events. Actual results may differ significantly from those estimates.

The board reviews the reasonableness of judgments and assumptions applied and the appropriateness of significant accounting policies adopted in the preparation of these financial statements. The areas that typically require estimates and assumptions that involve the most complex or subjective judgements and assessments are summarised in the following table:

Area	Critical accounting assumption or estimate	Note
Insurance contracts — measurement	Measurement involves significant use of assumptions including mortality, morbidity, persistency, expense valuation and interest rates.	14
Provisions	The amount of provision is calculated, based on the company's estimation of the expenditure required to settle the obligation at the reporting date.	26

The application of critical accounting judgements that could have the most significant effect on recognised amounts is described below:

Area	Critical accounting judgment	Note
Insurance contracts — recognition	Assessment of the significance of insurance risk transferred to the company in determining whether a contract should be classified (and accounted for) as an insurance or investment contract.	14

Each of the areas of critical accounting estimates and judgements is discussed in more detail in the relevant accounting policies and notes to the financial statements.

Financial assets

Financial assets are designated as 'fair value through profit or loss' at initial recognition and are measured at fair value, with any resultant gain or loss recognised in the income statement.

Purchases and sales of securities are recognised on the trade date.

The valuation bases at the reporting date were as follows:

— Fixed interest and index-linked securities are valued at quoted bid prices;

— Equities and investment trusts are valued at quoted bid prices;

— Unit trusts are valued at quoted bid prices;

— Open Ended Investment Company (OEIC) assets are single priced funds and are valued at the quoted net asset value per share.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits that are readily convertible to a known amount of cash. Cash and cash equivalents are classified at amortised cost which means they are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Trade payables and receivables

Trade payables and receivables are classified at amortised cost. Due to their short term nature of trade payables and receivables, their carrying amount is considered to be the same as their fair value.

Investments in subsidiaries

Investments in subsidiary undertakings are stated at cost less provision for impairment. An investment in a subsidiary is deemed to be impaired when its carrying amount is greater than its estimated recoverable amount, and there is evidence to suggest that the impairment occurred subsequent to the initial recognition of the asset in the financial statements. All impairments are recognised in the income statement as they occur.

Insurance and investment contracts — classification and unbundling

The company issues both insurance contracts and investment contracts. Insurance contracts are contracts under which the company accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder or other beneficiary on the occurrence of a defined insured event. Insurance risk is significant if, and only if, an insured event could cause the group to make significant additional payments in any scenario, excluding scenarios that lack commercial substance. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire. Investment contracts are financial instruments that do not meet the definition of an insurance contract as they do not transfer significant insurance risk from the policyholder to the company. It is possible to reclassify contracts as insurance contracts after inception if insurance risk becomes significant.

For contracts containing both an insurance component and an investment component, the company has taken the option to unbundle these contracts and account for each component separately. This approach has been applied to the company's unit-linked contracts.

Insurance contracts

Insurance contracts comprise the unbundled insurance component of unit-linked contracts and traditional life and health insurance contracts.

For long term traditional life contracts, the liability for contractual benefits that are expected to be incurred in the future is determined as the discounted value of the excess of future expected outgoings over future expected income. Future expected outgoings include claim costs, expenses, commissions and reinsurance premiums. Future expected income includes premiums paid by policyholders and recoveries made from reinsurers. For anticipated future claims that have been incurred but not yet paid, the company establishes a provision for outstanding claims.

The method used to determine liabilities for long term traditional life contracts makes allowance for the level of risk and uncertainty inherent in the business by the use of margins for caution within the assumptions used to project future income and outgoings. The portion of premiums received that relates to unexpired risks at the statement of financial position date is reported as an unearned premium liability within the insurance provision.

At each reporting date, the company carries out a liability adequacy test on its insurance contract liabilities to ensure that the carrying amount of its liabilities is sufficient in the light of estimated future cash flows. Any deficiency is initially recognised by writing down the deferred acquisition costs (DAC) asset. The recoverability of the DAC asset is tested against the present value of in-force business, determined on a best estimate basis, with any deficit written off the DAC asset immediately. Any required write down in excess of the value of the DAC is disclosed as an additional liability.

Investment contracts

Investment contracts comprise the unbundled investment component of unit-linked contracts. Investment contracts result in financial liabilities whose fair value is dependent on the fair value of underlying financial assets. They are designated at inception as financial liabilities at fair value through profit or loss.

Valuation techniques are used to establish the fair value at inception and each reporting date. The company's main valuation techniques incorporate all factors that market participants would consider and are based on observable market data. The financial liability is measured both initially and subsequently at fair value. However, if the liability is subject to a surrender option, the fair value of the financial liability is never less than the amount payable on surrender. The fair value of a unit-linked financial liability is determined using the fair value of the financial assets contained within the funds linked to the financial liability.

If, for a certain portfolio of investment contracts, the expected future revenue is less than expected future variable costs, a provision for onerous contracts is established for such a portfolio based on the net present value of the expected net outflow of cash.

Reinsurance

Contracts entered into by the company with reinsurers are classified as either ceded reinsurance or financial assets and liabilities. Ceded reinsurance contracts include arrangements where regular risk premiums are paid by the company to the reinsurer and an agreed share of claims are paid by the reinsurer to the company; these arrangements are in respect of underlying policies that are classified as insurance contracts.

The value of the benefits that the company is entitled to under the ceded reinsurance arrangements are reported as 'reinsurers' share of insurance provisions'. This is calculated as the difference between the insurance contract liability assuming no reinsurance arrangement exists (the gross basis) and the liability with explicit allowance for all cash flows relating to the reinsurance arrangement (the net basis).

Insurance contract liabilities are calculated quarterly on the gross and net bases taking into account all relevant experience effects. The reinsurers' share of insurance provisions is updated consistently with these calculations. Any resulting movement in the reinsurers' share of insurance provisions is recognised in the income statement.

Policyholder investments that are fully managed by a third party reinsurer, to which no insurance risk has been transferred, are shown on the statement of financial position within reinsurers' share of investment contract liabilities, with the corresponding liability to the policyholder included within liabilities for linked investment contracts. As investment contracts, the premiums received, investment gains or losses and claims paid are reflected in the change in investment contract liabilities in note 15.

Deferred acquisition costs and contract costs

Incremental costs directly attributable to securing investment and insurance contracts are capitalised as deferred acquisition costs. These costs consist mainly of commission paid to financial advisers and internal sales personnel.

These costs are amortised linearly as an expense over a 20 year period, adjusted for expected persistency. This represents the directors' best estimate of the life of the contracts and is based on a combination of historic business patterns, investment management practices and mortality tables.

At the end of each reporting period, deferred acquisition costs and contract costs are reviewed for recoverability, by category, against future margins from the related contracts at the statement of financial position date. An impairment loss is recognised in the income statement if the carrying amounts are greater than future margins from related contracts.

Other receivables

Other receivables are not interest-bearing and are stated at their amortised cost, less appropriate allowances for estimated irrecoverable amounts which approximates fair value.

Other provisions

Provisions are recognised when the company has an obligation, legal or constructive, as a result of a past event, and it is probable that the company will be required to settle that obligation. Provisions are estimated at the directors' best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present values where the effect is material.

Other payables

Other payables are short term, not interest-bearing and are stated at their amortised cost which is not materially different to cost and approximates fair value.

Revenue recognition

Revenue comprises the fair value for services, net of value-added tax. Revenue is recognised as follows:

Fee income

Fees charged for managing investment contracts comprise fees taken both on inception and throughout the life of the contract. All fee income is recognised as revenue in line with the provision of the investment management services.

Fee income represents the fair value of services provided and consists predominantly of fees charged to clients in respect of investment contracts. The company charges both recurring and non-refundable up-front fees for those services. Recurring fees may be for fixed amounts or vary with the amounts being managed, and will generally be charged as an adjustment to the client's balance.

All fee income is recognised as revenue in line with the provision of investment management services. Typically these services are deemed to be provided evenly over the lifetime of a contract, except where service obligations are fully delivered at the inception of the relevant contract.

The table below summarises the types of fee income generated by the company.

Type of fee	Description
Premium based fees	This relates to non-refundable initial fees taken on receipt of clients' investments and recognised over the life of the contract.
Fund based fees	Periodic fee income based on the market valuation of the investment contracts recognised daily in line with the provision of investment management services.
Fixed fees	Periodic fee income, fixed in value, recognised according to underlying contract terms for provision of services, and transactional dealing fees.
Other fee income	Other fee income consists primarily of charges taken from unit-linked funds to meet future policyholder tax liabilities. Depending on the nature of the tax liability, the charges are either recognised at the point a transaction occurs on the unit-linked fund, or annually.

IFRS 15 did not have a significant impact on the company's accounting policies.

Deferred fee income

Premium based fees, comprising fees received at inception or receivable over an initial period for services not yet provided, is deferred through the creation of a deferred fee income liability (DFI). It is reported on the statement of financial position and released to income as the services are provided. Equal service provision is assumed over the lifetime of the contract and, as such, the deferred fees are amortised on a linear basis over the expected life of the contract, adjusted for expected persistency. The deferred fee income liability principally comprises fee income already received in cash.

Premiums

Premiums for insurance contracts are recognised as revenue when they become payable by the policyholder.

Outward reinsurance premiums are accounted for in the period they become payable.

Gains and losses on financial assets

Realised investment gains and losses represent the difference between the net sales proceeds and the cost of the investment or value at start of the year. The movement in unrealised investment gains and losses represents the difference between the carrying value of investments at the year-end and the value at the start of the year, or the original cost where an investment is acquired during the year. The realised gains and losses and movement in unrealised gains and losses on investments arising in the year are included in the income statement.

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that financial asset's carrying amount.

Dividend income

Dividend income from investments is recognised when the shareholder's rights to receive payments have been established.

Unit trust rebates

Rebates received from unit trust managers are accounted for on an accruals basis.

Insurance contract claims

Claims are recorded as an expense when incurred. Reinsurance recoveries are recorded in the same accounting period as the related claim.

Administrative expenses

All other expenses are recognised in the income statement when incurred.

Taxation

Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustment to income tax payable in respect of previous years. The taxable income for the year is determined in accordance with enacted legislation and taxation authority practice for calculating the amount of tax payable.

Current tax is charged or credited to the income statement, except when it relates to items recognised directly in equity or in other comprehensive income.

Deferred tax

Deferred taxes are calculated according to the statement of financial position method, based on temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

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

Policyholder tax

Certain products are subject to tax on policyholder's investment returns. This 'policyholder tax' is an element of tax expense. To make the tax expense more meaningful, tax attributable to policyholder returns and tax attributable to shareholder profits is shown separately.

The tax attributable to policyholder returns is the amount payable in the year plus the movement of amounts expected to be payable in future years. The remainder of the tax expense is attributed to shareholders as tax attributable to shareholder profits.

Foreign currencies

Transactions in foreign currencies are translated at the exchange rate in effect at the date of the transaction. Foreign currency monetary assets and liabilities are translated to sterling at the year end closing rate. Non-monetary assets denominated in a foreign currency that are measured in terms of historical cost are translated using the exchange rate in effect at the date of the transaction and non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rate in effect at the date when the fair value was determined. Foreign exchange rate differences that arise are reported net in the income statement as foreign exchange gains/losses.

3 RISK MANAGEMENT FRAMEWORK AND RISK EXPOSURES

Risk management framework

The company has adopted the Quilter group Enterprise Risk Management (ERM) framework, which comprises core components such as:

- the corporate governance arrangements which set out the way that the organisation is structured and managed;
- a set of Strategic Risk Appetite Principles that provide guidance on our attitude toward key areas of risk and support the ongoing management and oversight of risk;
- the processes involved in the identification, measurement, assessment, management and monitoring of risk, including assignment of risk owners and risk reporting, and
- the culture and behaviour that is exhibited and the associated reward mechanisms;

The ERM framework aims to align strategy, capital, processes, people, technology and knowledge in order to evaluate and manage business opportunities, uncertainties and threats in a structured, disciplined manner. In this way Quilter seeks to ensure that risk and capital implications are considered when making strategic and operational decisions, and to ensure that Quilter's risk profile is understood and managed on a continuous basis within the agreed risk appetite.

The company's risk appetite is the amount of risk it is willing to take on in the pursuit of its strategic priorities and is defined by the Quilter board. Culturally, it sets the tone regarding our attitude towards risk-taking. Risk appetite also plays a central role in informing decision making across the business; protecting and enhancing the return on capital invested.

To support the strategic decision making process the company applies risk preferences which provide guidelines for striking the appropriate balance of risk and reward when setting the business strategy.

The Strategic Risk Appetite Principles set by the Quilter board provide the top-of-the-house guidance on the attitude towards key areas of risk for the group and support the ongoing management and oversight of risk. The business position against these principles is measured on a regular basis. These principles are communicated and applied to all employees through a series of more granular risk appetite statements.

Quilter's risk culture is defined as the system of values and behaviours embedded in the group that shapes risk decisions and measures, policies and standards and key risk indicators.

The risk culture is defined by the following principles:

- Responsibility and accountability for risk management is clearly assigned throughout the organisation with the aim of fostering an open and transparent organisational culture that encourages the right behaviours;
- The creation of an open climate for the employees to voice genuine concerns about, and risks within, the business;
- A risk-aware culture is seen as an enabler for management to be empowered to take risks in a manner that is transparent and that is in line with the business and risk strategy;
- Good risk management practices are encouraged, such that employees understand how to make educated risk-related decisions in their day-to-day roles;
- Training and awareness programmes are in place to ensure that a risk-aware culture is fostered and that employees understand the importance of good risk management;
- Performance management encourages and incentivises good risk management practices.

The risks faced by the company are described below:

Market risk

Market risk is the risk of an adverse change in the level or volatility of market prices of assets, liabilities or financial instruments resulting in loss of earnings or reduced solvency.

Market risk arises primarily through potential reductions in future revenues, whereby a change in the value of or income from any particular asset is not matched by an equal change in the value of the corresponding liability within the portfolio. This may occur due to a fall in value of underlying assets, as a result of fluctuations in equity prices, bond prices, property prices, interest rates and foreign exchange rates, where the market value of assets and liabilities within the portfolio are not precisely matched. The company's asset liability management process employed for matching within the portfolio keeps the impacts of this risk within acceptable limits.

The company has adopted the Quilter Market Risk Policy, which sets out the market risk management governance framework, permitted and prohibited market risk exposures, maximum limits on market risk exposures, management information and stress testing requirements.

The company does not undertake any principal trading for its own account. The company's revenue is however affected by the value of assets under management and consequently it has exposure to equity market levels and economic conditions. Scenario testing is undertaken to test the resilience of the business to severe but plausible events and to assist in the identification of management actions.

The sensitivity of future earnings to the level and performance of investment markets is monitored through sensitivity analyses performed for business planning purposes.

Market risk arises from exposure to movements in interest rates, bond, equity and property values and foreign exchange rates.

Equity and property price risk

In accordance with the market risk policy, the company does not invest shareholder assets in equity or property, or related collective investments, except where the exposure arises due to:

— Mismatches between unitised fund assets and liabilities. These mismatches are permitted, subject to maximum limits, to avoid excessive dealing costs;

— Seed capital investments. Seed capital is invested within new unit-linked funds at the time when these funds are launched. The seed capital is then withdrawn from the funds as policyholders invest in the funds.

The above exposures are not material.

Equity assets are all held indirectly through collective investments to back unit-linked liabilities. Due to the nature of the investments held there is no material exposure to equity and property price risk on non-linked term assurance policyholder assets.

The company derives revenues (e.g. annual management charges) and incurs costs (e.g. adviser fund based renewal commissions) which are linked to the performance of the underlying assets. Therefore future earnings will be affected by equity and property market performance.

The sensitivity of profit to changes in equity and property prices is given in the sensitivity analysis. The sensitivity analysis is not limited to the unit-linked business and therefore reflects the sensitivity of the company as a whole.

In conclusion, the equity risk is directly correlated to the size of the AuA (Assets under Administration).

Interest rate risk

Interest rate risk arises primarily from investment in fixed interest government securities, which are exposed to fluctuations in interest rates.

Fixed interest government securities are held to match liabilities for non-linked protection business determined on an IFRS basis. Therefore, on an IFRS basis there is no material exposure to interest rate movements.

A rise in interest rates would also cause an immediate fall in the value of investments in fixed income securities within unit-linked funds, resulting in a short term fall in fund based fees.

The sensitivity of profit to changes in interest rates is given in the sensitivity analysis. The sensitivity analysis is not limited to the unit-linked business and therefore reflects the sensitivity of the company as a whole.

Interest rates applicable to interest bearing financial instruments

	2018 Fixed	2018 Variable	2017 Fixed	2017 Variable	2016 Fixed	2016 Variable
Assets						
Bonds	3.75%	—	3.79%	—	3.71%	—
Deposits with credit institutions	—	0.71%	—	0.27%	—	0.20%

Currency risk

The company has limited direct currency risk. The company holds limited foreign currency balances to meet settlements as they fall due. At the reporting date the company had cash balances held in Euro £0.5m (2017: £0.5m, 2016: £0.5m), £1.3m in Norwegian Krona (2017: £0.6m, 2016: £0.9m), £0.8m in Swedish Krona (2017: £1.1m, 2016: £0.8m) and £0.4m in US Dollar (2017: £0.3m, 2016: £0.1m).

The company is exposed to currency risk indirectly through fund based fees derived from unit-linked funds which hold assets denominated in foreign currencies. Therefore, a movement in exchange rates would affect the value of future fund based fees received by the company.

Overall, the currency risk continues to steadily decrease a result of the gradual decline in AuA because of the business runoff.

Credit risk

Credit risk is the risk of adverse movements in credit spreads (relative to the reference yield curve), credit ratings or default rates leading to a deterioration in the level or volatility of assets, liabilities or financial instruments resulting in loss of earnings or reduced solvency. This includes counterparty default risk, counterparty concentration risk and spread risk.

The company has adopted the group's credit risk framework that includes a Credit Risk Policy, Credit Risk Standard and Credit Risk Appetite. This framework applies to all activities where the shareholder is exposed to credit risk, either directly or indirectly, ensuring appropriate identification, measurement, management, monitoring and reporting of credit risk exposures.

The credit risk arising from all exposures is mitigated through ensuring the company only enters into relationships with appropriately robust counterparties, adhering to the Credit Risk Policy. For each asset, consideration is given as to:

- The credit rating of the counterparty, which is used to derive the probability of default;
- The loss given default;
- Any second order risks that may arise where the firm has collateral against the credit risk exposure.

The credit risk exposures of the group are monitored regularly to ensure that counterparties remain creditworthy, to ensure there is appropriate diversification of counterparties and to ensure that exposures are within approved limits. At 31 December 2018, the company's material credit exposures were to financial institutions (primarily through the investment of shareholder funds), corporate entities (including external fund managers and reinsurers) and individuals (primarily through fund management trade settlement activities).

There is no direct exposure to European sovereign debt (outside of the UK) within the shareholder investments.

The company has no significant concentrations of credit risk exposure.

Reinsurance arrangements

The company has reinsurance arrangements in place to mitigate the risk of excessive claims on unit-linked and non-linked protection contracts. Reinsurance arrangements are also used in respect of unit-linked institutional business to access specific funds not available through direct fund links.

Since the company uses reinsurance as a means of mitigating insurance risk, reinsurance counterparties bear a significant financial obligation to the company.

In general, credit risk is controlled through the use of risk premium reinsurance terms, where reinsurance cover is paid for as the cover is provided. In these arrangements credit risk is limited to the risk of being unable to recover amounts due as a result of claims arising over the latest quarter, since reinsurance accounts are settled quarterly in arrears. This risk is largely mitigated since the company would be able to withhold amounts due to the reinsurer to offset amounts due from the reinsurer.

The company also has reinsurance arrangements in which there is a timing difference between the reinsurance premium payment and the provision of cover, which results in prepayment for cover by the company. In respect of these arrangements, a credit risk exposure can arise.

Reinsurance credit risk is managed by dealing only with reinsurance firms with credit ratings which meet the requirements of the company's credit risk policy on inception of new reinsurance arrangements.

The company monitors the exposure to and credit rating of reinsurance counterparties regularly to ensure that these remain within acceptable limits.

Legal agreements are in place for all reinsurance arrangements which set out the terms of the arrangement and the rights of both the company and the reinsurance providers.

Details of the age analyses and credit quality of reinsurance assets in respect of insurance contracts and investment contracts are included in notes 14 and 15 respectively.

Investment of shareholder funds

The risk of counterparty default in respect of the investment of shareholder funds is managed through:

- Setting minimum credit rating requirements for counterparties;
- Setting limits and key risk indicators for individual counterparties and counterparty concentrations;
- Monitoring exposures regularly against approved limits; and
- Ongoing monitoring of counterparties and associated limits.

Spread risk

Similar to equity risk, spread risk reflects the potential loss of future revenue resulting from adverse movements in corporate bond markets which reduce underlying unit-linked asset values, held indirectly through collective investments held to back unit-linked liabilities.

The Assets under Administration (AuA) contain corporate bonds. When the spread on these bonds widen, the value of these bonds fall, decreasing the fund based future revenue.

The spread risk is directly related to the size of the company's AuA.

Other credit risks

The risk of default by financial advisors in respect of commission debt is controlled through monthly monitoring of commission debt balances and the establishment of a net provision when considered appropriate.

The company is exposed to the risk of default by fund management groups in respect of settlements and rebates of fund management charges on collective investments held for the benefit of policyholders. This risk is managed through the due diligence process which is completed before entering into any relationship with a fund group. Amounts due to and from fund groups are monitored for prompt settlement and appropriate action is taken where settlement is not timely.

Legal contracts are maintained where the company enters into credit transactions with a counterparty.

Details of the credit quality of debt securities can be found in note 18.

Impact of credit risk on fair value

Due to the limited exposure that the company has to credit risk, credit risk does not have a material impact on the fair value movement of financial instruments for the year under review. The fair value movements on these instruments are mainly due to changes in market conditions.

Maximum exposure to credit risk

Credit ratings for financial instruments are enclosed in the relevant notes. The company's maximum exposure to credit risk does not differ from the carrying value disclosed in the relevant notes to the accounts.

Liquidity risk

Liquidity risk is the risk that there are insufficient assets or that assets cannot be realised in order to settle financial obligations as they fall due or that market conditions preclude the ability of the firm to trade in illiquid assets in order to maintain its asset/liability matching (ALM) profile.

The company manages liquidity through:

- Maintaining adequate high quality liquid assets and banking facilities, the level of which is informed through appropriate liquidity stress testing;
- Continuously monitoring forecast and actual cash flows, and;
- Through matching the maturity profiles of financial assets and liabilities, where possible.

The company maintains and manages its local liquidity requirements according to its business needs within the overall group Liquidity Risk Framework that includes a group Liquidity Risk Policy, group Liquidity Risk Standard and group Liquidity Risk Appetite Statement. The framework is applied consistently across all businesses in the group to identify, manage, measure, monitor and report on all liquidity risks that have a material impact on liquidity levels. This framework considers both short-term liquidity and cash management considerations and longer-term funding risk considerations.

Liquidity is monitored centrally by group Treasury, with management actions taken at a business level to ensure each business has liquidity to cover its minimum liquidity requirement, with an appropriate buffer.

A Contingency Funding Plan is in place in order to identify a comprehensive list of contingent funding sources and the order and speed in which they could be utilised in a stress scenario. The plan undergoes an annual review and testing cycle to ensure it is fit for purpose and can be relied upon during a liquidity stress.

Information on the nature of the investments and securities held is given in note 17 and 18.

Maturity schedule

The maturity dates of financial liabilities are shown below.

	<3 months	3-12 months	1-5 years	>5 years	Total
	£m	£m	£m	£m	£m
2018:					
Insurance provisions	6.8	10.7	46.4	991.9	1,055.8
Liabilities for linked investment contracts	11,238.9	—	—	—	11,238.9
Other payables	158.0	—	—	—	158.0
	11,403.7	10.7	46.4	991.9	12 452.7
2017:					
Insurance provisions	6.2	7.8	33.6	855.1	902.7
Liabilities for linked investment contracts	14,498.5	—	—	—	14,498.5
Other payables	118.6	—	—	—	118.6
	14,623.3	7.8	33.6	855.1	15,519.8
2016:					
Insurance provisions	6.8	9.5	55.5	660.5	732.3
Liabilities for linked investment contracts	14,828.0	—	—	—	14,828.0
Other payables	129.8	—	—	—	129.8
	14,964.6	9.5	55.5	660.5	15,690.1

The insurance provisions shown in the above maturity schedule are undiscounted. Liabilities for linked investment contracts are classified as less than three months maturity; whilst it is not expected that all liabilities will be settled within this period, the terms of the contracts allow the policyholders to redeem their policies at any time.

Insurance risk

Insurance risk is the risk of a reduction in Own Funds from adverse experience or change in assumptions relating to claims, policyholder behaviours, mortality, morbidity, longevity or expenses, resulting in an adverse impact to earnings or reduced solvency.

Insurance risk arises through exposure to unfavourable claims experience on life assurance and critical illness business and exposure to unfavourable operating experience in respect of factors such as persistency levels and management expenses.

Insurance risk arises due to uncertainty in mortality, persistency, expense and claim rates, relative to the actuarial assumptions made in the pricing process which may prevent the company from achieving its profit objectives.

The company has adopted the Quilter Insurance Risk Policy, which sets out the practices which are used to manage insurance risk, management information and stress testing requirements.

As well as management of persistency, expense and claims experience, the insurance risk policy sets requirements and standards on matters such as underwriting and claims management practices, use of reinsurance to mitigate insurance risk, application of charges in respect of taxation and exercise of discretion.

The insurance risk profile and experience is closely monitored to ensure that the exposure remains acceptable.

The financial impact of insurance risk events is examined through stress tests carried out within the Solvency II regulatory capital assessment.

Mortality and morbidity

Mortality and morbidity risk is the risk that death, critical illness and disability claims are higher than expected within the company's pricing assumptions. Possible causes are unexpected epidemics of new diseases and widespread changes in lifestyle such as eating, smoking and exercise habits.

For unit-linked contracts a risk charge is applied to meet the expected cost of the insured benefit. This risk charge can be altered in the event of significant changes in the expectation for future claims experience.

The company does not transact group protection business and so there are no concentrations of mortality and morbidity risk.

Sensitivity of profit to changes in mortality and morbidity experience is illustrated in the sensitivity analysis later in this section.

The company manages mortality risks through its underwriting policy and external reinsurance arrangements where its policy is to retain certain types of insurance risks within specified maximum single event loss limits. Exposures above accepted limits are transferred to reinsurance counterparties.

The value of insurance liabilities and the impact of reinsurance on those liabilities are shown in note 14.

Persistency

Persistency risk is the risk that a policyholder surrenders, transfers or ceases premium payments for their contracts with the company in a volume which exceeds the pricing assumptions thereby leading to a reduction in profits in future years relative to planned levels.

Most insurance contracts can be surrendered before maturity for a cash surrender value. For insurance business, the surrender value is never more than the current reported value of the contract liability.

Persistency risk is managed through focusing on providing good customer service to our customers and advisors, and maintaining a high standard of business conduct to protect our reputation. In order to limit this risk to an acceptable level, charging and commission structures are designed to limit the risk of direct financial loss on surrender.

Persistency statistics are monitored monthly. Actions may be triggered as a result of higher than expected lapse rates and significant emerging trends. A detailed persistency analysis at a product level is carried out on an annual basis.

In the short term, profit is not materially impacted by changes in persistency experience that are reasonably foreseeable.

In conclusion, there is a downward trend in the persistency (lapse) risk because the unit-linked business is largely in run-off and the company expects to receive less revenue from this book of business.

Expenses

Expense risk is the risk that actual expenses exceed expense levels assumed in product pricing. This may result in emerging profit falling below the company's profit objectives.

Expense risk is managed through tight budget control and discipline, balanced against the need to ensure sufficient resources to achieve the company's strategic aims. An activity-based costing process is used to allocate costs relating to processes and activities to individual product lines.

Some products' structures include maintenance charges. These charges are reviewed annually in light of changes in maintenance expense levels and as result can trigger changes to the maintenance charge allocations.

Sensitivity of profit to changes in management expenses is illustrated in the sensitivity analysis later in this section.

In conclusion, there is a general upward trend in the expense risk driven mainly by the business being in run-off, which is increasing the maintenance cost per policy over 2018.

Operational risk

Operational risk is the risk of loss (or unintended gain/profit) arising from inadequate or failed internal processes, or from personnel and systems, or from external events (other than financial or business environment risks), resulting in an adverse impact to earnings or reduced solvency.

The company has exposure to operational risk resulting from operational activities, excluding risks already described above and excluding strategic risks and risks resulting from being part of a wider group of companies.

The company has exposure to a number of operational risks, for example: regulatory compliance breaches, poor business plan execution, cyber-attack, IT instability, issues relating to third-party supply and outsourced services, financial crime, and process failure such as in customer administration, investment and fund management, tax and financial management processes.

Operational risks are managed in accordance with the Quilter group Operational Risk Policy and related standards consistent with the Enterprise Risk Management Framework. Operational risk exposure is measured primarily through scenario assessments which use internal and external loss event data, Risk and Control Self-Assessments, and expert judgment provided by the key subject matter experts. Resultant exposures are evaluated against the company's risk appetite which is the process that drives operational risk reporting and management action.

The company operates a "three lines of defence" model in accordance with the Quilter group Governance Manual. The board has overall responsibility for managing the company within operational risk appetite and risk culture. First-line management have responsibility for the embedding and applying the operational risk framework and managing operational risk and controls. The company's Risk Function is the second-line who provides risk oversight, and the company's Internal Audit function provides third-line assurance. The company's governance structure is designed to ensure clarity of responsibilities and delegated authorities, segregation of duty, and clear escalation of risk issues to enable timely management response to manage risks within acceptable tolerances.

Risk and capital management

The potential impacts of the risks on the capital resources and future profits of the company are assessed regularly in order to assess the financial resilience of the business. Market and insurance risks are assessed through stress and scenario tests applied relative to business plan financial projections and the assumptions used to value balance sheet liabilities. Operational risks are assessed using scenario-based risk assessments, constructed using expert judgment supplemented by review of the risk control processes in place, internal and external event data, key risk indicators and internal & external audit opinions. Credit risks are assessed by determining the financial exposure to material counterparties and the likelihood of default of these counterparties. Credit ratings are used to assess the likelihood of default.

The Quilter group Capital Management Policy sets out the key considerations and restrictions with regard to the amount of capital that is retained.

Capital is managed to the company's Solvency target which is set to ensure that the business can maintain its own funds above the Solvency Capital Requirement under plausible but severe stresses. In addition, the company maintains working capital to provide for fluctuations in experience and to meet strategic objectives. The company has met the regulatory requirement for capital throughout 2018, 2017 and 2016. The company also met its internal solvency targets on a Solvency II basis throughout the same period.

The Own Risk and Solvency Assessment (ORSA) process is used to assess the level of capital which should be retained by the company. This process considers all of the risks faced by the company and the degree to which risks have similar or related causes, and so could occur together.

Capital assessment and scenario testing results are used to inform strategic decisions such as whether to alter operational processes and controls to ensure that risks are effectively managed within the firm's risk appetite.

Sensitivity tests

Sensitivity analysis has been performed by applying the following parameters to the statement of financial position and income statement as at 31 December 2018, 31 December 2017 and 31 December 2016.

Interest rates

The impact of an increase and decrease in market interest rates of 1% is tested (e.g. if the current interest rate is 5%, the test allows for the effects of an instantaneous change to 4% and 6% from the reporting date). The test allows consistently for similar changes in investment returns and movements in the market value of assets backing non-linked liabilities. The sensitivity of both profit and shareholders' equity to interest rates is provided.

A 1% rise in interest rates would impact the value of linked funds and therefore impact the fee income that is based on the market value of the investments held for the policyholders. Linked funds would move down in value by around 1% as an increase of 1% in gilt yields moves gilt market values down by 5.6%, but only 16% of linked assets are gilts.

Perfect matching has been assumed for insurance contracts so that any movement in asset values is balanced by a movement in the insurance provision.

A decrease in interest rates by 1% would have reduced profit and shareholders' equity by £1.3m after tax (2017: £1.9m decrease, 2016: £1.2m decrease). An equal change in the opposite direction would have increased profit and increased shareholders' equity by £4.6m after tax (2017: £4.0m increase, 2016: £2.4m decrease).

Equity/property

A movement in equity and property prices would impact the fee income that is based on the market value of the investments held for the policyholders. Any impact on the market value of the investments held for the benefit of policyholders would result in an equal and opposite impact on the value of liabilities for unit-linked investment contracts. In this analysis, all linked renewal commission is assumed to be fund based and all gains are assumed to be realised gains. The sensitivity is applied as an instantaneous shock to equity and property prices at the start of the year.

An increase in equity and property prices of 10% would have increased profit by £5.8m after tax (2017: £6.2m, 2016: £4.1m). An equal change in the opposite direction would have decreased profit by £5.8m after tax (2017: £6.0m, 2016: £4.1m).

Expenses

The increase in expenses is assumed to apply to the costs associated with the maintenance and acquisition of contracts. It is assumed that these expenses are increased by 10% from the start of the year, so is applied as an expense shock rather than a gradual increase. The only administrative expenses that are deferrable are sales bonuses but as new business volumes are unchanged in this sensitivity, sales bonuses and the associated deferrals have not been increased, therefore there are no impacts on the statement of financial position balances. Administrative expenses have been allocated equally between life and pensions.

An increase in expenses of 10% would have decreased profit by £6.5m after tax (2017: £9.1m, 2016: £8.7m).

Mortality/morbidity

The impact on profit of an increase in mortality and morbidity claims rates of 5% is tested. This would affect the level of insurance contract claims and is assumed to apply throughout the year.

An increase in mortality and morbidity claims of 5% each would have decreased profit after tax by £1.2m (2017: £0.9m, 2016: £1.0m).

4 FEE INCOME

	2018	2017	2016
	£m	£m	£m
Investment contracts			
Premium based fees	14.9	18.2	26.2
Fund based fees	88.4	95.2	74.5
Fixed fees	1.7	2.5	2.8
Other fee income	(35.9)	54.5	74.3
	69.1	170.4	177.8

Other fee income consists primarily of charges taken from unit-linked funds to meet future policyholder tax liabilities. In 2018, as stock markets fell, these tax related fees were (on a net basis) repaid into unit linked funds in line with company policy.

5 GROSS PREMIUMS WRITTEN

	2018	2017	2016
	£m	£m	£m
Insurance contracts			
Regular premiums	146.2	146.7	140.2

6 INVESTMENT RETURN

	2018	2017	2016
	£m	£m	£m
Net investment return			
Interest on fixed interest securities and short term deposits (amortised cost)	0.2	—	—
Interest on fixed interest securities and short term deposits (designated at FVTPL)	8.5	3.2	5.6
Dividend income	159.8	169.6	186.5
Fair value (losses)/gains on financial assets designated at FVTPL	(935.9)	940.5	1,371.7
	(767.4)	1,113.3	1,563.8

7 INSURANCE CONTRACT CLAIMS

	2018 Gross	2018 Reinsurance	2018 Net	2017 Gross	2017 Reinsurance	2017 Net	2016 Gross	2016 Reinsurance	2016 Net
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Death	52.2	36.7	15.5	50.1	28.7	21.4	40.0	28.1	11.9
Disability and critical illness	32.8	22.5	10.3	25.1	25.3	(0.2)	30.8	21.5	9.3
Annuity payments	0.3	0.1	0.2	0.3	0.1	0.2	0.3	0.1	0.2
Claims handling expenses	0.3	—	0.3	0.3	—	0.3	0.2	—	0.2
	85.6	59.3	26.3	75.8	54.1	21.7	71.3	49.7	21.6

8 COMMISSION EXPENSES

	2018	2017	2016
	£m	£m	£m
Initial commission	9.0	13.5	9.8
Renewal commission	23.5	27.1	31.9
	32.5	40.6	41.7

9 ADMINISTRATIVE EXPENSES

	2018	2017	2016
	£m	£m	£m
Administrative expenses	46.4	145.3	72.7
Administrative expenses include:			
Management fees paid to fellow group undertakings (see note 30)	53.3	72.2	70.9
Of which:			
Auditor's remuneration: services paid to KPMG LLP	0.2	0.2	0.7

Amounts paid to KPMG LLP were in respect of audit services, consisting of fees for statutory audits and group reporting, of £142,000 (2017:£134,004, 2016: £162,142) and non-audit services, consisting of fees for regulatory reporting of £71,000 (2017: £96,500, 2016: £505,293).

Amounts paid to the company's auditor in respect of services rendered to the Quilter group, other than the audit of the company's financial statements, have not been disclosed as the information is required to be disclosed on a consolidated basis in the consolidated financial statements of Quilter plc.

In 2017, administrative expenses included the cost to cover voluntary remediation to customers of £68.6m, as detailed in note 26.

10 REMUNERATION OF KEY MANAGEMENT PERSONNEL

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the entity and as such, only directors are considered to meet this definition.

Directors' emoluments shown below are included in management fees payable to fellow subsidiary undertakings shown in note 9.

	2018	2017	2016
	£m	£m	£m
Aggregate directors' emoluments			
Aggregate emoluments excluding pension contributions	0.6	0.5	0.7
Aggregate compensation for loss of office (cash payment)	0.1	—	0.5
Aggregate share based payments	0.3	0.3	0.2

4 directors had money paid to money purchase schemes during the year (2017: 6, 2016: 7).

5 directors, including the highest paid director, received or were due to receive shares or share options under a long term incentive scheme (2017: 6, 2016: 3). 3 directors (2017: 6, 2016: 6) exercised options during the year.

Shares or share options were in Old Mutual plc shares for the period up to the Quilter plc listing date (25 June 2018), and in Quilter plc shares for the period from listing date onwards.

	2018	2017	2016
	£m	£m	£m
Emoluments of the highest paid director			
Aggregate emoluments excluding pension contributions	0.3	0.2	0.2

The highest paid director did (2017: did, 2016: did) exercise share options during the year.

The above disclosure includes the remuneration of the directors in relation to their services to this company. The remuneration for each director is apportioned on the basis of time spent across the companies of which they are a director.

11 FINANCE COSTS

	2018	2017	2016
	£m	£m	£m
Financing costs for liabilities held at amortised cost			
Interest expense on claims paid	0.5	0.3	1.0

12 TAXATION

	2018	2017	2016
	£m	£m	£m
Shareholder taxation			
UK corporation tax at 19.00% (2017: 19.25%, 2016: 20.00%)	10.9	0.8	9.6
Overseas tax	0.6	0.6	0.9
Deferred tax	(4.0)	(7.0)	(5.9)
	7.5	(5.6)	4.6
Prior years:			
Corporation tax payable underprovided	1.4	20.0	—
	8.9	14.4	4.6
Policyholder taxation			
UK corporation tax at 20.00% (2017: 20.00%, 2016: 20.00%)	—	18.3	26.4
Deferred tax	(82.4)	16.3	34.3
	(82.4)	34.6	60.7
Prior years:			
Income tax recoverable overprovided	(15.0)	(19.2)	(2.9)
	(97.4)	15.4	57.8
Tax on profit for the year	(88.5)	29.8	62.4

The total tax charge for the year can be reconciled to the accounting profit as follows:

	2018	2017	2016
Pre-tax profit	0.5	10.8	81.5
Tax on profit at the applicable tax rate, 19.00% (2017: 19.25%, 2016: 20.00%)	0.1	2.1	16.3
Effect of:			
Tax pertaining to previous years	1.4	20.0	2.3
Non-deductible costs	—	0.1	—
Non-taxable revenues	(8.9)	(1.5)	(1.9)
Utilisation of previously unrecognised deferred tax	0.2	(0.2)	(0.1)
Policyholder taxes deductible in computing shareholder tax	15.8	(6.2)	(11.9)
Impact of reduction in shareholder tax rate	(0.2)	(0.4)	(0.8)
Policyholder tax	(97.4)	15.4	57.8
Overseas tax	0.5	0.5	0.7
	(88.5)	29.8	62.4

The main rate of corporation tax was reduced from 20% to 19% with effect from 1 April 2017.

13 DEFERRED ACQUISITION COSTS

	2018	2017	2016
	£m	£m	£m
Opening balance	84.0	107.4	137.0
Capitalisation of deferred acquisition costs	0.2	1.1	0.8
Amortisation of deferred acquisition costs	(20.9)	(24.5)	(30.4)
Change in deferred acquisition costs	(20.7)	(23.4)	(29.6)
Closing balance	63.3	84.0	107.4
Current	16.3	20.6	24.5
Non-current	47.0	63.4	82.9
	63.3	84.0	107.4

As at 31 December 2018, £53.0m of deferred acquisition costs were recognised in respect of linked investment contracts. Amortisation of £18.1m was charged on these deferred acquisition costs during 2018.

14 INSURANCE PROVISIONS

	2018 Gross	2018 Reinsurance	2018 Net	2017 Gross	2017 Reinsurance	2017 Net
	£m	£m	£m	£m	£m	£m
Provision for:						
Non-linked insurance contracts	571.5	472.7	98.8	463.7	371.1	92.6
Unearned premiums	6.4	—	6.4	6.7		6.7
Premium annuity and sickness benefit	5.8	1.6	4.2	6.3	1.6	4.7
Incurred but not reported claims (IBNR)	4.5	3.4	1.1	3.0	2.0	1.0
	588.2	477.7	110.5	479.7	374.7	105.0
Claims received but not yet settled	13.9	12.5	1.4	9.1	7.8	1.3
	602.1	490.2	111.9	488.8	382.5	106.3

	2016 Gross	2016 Reinsurance	2016 Net
	£m	£m	£m
Provision for:			
Non-linked insurance contracts	386.0	286.9	99.1
Unearned premiums	6.7	—	6.7
Premium annuity and sickness benefit	6.4	1.4	5.0
Incurred but not reported claims (IBNR)	2.3	1.5	0.8
	401.4	289.8	111.6
Claims received but not yet settled	15.0	12.8	2.2
	416.4	302.6	113.8

All (2017: all, 2016: all) reinsurance balances are with AA rated reinsurers.

None of these amounts were past due as at 31 December 2018 (2017: £nil, 2016: £nil) and all amounts are recognised as non-financial assets and liabilities at other than fair value.

The maturity of insurance provisions is shown in the maturity schedule in note 3. The insurance provisions are shown undiscounted in the maturity schedule.

Analysis of change in insurance provisions

2018:	Opening balance	Impact of new business	Impact of experience effects	Impact of assumption changes	Closing balance
	£m	£m	£m	£m	£m
Provision for:					
Non-linked insurance contracts	463.7	1.8	37.3	68.7	571.5
Unearned premiums	6.7	—	(0.3)	—	6.4
Premium annuity and sickness benefit	6.3	0.1	(0.5)	(0.1)	5.8
Incurred but not reported claims (IBNR)	3.0	—	1.5	—	4.5
Reinsurers' share of provisions	(374.7)	(9.5)	(25.9)	(67.6)	(477.7)
	105.0	(7.6)	12.1	1.0	110.5

	Opening balance	New claims received	Claims paid	Claims declined	Closing balance
	£m	£m	£m	£m	£m
Provision for claims received but not yet settled					
Claims received but not yet settled	9.1	53.2	(43.8)	(4.6)	13.9
Reinsurers' share	(7.8)	(46.4)	36.8	4.9	(12.5)
	1.3	6.8	(7.0)	0.3	1.4

2017:	Opening balance	Impact of new business	Impact of experience effects	Impact of assumption changes	Closing balance
	£m	£m	£m	£m	£m
Provision for:					
Non-linked insurance contracts	386.0	42.0	29.1	6.6	463.7
Unearned premiums	6.7	—	—	—	6.7
Premium annuity and sickness benefit	6.4	—	(0.1)	—	6.3
Incurred but not reported claims (IBNR)	2.3	—	0.7	—	3.0
Reinsurers' share of provisions	(289.8)	(54.5)	(23.4)	(7.0)	(374.7)
	111.6	(12.5)	6.3	(0.4)	105.0

	Opening balance	New claims received	Claims paid	Claims declined	Closing balance
	£m	£m	£m	£m	£m
Provision for claims received but not yet settled					
Claims received but not yet settled	15.0	52.6	(50.0)	(8.5)	9.1
Reinsurers' share	(12.8)	(41.8)	42.8	4.0	(7.8)
	2.2	10.8	(7.2)	(4.5)	1.3

2016:	Opening balance	Impact of new business	Impact of experience effects	Impact of assumption changes	Closing balance
	£m	£m	£m	£m	£m
Provision for:					
Non-linked insurance contracts	262.1	25.2	32.8	65.9	386.0
Unearned premiums	6.6	—	0.1	—	6.7
Premium annuity and sickness benefit	5.0	—	1.0	0.4	6.4
Incurred but not reported claims (IBNR)	2.4	—	(0.1)	—	2.3
Reinsurers' share of provisions	(171.1)	(33.1)	(23.1)	(62.5)	(289.8)
	105.0	(7.9)	10.7	3.8	111.6

	Opening balance	New claims received	Claims paid	Claims declined	Closing balance
	£m	£m	£m	£m	£m
Provision for claims received but not yet settled					
Claims received but not yet settled	9.1	51.3	(37.7)	(7.7)	15.0
Reinsurers' share	(7.7)	(42.0)	30.5	6.4	(12.8)
	1.4	9.3	(7.2)	(1.3)	2.2

The 'impact of experience effects' column above includes changes in liabilities due to premium receipts, expenses, interest credited and policies ceasing due to surrender or other claim.

Assumptions

The key assumptions considered are mortality/morbidity rates, maintenance expenses, interest rates and persistency rates. These assumptions are based on market data, internal experience data and also external data where either no internal experience data exists or where internal data is too sparse to give credible estimates of the true expectation of experience. Anticipated future trends have been allowed for in deriving mortality and morbidity assumptions.

The liabilities for non-linked business have been calculated using a gross premium discounted cash flow approach on a policy by policy basis, using the following assumptions:

Class of business	Mortality/morbidity base 2018	Mortality/morbidity base 2017	Interest rate 2018	Interest rate 2017	Interest rate 2016
Non-linked protection business (pre 1 Jan 2013)*	CMI tables: TM00, TF00, AC08, SC04	Risk reinsurance rates: TM80, AF00	1.724%	1.610%	1.703%
Non-linked protection business (post 31 Dec 2012)*	CMI tables: TM00, TF00, AC08, SC04	Risk reinsurance rates: TM80, AF00	1.378%	1.287%	1.362%
Pension annuities in payment	100% PA92 (C2030) ult. projected using the long term cohort basis		1.420%	1.330%	1.230%

The Continuous Mortality Investigation (CMI), supported by the Institute and Faculty of Actuaries (IFoA) provides mortality and sickness rate tables for UK life insurers and pension funds.

The interest rate assumption is set with reference to a matching portfolio of gilts. During 2017, a modification was made to achieve a better match of the IFRS liabilities to available gilts. In aggregate, the non-linked protection business is expected to generate net income over the next 3 years. This net income has been excluded from the matching exercise and has instead been discounted using Bank of England forward rates of the relevant durations. Liabilities after these three years are matched and the rates provided above are used. For non-linked contracts (defined as insurance contracts under IFRS 4), the margin of prudence for the individual assumptions is generally taken as the 60% confidence interval over a one year

* On 1 January 2013, the discount rate was impacted by Finance Act 2012 amendments to the life tax rules.

timeframe, so that, broadly speaking, in 100 scenarios, the reserves are expected to cover the liabilities in 60 of those scenarios. Overall, the level of confidence is likely to be greater than 60% on the basis that these margins are applied to several assumptions at the same time and prudence is applied to all future years.

The liability values do not make allowance for the amortisation of the DAC. A separate liability adequacy test is carried out on best estimate assumptions allowing for all of the cash flows used to derive the liability values and the run off of the DAC.

Impact of assumption changes

Assumptions are reviewed on an annual basis and updated as appropriate. The impact of assumption changes on insurance provisions less reinsurers' share of insurance provisions are as follows:

	Impact on insurance provisions (before reinsurance)	Impact of reinsurance	Impact on net provisions
	£m	£m	£m
2018:			
Assumption			
Mortality/morbidity rates	86.5	(81.4)	5.1
Maintenance expense	(1.9)	—	(1.9)
Maintenance expense inflation	(0.1)	—	(0.1)
Interest rate	(21.3)	18.4	(2.9)
Persistency rates	5.4	(4.6)	0.8
	68.6	(67.6)	1.0
2017:			
Assumption			
Mortality/morbidity rates	(10.1)	10.7	0.6
Maintenance expense	(3.1)	0.1	(3.0)
Maintenance expense inflation	(0.3)	—	(0.3)
Interest rate	15.1	(13.0)	2.1
Persistency rates	5.0	(4.8)	0.2
	6.6	(7.0)	(0.4)
2016:			
Assumption			
Mortality/morbidity rates	18.4	(18.2)	0.2
Maintenance expense	12.7	(0.2)	12.5
Maintenance expense inflation	(0.6)	0.1	(0.5)
Interest rate	(93.2)	77.1	(16.1)
Methodology changes	1.9	—	1.9
Persistency rates	(5.5)	3.7	(1.8)
	(66.3)	62.5	(3.8)

Key sensitivities

The key sensitivities of IFRS profit before tax to variations in assumptions are shown below:

(Decrease)/Increase in IFRS profit before tax	2018 £m +10%	2018 £m -10%	2017 £m +10%	2017 £m -10%
Mortality/morbidity rates	(3.3)	3.4	(3.0)	3.1
Maintenance expense	(2.2)	2.2	(2.6)	2.6
Persistency rates	2.6	(2.8)	2.4	(2.6)

The values have, in all cases, been determined by varying the relevant assumption as at the reporting date and considering the consequential impacts assuming other assumptions remain unchanged.

15 LIABILITIES FOR UNIT-LINKED INVESTMENT CONTRACTS

	2018 Gross	2018 Reinsurance	2018 Net	2017 Gross	2017 Reinsurance	2017 Net
	£m	£m	£m	£m	£m	£m
At fair value through profit or loss						
Unit-linked liabilities	11,238.9	1,671.4	9,567.5	14,498.5	2,525.3	11,973.2

	2016 Gross	2016 Reinsurance	2016 Net
	£m	£m	£m
At fair value through profit or loss			
Unit-linked liabilities	14,866.8	2,560.2	12,306.6

Analysis of change in liabilities for linked investment contracts

	2018 Gross	2018 Reinsurance	2018 Net	2017 Gross	2017 Reinsurance	2017 Net
	£m	£m	£m	£m	£m	£m
Opening balance	14,498.5	2,525.3	11,973.2	14,866.8	2,560.2	12,306.6
Premiums received	699.9	202.6	497.3	1,199.5	413.6	785.9
Full surrenders	(1,394.8)	—	(1,394.8)	(1,168.4)	—	(1,168.4)
Maturities	(72.0)	—	(72.0)	(78.5)	—	(78.5)
Mortality/morbidity claims	(135.2)	—	(135.2)	(140.3)	—	(140.3)
Withdrawals	(1,285.4)	(976.4)	(309.0)	(1,285.4)	(778.9)	(506.5)
Changes in fair value of underlying assets	(1,014.3)	(80.1)	(934.2)	1,270.8	330.4	940.4
Charges for insurance risk	(76.4)	—	(76.4)	(78.6)	—	(78.6)
Other fees and charges	18.6	—	18.6	(87.4)	—	(87.4)
Closing balance	11,238.9	1,671.4	9,567.5	14,498.5	2,525.3	11,973.2

	2016 Gross	2016 Reinsurance	2016 Net
	£m	£m	£m
Opening balance	14,265.6	2,328.2	11,937.4
Premiums received	1,102.8	404.4	698.4
Full surrenders	(1,103.4)	—	(1,103.4)
Maturities	(94.0)	—	(94.0)
Mortality/morbidity claims	(125.2)	—	(125.2)
Withdrawals	(722.0)	(542.2)	(179.8)
Changes in fair value of underlying assets	1,722.6	369.8	1,352.8
Charges for insurance risk	(80.1)	—	(80.1)
Other fees and charges	(99.5)	—	(99.5)
Closing balance	14,866.8	2,560.2	12,306.6

The benefits offered under the unit-linked investment contracts are based on the risk appetite of policyholders and the return on their selected collective fund investments, whose underlying investments include equities, debt securities, property and derivatives. This investment mix is unique to individual policyholders.

The maturity value of these financial liabilities is determined by the fair value of the linked assets at maturity date. There will be no difference between the carrying amount and the maturity amount at maturity date.

The reinsurers' share of investment contract liabilities of £1,671.4m (2017: £2,525.3m, 2016: £2,560.2m) were rated according to the table below. None of these were past due as at 31 December 2018 (2017: £nil, 2016: £nil).

	2018	2017	2016
	£m	£m	£m
Rating			
AA-	439.5	667.1	574.2
A+	115.3	137.0	183.6
A	1,062.0	1,651.1	1,713.0
A-	8.9	18.7	21.0
BBB+	26.0	—	—
Unrated	19.7	51.4	68.4
	1,671.4	2,525.3	2,560.2

These balances are in respect of policyholder investments managed by third party reinsurers. The nature of reinsurance contracts is explained within the accounting policies (note 2).

Assumptions

For unit-linked business, the unit liabilities are determined as the value of units credited to policyholders. Since these liabilities are determined on a retrospective basis no assumptions for future experience are required. Assumptions for future experience are required for unit-linked business in assessing whether the value of the contract costs asset is greater than the present value of future profits expected to arise on the relevant blocks of business (the 'recoverability test'). If this is the case, then the contract costs asset is restricted to the recoverable amount. These assumptions are on a best estimate basis.

16 INVESTMENTS IN SUBSIDIARIES

Old Mutual Wealth Pensions Trustee Limited was a wholly owned subsidiary undertaking in 2018, 2017 and 2016.

Old Mutual Wealth Pensions Trustee Limited is incorporated in England & Wales and its registered office address is: Old Mutual House, Portland Terrace, Southampton, SO14 7EJ.

Its principal activity is to act as a scheme trustee for self-administered pension schemes, personal pension schemes, fully insured occupational pension schemes and free-standing additional voluntary contribution schemes established by Old Mutual Wealth Life Assurance Limited.

The value of the investment in Old Mutual Wealth Pensions Trustee Limited is (stated at net realisable value) £7,200 (2017: £7,200, 2016: £7,200), due to immateriality this is not shown separately on the statement of financial position.

17 INVESTMENTS HELD FOR THE BENEFIT OF POLICYHOLDERS

	2018	2017	2016
	£m	£m	£m
At fair value through profit or loss			
Cash and cash equivalents	7.0	8.6	8.5
Debt securities	47.0	25.3	52.9
Collective investment schemes	9,500.1	11,968.7	12,301.1
	9,554.1	12,002.6	12,362.5

These assets, together with the reinsurers' share of investment contract liabilities, are held to cover the liabilities for linked investment contracts (net of reinsurance) as shown in note 15.

Cash and cash equivalents are recognised at amortised cost whereas debt securities and collective investment schemes are designated at FVTPL.

The difference between linked assets and linked liabilities is principally due to short term timing differences between policyholder premiums being received and invested in advance of policies being issued, and tax liabilities within funds which are reflected within the company's tax liabilities.

18 OTHER FINANCIAL ASSETS

	2018	2017	2016
	£m	£m	£m
At fair value through profit or loss			
Debt securities	125.9	124.0	95.1
Collective investment schemes	439.6	422.1	331.0
	565.5	546.1	426.1

Collective investment schemes relate to holdings in money market funds with an AAA credit rating and an investment in Quilter Investors funds.

Debt securities are UK government stocks with an AA rating (2017: AA, 2016: AA).

Out of these fixed income securities £0.2m (2017:£0.0m, 2016: £0.9m) are due to mature within 12 months and £125.7m (2017: £124.0m, 2016: £94.2m) are classified as non-current.

19 OTHER RECEIVABLES

	2018	2017	2016
	£m	£m	£m
Arising out of direct insurance operations			
Intermediaries	13.8	24.8	24.7
	13.8	24.8	24.7
Arising out of reinsurance operations	5.4	7.4	6.4
Other			
Due from group undertakings (see note 30)	1.8	3.4	17.3
Other taxes and social security	2.4	2.6	2.2
Other	5.7	0.7	0.2
	9.9	6.7	19.7
	29.1	38.9	50.8

There have been no non-performing receivables or material impairments in the financial year that require disclosure. None of the receivables reflected above have been subject to the renegotiation of terms.

All amounts due from group companies are unsecured and are settled quarterly, except for group relief balances which are settled on demand. All amounts are current, short term and interest free, recognised at amortised cost, with their carrying amount approximating to fair value.

20 OTHER PREPAYMENTS AND ACCRUED INCOME

	2018	2017	2016
	£m	£m	£m
Accrued interest	1.3	1.0	1.2

Accrued interest amounts are current and short term.

21 CASH AND CASH EQUIVALENTS

	2018	2017	2016
	£m	£m	£m
Bank balances	50.1	49.5	20.5
Short term deposits with credit institutions	37.0	38.6	38.4
	87.1	88.1	58.9

All cash and cash equivalents are current, and recognised at amortised cost. Bank balances and short term deposits are credit rated AA and A.

Bank overdrafts are used to fulfil short term liquidity needs and are repayable on demand. The company has a gross overdraft facility of £5.0m (2017: £12.5m, 2016: £12.5m) for individual bank accounts subject to the aggregate balance across all accounts being at least zero. In neither of the years the overdraft facility has been utilised.

22 SHARE CAPITAL

	2018	2017	2016
	£m	£m	£m
Allotted, called up and fully paid			
257,822,752 (2017: 257,822,752, 2016: 105,822,752) ordinary shares of £0.25p each	64.5	64.5	26.5

The issue of 152,000,000 ordinary shares of £0.25p each was approved on 22 December 2017. The company has elected under the Companies Act 2006 to remove authorised share capital limits.

23 FINANCIAL INSTRUMENTS AT FAIR VALUE

Fair value hierarchy

The table below analyses financial instruments into a hierarchy based on the valuation technique used to determine fair value.

— Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

— Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

— Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following statement of financial position captions contains financial instruments that have been analysed into the three specified levels as described above:

Assets – reinsurers' share of investment contract liabilities, other investments, investments held for the benefit of policyholders and cash and cash equivalents.

Liabilities – liabilities for linked investment contracts, provisions for guarantees and derivative liability.

2018	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Financial assets designated at fair value through profit or loss				
– Reinsurers' share of investment contract liabilities	—	1,671.4	—	1,671.4
– Debt securities	172.4	—	—	172.4
– Holdings in collective investment schemes	9,939.7	—	0.5	9,940.2
Total assets designated at fair value through profit or loss	**10,112.1**	**1,671.4**	**0.5**	**11,784.0**
Financial liabilities designated at fair value through profit or loss				
– Long term business policyholder liabilities	—	11,238.4	0.5	11 238.9
	—	**11,238.4**	**0.5**	**11 238.9**

2017	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Financial assets designated at fair value through profit or loss				
– Reinsurers' share of investment contract liabilities	—	2,525.3	—	2,525.3
– Debt securities	148.8	—	—	148.8
– Holdings in collective investment schemes	12,390.8	—	0.5	12,391.3
	12,539.6	2,525.3	0.5	15,065.4
Financial liabilities designated at fair value through profit or loss				
– Long term business policyholder liabilities	—	14,498.0	0.5	14,498.5
	—	14,498.0	0.5	14,498.5

2016	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Financial assets designated at fair value through the income statement				
– Reinsurers' share of investment contract liabilities	—	2,560.2	—	2,560.2
– Debt securities	146.7	—	—	146.7
– Holdings in collective investment schemes	12,632.1	—	1.3	12,633.4
	12,778.8	2,560.2	1.3	15,340.3
Financial liabilities designated at fair value through the income statement				
– Long term business policyholder liabilities	—	14,864.7	1.3	14,866.0
	—	14,864.7	1.3	14,866.0

Level 1 to 2 transfers

There have been no changes in valuation techniques during the year under review. There have been no transfers between level 1 and level 2 during the year under review.

Reconciliation of Level 3 fair value measurements of financial assets:

Level 3 assets comprise linked policyholder investments in suspended property funds.

	2018	2017	2016
	£m	£m	£m
Fair value through profit or loss			
Collective investment schemes:			
Opening balance	0.5	1.3	3.1
Gains recognised in income statement	—	—	0.7
Transfers out of level 3	—	(0.8)	(2.5)
Closing balance	0.5	0.5	1.3

	2018	2017	2016
	£m	£m	£m
Long term business policyholders liabilities:			
Opening balance	0.5	1.3	3.1
Gains recognised in income statement	—	—	0.7
Transfers out of level 3	—	(0.8)	(2.5)
Closing balance	0.5	0.5	1.3

IFRS 9 temporary exemption disclosures

Following application of the temporary exemption granted to insurers in IFRS 4 Insurance Contracts from applying IFRS 9 Financial Instruments the table below separately identifies financial assets with contractual cash flows that are solely payments of principal and interest ('SPPI') (excluding those held for trading or managed on a fair value basis) and all other financial assets, measured at fair value through profit or loss.

	2018
	£m
Financial assets with contractual cash flows that are SPPI excluding those held for trading or managed on a fair value basis:	
Cash and cash equivalents	87.1
Other receivables	29.1
All other financial assets that are measured at fair value through profit or loss	11,784.0

Structured entities

The table below summarises the types of structured entities in which the company holds an interest:

Type of structured entity	Nature	Purpose	Interest held by the company
Investments in collective investment vehicles	Manage shareholder funds through the investment in assets	To start investment in new funds or generating fees from managing company assets	Investments in units issued by the vehicles
Investments held for the benefit of policyholders	Manage client funds through the investment in assets	To generate fees from managing assets on behalf of third-party investors	Investments in units issued by the fund

Investments in unconsolidated structured entities

The table below sets out the investments held by the company in unconsolidated structured entities.

Investments are held in collective investment vehicles that have a narrow and well defined objective, which are primarily purchased to match the liabilities to clients in respect of their linked fund investment choices. The maximum exposure to losses is equal to the carrying amount of assets held; these are offset by the equivalent liabilities to clients in respect of linked investment contracts.

	Investment securities
	£m
As at 31 December 2018:	
Investments in seeded funds	5.7
Money market funds	433.9
Collective investment schemes held for the benefit of policyholders	9,500.1
	9,939.7
As at 31 December 2017:	
Investments in seeded funds	11.7
Money market funds	410.4
Collective investment schemes held for the benefit of policyholders	11,968.7
	12,390.8
As at 31 December 2016:	
Investments in seeded funds	4.0
Money market funds	326.9
Collective investment schemes held for the benefit of policyholders	12,301.2
	12,632.1

Master netting or similar agreements

This table is presented to provide further information on financial instruments that are subject to master netting agreements.

The company offsets financial assets and liabilities in the statement of financial position when it has a legal enforceable right to do so and intends to settle on a net basis or simultaneously.

This table presents information on the potential effect of netting offset arrangements after taking into consideration these types of agreements.

	Gross amount of financial instrument	Gross amounts of recognised financial instruments offset in the statement of financial position	Net amount of recognised financial instruments offset in the statement of financial position
	£m	£m	£m
As at 31 December 2018:			
Financial assets			
Cash and cash equivalents	93.7	(6.6)	87.1
Financial liabilities			
Amounts owed to credit institutions	(146.2)	6.6	(139.6)
As at 31 December 2017:			
Financial assets			
Cash and cash equivalents	89.9	(1.8)	88.1
Financial liabilities			
Amounts owed to credit institutions	(114.4)	1.8	(112.6)
As at 31 December 2016:			
Financial assets			
Cash and cash equivalents	59.5	(0.6)	58.9
Financial liabilities			
Amounts owed to credit institutions	(4.3)	0.6	(3.7)

24 DEFERRED TAX

The following are the deferred tax balances recognised by the company and the movements thereon, during the current and prior reporting period.

	Deferred income & costs	Unrealised gain/(loss) on investments	Transitional adjustment	Other	Total
	£m	£m	£m	£m	£m
Policyholder deferred tax					
Liability/(asset) at 1 January 2016	(13.1)	67.5	(20.7)	0.2	33.9
Movement in the year	0.9	30.5	3.0	—	34.4
Liability/(asset) at 31 December 2016	(12.2)	98.0	(17.7)	0.2	68.3
Movement in the year	0.8	11.6	3.0	0.9	16.3
Liability/(asset) at 31 December 2017	(11.4)	109.6	(14.7)	1.1	84.6
Movement in the year	(9.2)	(75.3)	2.9	(0.8)	(82.4)
Liability/(asset) at 31 December 2018	(20.6)	34.3	(11.8)	0.3	2.2
Shareholder deferred tax					
Liability/(asset) at 1 January 2016	10.3	—	23.4	(0.2)	33.5
Movement in the year	(1.8)	—	(4.0)	(0.1)	(5.9)
Liability/(asset) at 31 December 2016	8.5	—	19.4	(0.3)	27.6
Movement in the year	(1.7)	—	(3.5)	(1.8)	(7.0)
Liability/(asset) at 31 December 2017	6.8	—	15.9	(2.1)	20.6
Movement in the year	(1.7)	—	(3.3)	1.0	(4.0)
Liability/(asset) at 31 December 2018	5.1	—	12.6	(1.1)	16.6
Total deferred tax liability/(asset)					
Liability/(asset) at 31 December 2016	(3.7)	98.0	1.7	(0.1)	95.9
Liability/(asset) at 31 December 2017	(4.6)	109.6	1.2	(1.0)	105.2
Liability/(asset) at 31 December 2018	(15.5)	34.3	0.8	(0.8)	18.8

From 1 April 2017 the main rate of UK corporation tax was reduced to 19%. A further reduction to 17% from 1 April 2020 was enacted in 2016.

The value of deferred tax assets not recognised as at 31 December 2018 was £25.3m (2017: £2.1m, 2016: £2.3m). This relates to gross shareholder non-trade losses carried forward of £13.0m (2017:£12.2m, 2016: £13.2m) and gross capital losses carried forward of £135.8m (2017 and 2016: none). A deferred tax asset on losses carried forward is recognised to the extent that there are other taxable temporary differences expected to reverse in the foreseeable future.

Any excess has not been recognised as there is sufficient uncertainty to the extent it is probable that there will be future taxable profits to utilise the losses.

Unrecognised losses are available to carry forward without expiry subject to the continuation of the business.

25 DEFERRED FEE INCOME

	2018	2017	2016
	£m	£m	£m
Opening balance	41.9	54.7	74.3
Capitalisation of deferred fee income	0.3	0.6	0.7
Amortisation of deferred fee income	(11.2)	(13.4)	(20.3)
Change in deferred fee income	(10.9)	(12.8)	(19.6)
Closing balance	31.0	41.9	54.7
The entity expects to recognise the above balances as revenue in following years:			
Within one year	8.2	12.0	13.4
One to five years	17.8	22.3	30.1
More than 5 years	5.0	7.6	11.2
	31.0	41.9	54.7

All deferred fee income has arisen on linked investment contracts. The current year amortisation charge includes £11.2m relating to brought forward deferred fee income from the previous year. The amortisation charge entirely relates to performance obligations satisfied in the current year.

26 OTHER PROVISIONS

	Voluntary client redress	Other provisions	Total
	£m	£m	£m
Balance at 1 January 2016	—	0.8	0.8
Additions in the year	—	6.4	6.4
Utilisation	—	(5.9)	(5.9)
Balance at 31 December 2016	—	1.3	1.3
Additions in the year	68.6	6.6	75.2
Utilisation	—	(4.3)	(4.3)
Change in estimate	—	(0.5)	(0.5)
Balance at 31 December 2017	68.6	3.1	71.7
Additions in the year	—	0.2	0.2
Utilisation	(27.3)	(1.2)	(28.5)
Change in estimate	(4.0)	(1.1)	(5.1)
Reclassification	(3.5)	—	(3.5)
Balance at 31 December 2018	33.8	1.0	34.8

Other provisions primarily relate to the estimated cost of completing system rectification projects and any amendments to clients' plans that may arise as a result. The majority of the provision is expected to be utilised in the next 12 months.

Voluntary client redress

During 2017, as part of ongoing work to promote fair customer outcomes, the company conducted product reviews consistent with the recommendations from the FCA's thematic feedback and the FCA's guidance 'FG16/8 Fair treatment of long-standing customers in the life insurance sector'. Following these reviews, the company decided to commence voluntary remediation to customers of certain legacy products, raising a provision in 2017 for £68.6m. The redress relates to early encashment charges and contribution servicing charges made on pension products and following the re-introduction of annual reviews, compensation payable to a subset of protection plan holders.

The voluntary client redress provision as at 31 December 2018 differs from that originally disclosed in the company's statutory financial statements for the year ending 31 December 2018 due to the correction of a £4 million over-statement of the provision.

During 2018, £27.3m has been utilised against programme costs and pension remediation incurred. There was also a £3.5m reclassification to 'Liabilities for Linked Investment Contracts', reflecting the capping of early encashment charges on live pensions plans. The remaining provision includes £5.8m of programme costs and £7.4m of estimated interest. Of the total provision outstanding, £20.0m is estimated to be payable after one year.

Estimates and assumptions

Key assumptions in relation to the provision calculation are:

— Investment return used within the protection remediation calculations;

— Timing of protection customer remediation; and

— The programme costs of carrying out the remediation activity.

The model used to calculate the costs of protection remediation assumes a generic annual investment return across the population of plans in scope. A sensitivity analysis has been calculated to determine the impact of adjusting the return rate.

The current model assumes protection customers will be compensated within a certain timeframe. Delays to the programme and more specifically in locating customers and resolving complicated plan arrangements will increase the final cost of remediation.

The programme costs of conducting the remediation activity are highly variable and are subject to a number of uncertainties. In calculating the best estimate of these costs, consideration has been given to such matters as the identification of impacted customers, likelihood of the customer contesting the offer, the complexity of the calculations, the level of quality assurance and checking, the ease of contacting and communicating with customers and the level of customer interactions. As a result of these uncertainties, the current provision for programme costs has been calculated as falling within a range of approximately £4.5m to £6.8m.

Sensitivities relating to the assumptions and uncertainties are provided in the table below:

Assumption/estimate	Change in assumption/estimate	Consequential change in provision
Modelled investment return	+/- 2%	+/- £0.2m
Delays to Protection remediation	12 months delay	+£2.0m

27 OTHER PAYABLES

	2018	2017	2016
	£m	£m	£m
Arising out of direct insurance operations			
Investment settlements outstanding	38.4	4.5	19.4
Commission due to intermediaries	5.9	6.0	6.4
Claims outstanding	73.8	83.8	78.1
Due to policyholders	2.9	1.4	1.5
Other	0.3	0.9	1.2
	121.3	96.6	106.6
Arising out of reinsurance operations	**7.6**	**6.0**	**9.8**
Other			
Due to group undertakings (see note 30)	18.4	6.2	5.3
Amounts owed to credit institutions	0.2	—	3.7
Other taxes and social security costs	0.3	0.5	0.7
Other	10.2	9.3	7.9
	29.1	16.0	17.6
	158.0	118.6	134.0

All amounts are current and short term. Amounts due to group companies are unsecured and are settled quarterly. £8.8m of the total £158.0m is non-financial liability. The remaining balance is recognised at amortised cost, with carrying value approximating fair value.

28 FINANCIAL AND CAPITAL COMMITMENTS

There are no material financial and capital commitments as at 31 December 2018 (2017: £nil, 2016: £nil).

29 CONTINGENT LIABILITIES

There are no contingent liabilities as at 31 December 2018.

30 RELATED PARTY TRANSACTIONS

The company received rebates of annual fund management charges from fellow group undertakings where it acts as introducer. A proportion of these rebates are retained and taken to income; these are shown in fee income within the income statement. The remaining rebates are passed back to the policyholders as income through unit additions. The proportion retained varies according to the fund type, asset mix and the level of annual management charges applied by the fund managers.

The disclosure below include rebates received from Merian Global Investors Holdings Limited (formerly Old Mutual Global Investors Holdings Limited) only up to the point of its sale to TA Associates Management in June 2018.

The following transactions were entered into with related parties during the period:

	2018	2017	2016
	£m	£m	£m
Rebates received – passed back to policyholders	9.3	8.6	9.3
Rebates received – taken into income	4.9	4.9	6.0
Total rebates received from fellow group undertakings	14.2	13.5	15.3

	2018	2017	2016
	£m	£m	£m
Management fees paid to fellow group undertakings (see note 9)	53.3	72.2	70.9

Management services and fixed assets in the current and prior period in the UK are provided by Old Mutual Wealth Business Services Limited, a fellow group undertaking. Old Mutual Wealth Business Services Limited charges a management fee for costs incurred and services provided. The management fee is charged at cost.

Amounts due from or to group undertaking at the reporting date in notes 19 and 27 respectively include:

	2018	2017	2016
	£m	£m	£m
Amounts due from group undertaking (see note 19)			
Rebates of annual management charges	0.9	2.3	2.5
Outstanding trade settlements	0.9	1.1	1.8
Other receivables	—	—	13.0
Total receivables	1.8	3.4	17.3
Amounts due from group undertaking (see note 27)			
Outstanding trade settlements	18.4	6.2	5.3
Total payables	18.4	6.2	5.3

Balances are settled in cash on a quarterly or monthly basis.

Details of transactions with directors are provided in note 10.

The company's life assurance and pension products are available to the directors and employees of the group on preferential staff terms. The impact of this on the financial statement is immaterial.

Investment settlements payable and receivable have been shown gross on the statement of financial position to better reflect the settlement process.

All amounts are recognised at amortised cost.

31 EVENTS AFTER THE REPORTING DATE

On 5 March 2019, the directors approved a dividend of £90m payable to the company's immediate parent, Old Mutual Wealth UK Holding Limited. £50m of this dividend was paid on 25 March 2019, with the balance being paid on 26 March 2019. On 30 August 2019, a further dividend of £40m was paid to Old Mutual Wealth UK Holding Limited. These dividends had no impact on the 2018 financial statements.

On 5 August 2019, ReAssure Group plc announced that it had reached an agreement with Quilter plc to acquire the entire share capital of the company for a total consideration of £446m. This acquisition was completed on 31 December 2019. A Part VII transfer of the company's business into ReAssure Limited, a company controlled by ReAssure Group plc, is expected to occur by the end of 2021. As part of the transaction, a new intra-group reinsurance ("IGR") agreement between the company and ReAssure Limited was entered into, transferring the shareholder risks and rewards of the insurance business from the company to ReAssure Limited. Policyholders are not impacted by this agreement, and the IGR will extinguish upon successful completion of the Part VII transfer. In addition, the company and ReAssure Limited will seek to harmonise certain actuarial assumptions (such as expenses) for the 31 December 2019 financial statements, although the impact of this has yet to be quantified.

There are no further events that have occurred, between the reporting date and the date this HFI has been authorised for issue, that require disclosure.

32 ULTIMATE PARENT COMPANY

The company's immediate parent as at 31 December 2018 was Old Mutual Wealth UK Holding Limited, a company registered in England & Wales.

PART B: ACCOUNTANT'S REPORT IN RELATION TO THE HISTORICAL FINANCIAL INFORMATION OF OLD MUTUAL WEALTH LIFE ASSURANCE LIMITED FOR THE THREE YEARS ENDED 31 DECEMBER 2018

Private & confidential
The Directors
Phoenix Group Holdings plc
Juxon House
100 St Paul's Churchyard
London
EC4M 8BU

17 January 2020

Ladies and Gentlemen

Old Mutual Wealth Life Assurance Limited

We report on the financial information set out in Part A of Part IX ("*Financial Information of Old Mutual Wealth Life Assurance Limited*") of the combined Class 1 circular and prospectus dated 17 January 2020 of Phoenix Group Holdings plc for the three years ended 31 December 2018. This financial information has been prepared for inclusion on the basis of the accounting policies set out in note 2 to the financial information. This report is required by paragraph 13.5.21R of the Listing Rules and is given for the purpose of complying with that paragraph and for no other purpose.

Responsibilities

The Directors of Phoenix Group Holdings plc are responsible for preparing the financial information on the basis of preparation set out in note 2 to the financial information and in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Save for any responsibility arising under Prospectus Regulation Rule 5.3.2R(2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Listing Rule 13.4.1R(6) and Item 1.3 of Annex 1 of the Commission Delegated Regulation (EU) 2019/980 (the "PR Regulation"), consenting to its inclusion in the combined Class 1 circular and prospectus.

Basis of Opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of the significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the combined Class 1 circular and prospectus dated 17 January 2020, a true and fair view of the state of affairs of Old Mutual Wealth Life Assurance Limited as at 31 December 2016, 31 December 2017 and 31 December 2018 and of its profits/losses, comprehensive income/losses, cash flows and changes in equity for the years ended 31 December 2016, 31 December 2017 and 31 December 2018 in accordance with the basis of preparation set out in note 2 to the financial information and in accordance with International Financial Reporting Standards as adopted by the European Union as described in note 2 to the financial information.

Declaration

For the purposes of Prospectus Regulation Rule 5.3.2R(2)(f) we are responsible for this report as part of the prospectus and declare that, to the best of our knowledge, the information contained in this report is in accordance with the facts and that the report makes no omission likely to affect its import. This declaration is included in the prospectus in compliance with Item 1.2 of Annex 1 of the PR Regulation.

Yours faithfully

KPMG LLP

PART X — OPERATING AND FINANCIAL REVIEW OF THE REASSURE GROUP

The following operating and financial review presents the ReAssure Group's operating performance and financial condition from 1 January 2016 to 30 June 2019. The discussion should be read in conjunction with the rest of this document and the consolidated historical financial information of the ReAssure Group as at and for the six months ended 30 June 2019 and years ended 31 December 2018, 2017 and 2016, which is set out in Part VIII ("Financial Information of the ReAssure Group") of this document. The following discussion contains forward-looking statements that involve risks and uncertainties that could cause the actual results of the ReAssure Group to differ from those expressed or implied by such forward-looking statements. These risks and uncertainties are discussed in the section of this document headed "Risk Factors" and elsewhere in this document. See "Cautionary note regarding forward-looking statements" in the section of this document headed "Important Information".

The discussion contained herein relates to, and all financial information has been extracted without material adjustment from, the unaudited consolidated historical financial information of the ReAssure Group as at and for the six months ended 30 June 2019 prepared in accordance with international accounting standard 34 as adopted by the European Union and the audited consolidated historical financial information of the ReAssure Group as at and for the years ended 31 December 2018, 2017 and 2016 prepared in accordance with IFRS as adopted by the European Union which is set out in Part VIII ("Financial Information of the ReAssure Group") of this document.

This section also includes a discussion of the ReAssure Group's liquidity and capital resources.

Key Factors Affecting the ReAssure Group's Historical and Future Results of Operations

Any of the key factors listed below could have a material impact on the ReAssure Group's business and results of operations.

Market volatility

The ReAssure Group's results and financial condition can be affected by changes in financial markets, including risk-free rates, migration in corporate bond credit spreads, default by corporate bond issuers, equity values and property values. Such conditions impact the value of the ReAssure Group's investment portfolios, which in turn impact the ReAssure Group's results via a reduced investment return, impact on valuation of liabilities and because a significant portion of the ReAssure Group's income is derived from investment management fees it is entitled to charge on its unit-linked policies. The ReAssure Group undertakes hedging activity to manage its exposure to market risks; however, its hedging strategy is calibrated to reduce the volatility of the capital position on a regulatory basis and surplus generation capability of the ReAssure Operating Subsidiaries (as defined in *"Liquidity and Capital Resources—Overview*"). This can create additional volatility in the ReAssure Group's IFRS results resulting from measurement and recognition differences between the Solvency II and IFRS bases. For example, the ReAssure Group hedges its exposure to equity movements arising from future profits in relation to with-profit bonuses and unit-linked charges to benefit the capital position on a regulatory basis. The impact of equity market movements on the value of hedging instruments is reflected in the ReAssure Group's IFRS results, but the corresponding change in the value of future profits is not.

The factors listed below illustrate some of the key market movements that have impacted the ReAssure Group's IFRS results:

- The Financial Times Stock Exchange ("**FTSE**") All Share index: increased by approximately 10.4 per cent. in the six months ended 30 June 2019, decreased by approximately 13 per cent. in 2018, increased 9 per cent. in 2017 and 12 per cent. in 2016;
- The 10-year UK Gilt yields: stood at 0.83 per cent. on 30 June 2019, 1.28 per cent. on 31 December 2018, 1.19 per cent. on 31 December 2017 and 1.24 per cent. on 31 December 2016;
- The EIOPA risk free rate for GBP denominated cash flows of 10 year term: stood at 0.942 per cent. on 30 June 2019, 1.342 per cent. on 31 December 2018, 1.188 per cent. on 31 December 2017 and 1.079 per cent. on 31 December 2016;
- Interest rates: The Bank of England bank rate fell from 0.50 per cent. to 0.25 per cent. during 2016, increased back to 0.50 per cent. towards the end of 2017, increased from 0.50 per cent. to 0.75 per cent. during 2018 and was maintained at 0.75 per cent. during the six months ended 30 June 2019; and

- Credit spreads: the asset swap spread in relation to the UC00 index of the UK Corporate Bonds stood at 151 basis points on 30 June 2019, 175 basis points on 31 December 2018, 131 basis points on 31 December 2017 and 158 basis points on 31 December 2016.

The ReAssure Group's results for the year ended 31 December 2016 were positively impacted by stock market performance in the United Kingdom and other major economies, as well as a general increase in UK corporate bond prices. The ReAssure Group's results for the year ended 31 December 2017 were positively impacted by stock market performance in the United Kingdom and other major economies although their performance was not as strong as in 2016. The ReAssure Group's results for the year ended 31 December 2018 were adversely impacted by stock market performance in the United Kingdom and other major economies and also by a general reduction in the price of UK corporate bonds as a result of increasing risk-free yields and widening credit spreads. The ReAssure Group's results for the six months ended 30 June 2019 were positively impacted by stock market performance in the United Kingdom and other major economies.

The long-term nature of much of the ReAssure Group's operations means that in calculating the ReAssure Group's operating profit, the ReAssure Group incorporates expected returns on investments supporting its long-term business. Changes due to economic items, for example market value and foreign exchange movements and interest rate changes, which give rise to variances between actual and expected investment returns, and the impact of changes in economic assumptions on liabilities, are disclosed separately outside the ReAssure Group's operating profit as investment variances and economic assumption changes. The ReAssure Group's investment return variances and economic assumption changes on long-term funds on an IFRS basis were a gain of £114.8 million for the six months ended 30 June 2019, a gain of £3.8 million for the year ended 31 December 2018, a gain of £280.3 million for the year ended 31 December 2017 and a loss of £32.7 million for the year ended 31 December 2016.

Longevity, mortality and persistency

The ReAssure Group's results of operations and cash flows may be affected by changes in mortality rates and by variances between assumed and actual experience in factors such as persistency levels. For example, under the ReAssure Group's non-linked policyholder liabilities, which principally comprise annuities, the benefits due to the ReAssure Group's policyholders are not dependent upon the performance of the underlying assets supporting these liabilities. Accordingly, substantial decreases in the value of the assets supporting the ReAssure Group's non-linked policies could adversely impact the financial performance, although this risk is mitigated by the Matching Adjustment and asset-liability matching to mitigate the impact of interest rate and inflation movements. Decreased mortality rates result in pay-outs to holders of annuities over a longer period while increased mortality rates increase death claims on the ReAssure Group's term insurance products. The ReAssure Group manages its exposure to changes in longevity and mortality rates by holding adequate capital to cover extreme deviations in longevity and mortality expectations in line with regulatory requirements based on assumptions that reflect past experience and anticipated future trends, ceding some risk to reinsurers and by factoring in these rates in setting purchase prices for acquired books.

In addition, when the policyholder has an option to terminate its contracts, an assumption is made on the level of expected surrender in the calculation of technical provisions. The variance between the assumed level of surrenders and the actual level of surrenders expose the ReAssure Group to persistency risk. Changes in pattern of future persistency rates also affect the emergence of future profits.

The ReAssure Group's IFRS insurance liabilities after reinsurance decreased by £2.1 million for the six months ended 30 June 2019 (2018 increased by £28.0 million; 2017 decreased by £360.0 million; 2016 decreased by £8.0 million). The ReAssure Group generally reviews its assumptions regarding longevity, mortality and persistency in connection with its annual results. Accordingly, the results for the six months ended 30 June 2019 have not been adjusted as a result of any such reviews.

Acquisition of the L&G Business

On 6 December 2017, ReAssure Limited agreed to purchase the L&G Business for £650 million, which comprised of approximately 1.0 million life insurance policies as at 31 December 2018. These policies consist of with-profit products, as well as unit-linked products and other non-profit products, which are expected to be transferred to the ReAssure Group, via a Part VII Transfer. The Part VII Transfer of the L&G Business is expected to be completed in the first half of 2020. As of 1 January 2018, ReAssure entered into a risk transfer agreement with the L&G Group and accordingly has sole exposure to the economic returns of the business, which continues to be administered by L&G Group employees until regulatory approvals (including competition approval from the EU Commission, since received, and the UK

High Court, which remains outstanding) are obtained for the Part VII Transfer. As a consequence of the risk transfer arrangements that ReAssure has entered into, the ReAssure Group's results for the year ended 31 December 2018 and the six months ended 30 June 2019 include the economic benefit of the performance of these policies for those periods. The risk transfer arrangements in 2018 increased gross premiums written by £99.4 million which was partially offset by £83.8 million relating to the amortisation of the deferred acquisition cost.

The ReAssure Group has also entered into a seven-year investment management agreement with the L&G Group investment managers which will become effective upon completion of the Part VII Transfer.

As a result of the L&G Transaction, and assuming the Part VII Transfer had occurred on 31 December 2018, the ReAssure Group's AUA would have increased by £28.3 billion to £68.7 billion (the ReAssure Group's AUA were £46.3 billion as of 31 December 2017). As the transfer is not considered to be a business combination for the purposes of IFRS 3, the assets and liabilities acquired as a result of the L&G Transaction will be recognised at fair value from the effective date of the Part VII Transfer.

For more information regarding the L&G Business, see "*History*" of Part III ("*Business Overview of the ReAssure Group*").

Acquisition of the Guardian Group

The ReAssure Group completed the Guardian Group Acquisition on 6 January 2016. The Part VII Transfer of Guardian Group's UK long-term insurance business into ReAssure Limited was completed at the end of 2016 and the ReAssure Group's 31 December 2016 consolidated balance sheet fully reflects the impact of the Guardian Group Acquisition. The Guardian Group's business was included within the audited accounts for all but the first five days of January 2016 and therefore, the consolidated income statement for the year ended 31 December 2016 represents a full year of activity for the ReAssure Group and the Guardian Group.

Acquisition of OMW

On 4 August 2019, the ReAssure Group entered into an agreement to acquire OMW (including its subsidiary), the heritage life and pensions division of Quilter and the acquisition was completed on 31 December 2019.

For more information regarding OMW, see "*History*" of Part III ("*Business Overview of the ReAssure Group*").

Cost reduction initiatives and acquisition synergies

The ReAssure Group's operating expense base has decreased over time, from £203 million in 2016, to £195 million in 2017 and £186 million in 2018. In addition, the ReAssure Group has also delivered approximately £16 million of annualised cost reductions over the 2016 to 2018 period with an expenditure of less than £25 million. At the beginning of 2017, the ReAssure Group commenced a simplification programme which included initiatives designed to optimise the ReAssure Group's processes and structures. As part of this restructuring the ReAssure Group primarily focused on reducing the structural costs of the ReAssure Group by optimising processes and creating a leaner and more flexible workforce through flexible work programmes. This strategic initiative has reduced the ReAssure Group's cost base.

New IFRS standards

New accounting standards can affect how the ReAssure Group reports its results under IFRS and depending on when they are implemented will affect the comparability of current or future periods against prior periods. New accounting standard IFRS 15 was assessed and did not have a material impact on the ReAssure Group.

IFRS 16 has replaced IAS 17 'Leases' and related interpretations. IFRS 16 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 the implementation of IFRS 16 is that most operating leases are now accounted for on the balance sheet for lessees. The ReAssure Group's adoption of IFRS 16 resulted in an impact to opening retained earnings for the year ended 31 December 2016 of £0.8 million, but did not result in a material change to the reported results and financial condition of the ReAssure Group for the years ended 31 December 2018 and 2017.

IFRS 9 'Financial Instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. ReAssure applies the temporary exemption from IFRS 9 Financial instruments, as defined in the amendment "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance

Contracts—IFRS 4 amendments" issued by the International Accounting Standards Board ("**IASB**") in September 2016. This amendment allows an entity to defer the implementation of IFRS 9 if its activities are predominantly connected with insurance. As a result, ReAssure will continue to apply IAS 39, Financial Instruments: Recognition and Measurement in its financial statements until the reporting period beginning on 1 January 2022. See Note 1 of Part B of Part VIII ("*Financial Information of the ReAssure Group*") of this document for more detail.

In May 2017, the IASB issued IFRS 17 'Insurance Contracts' to replace the existing IFRS 4 'Insurance Contracts'. The standard, which is subject to endorsement in the EU, is expected to apply to annual periods beginning on or after 1 January 2022. IFRS 17 is expected to significantly change the way the ReAssure Group measures and reports its insurance contracts. There are not expected to be any financial constraints on dividends as a result, but these changes will impact profit emergence patterns and add complexity to valuation processes, data requirements and assumption setting. In addition, IFRS 17 will impact IFRS equity which remains substantially larger than Solvency II equity. Furthermore, as a result of these changes, in 2017 the ReAssure Group commenced a project to perform an assessment of the impact of the standard on the ReAssure Group and to produce a detailed implementation plan. Implementation activities will continue in 2019 through to 2021 and the ReAssure Group has already provided for the estimated £11 million project cost for the implementation of IFRS 17.

See Note 1 in Part B of Part VIII ("*Financial Information of the ReAssure Group*") of this document for more detail.

Impact of the ReAssure Proposed IPO and the ReAssure Reorganisation

In July 2019, in connection with the ReAssure Proposed IPO, the ReAssure Group restructured its debt funding arrangements in order to allow ReAssure to achieve a flexible capital and liquidity structure. This has taken place as follows:

- ReAssure issued the ReAssure Subordinated Notes totalling £1.0 billion to SRFJL;
- ReAssure used part of the proceeds of the issuance of the ReAssure Subordinated Notes to pay its direct parent, Swiss Re, the Swiss Re Dividend. Swiss Re subsequently paid a dividend of the same amount to SRFJL.

As a result of the ReAssure Proposed IPO and the ReAssure Reorganisation, the ReAssure Group has made provision for significantly increased finance costs in future periods. See "*Liquidity and Capital Resources—Description of Certain Indebtedness*". In addition, as a result of the ReAssure Proposed IPO and the ReAssure Reorganisation, the ReAssure Group had recognised certain exceptional expenses relating to professional fees and other expenses relating to the ReAssure Proposed IPO and the ReAssure Reorganisation in its results for the six months ended 30 June 2019 and expects to recognise additional exceptional expenses in the third quarter of 2019.

The ReAssure Group took a number of actions as part of the preparation for the ReAssure Proposed IPO to create the corporate infrastructure necessary to operate as an independent public company. These actions include increasing the capability of certain corporate functions and governance structures and building capability within head office functions to support a publicly listed group. For the year ended 31 December 2018, there was a one-off expense provision related to the ReAssure Proposed IPO and the ReAssure Group's separation from the Swiss Re Group of £122 million and costs incurred related to the ReAssure Proposed IPO of £2 million. The ReAssure Group made a budget provision for separation costs (including one-offs) of approximately £50 million for the year ending 31 December 2019.

In addition, due to the ReAssure Group's separation from the Swiss Re Group, the ReAssure Group has recalculated an expense provision that related to costs arising in respect of managing the existing insurance business in ReAssure Limited in excess of any management service agreement fees charged by RUKSL or its third-party policy administration providers. When recalculating this expense provision, the estimated costs of managing the ReAssure Group's existing insurance business increased by £4.0 million and £25.0 million, for the years ended 31 December 2017 and 2016, respectively. These costs were historically incurred outside of the ReAssure Group, but the ReAssure Group has adjusted these historical expenses to ensure that the provision to calculating the provision is consistent throughout the period covered by the ReAssure historical financial information, being 1 January 2016 to 30 June 2019.

Key Line Items in the ReAssure Group's Income Statement

The following descriptions of key line items are relevant to the discussion of the results of operations for the ReAssure Group.

Gross premiums written

Although the ReAssure Group as a consolidator of closed books of insurance and pension policies, does not write new life insurance policies (other than increments to existing policies), it receives premiums in connection with its in-force policies. In addition, the ReAssure Group allows the proceeds of certain policies, such as pension savings plans, to be reinvested at maturity into annuities with a ReAssure Life Company. Gross premiums written also includes any premiums as a result of risk transfer agreements, such as the risk transfer agreement entered into between the L&G Group and ReAssure Limited on 6 December 2017 in connection with the L&G Transaction, which resulted in the recognition of the economic benefit of the performance of the acquired policies from the L&G Group for the year ended 31 December 2018 and the six months ended 30 June 2019. The relative levels of gross written premiums largely depend on the persistency of products sold in previous years, particularly regular premium products.

For insurance contracts and investment contracts with discretionary participation features, premiums are accounted for on a receivable basis and exclude any taxes or duties based on premiums. The above-mentioned reinvestments of proceeds (received at maturity) into annuities are classified as new business single premiums, and for accounting purposes, are included in both claims incurred and as single premiums within gross premiums written.

Receipts and payments on investment contracts without discretionary participation features are accounted for using deposit accounting, under which the amounts collected and paid out are recognised in the consolidated balance sheet as an adjustment to the liability of the policyholder.

Premiums ceded to reinsurers

As part of its risk mitigation strategy, the ReAssure Group reinsures certain policies with reinsurers. The premiums associated with such reinsurance represent the cost of transferring insurance risk to other insurers and are accounted for when they become payable.

Net premiums written

Net premiums written is gross premiums written less premiums ceded to reinsurers.

Fee income

Fee income is primarily composed of annual management charges applied to linked funds and to a lesser extent policy administration fees and bid/ offer spread and other charges.

Annual management charges applied to linked funds are recognised as services are provided and, for each fund, are typically calculated as a percentage of the fair value of the investments managed by that fund.

Policy administration fees are received from investment contract policyholders and are composed of charges for administration services, investment management services, surrenders and other contract fees. This income is recognised as revenue over the period in which the related services are performed. If the income relates to the services to be provided in future periods, such income is deferred and recognised when such services are actually performed. In addition, the ReAssure Group charges 'front end' fees in relation to some non-participating investment contracts. Where the non-participating investment contract is measured at fair value, fees relating to the provision of investment management services are deferred and are only recognised when such services are provided.

Investment income

Investment income comprises income from investment property, income from other investments, net gains and losses on the realisation of investments and net unrealised gains and losses on investments.

Investment income includes both shareholder and policyholder income. Income attributable to policyholders is offset by increases in policyholder liabilities, which are reflected as expenses in the ReAssure Group accounts.

Income from investment property is rental income. Rental income from investment property is recognised on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

Realised and unrealised gains and losses on financial assets designated at fair value through profit or loss are recognised in the consolidated income statement. Realised gains and losses reflect the difference between the net sale proceeds and the original cost. Unrealised gains and losses reflect the difference between the valuation at the period end date and their valuation at the previous period end or purchase price, if acquired during the year.

Other income

Other income consists of income that does not relate to premiums, fee or investment income. This includes income in relation to Third Party Administration contracts, principally the Aviva Agreement.

Policyholder claims

Policyholder claims comprise the cost of all claims arising during the period under insurance contracts and participating investment contracts with a discretionary participating feature, including policyholder bonuses allocated in anticipation of a bonus declaration.

Claims payable on maturity are recognised when the claim becomes due for payment and claims payable on death are recognised on notification of the death. Surrenders are accounted for at the earlier of the payment date or when the policy ceases to be included within the insurance contract liabilities. Where claims are payable, and the contract remains in force, the claim instalment is recognised when it becomes due for payment. Claims payable include the costs of settlement.

Claims recovered from reinsurers

Claims recovered from reinsurers are recognised when the related gross insurance claim is recognised, according to the terms of the relevant contract.

Change in insurance contract liabilities

The change in insurance contract liabilities primarily reflects the reduction in the ReAssure Group's liabilities as a result of claims paid during the year. Such reduction is equivalent to the amount the ReAssure Group previously allocated for policyholder claims that were paid during the present year (which are reflected in the ReAssure Group's income statement under "Policyholder claims"). The change in insurance contract liabilities can also be offset by new insurance contract liabilities associated with new business acquisition, such as the Guardian Group Acquisition that occurred in the 2016 financial year. The change in insurance liabilities also reflects the increases or decreases in the liabilities due to changes in assumptions and other methodology changes and the fluctuation in the fair value of the assets underlying the ReAssure Group's insurance contract liabilities.

Change in investment contract liabilities

Change in investment contract liabilities reflects the fluctuation in the fair value of the assets and associated income of the assets underlying the ReAssure Group's investment contract liabilities, including the impact on the associated liabilities from premiums and claims on the investment contracts.

Change in reinsurers' share of insurance contract liabilities

Changes in reinsurers' share of insurance contract liabilities reflects the reduction in reinsured liabilities as a result of claims paid during the year by reinsurers. Such reduction is equivalent to the amount previously allocated for policyholder claims that were paid during the present year (which are reflected in the ReAssure Group's income statement under "Claims recovered from reinsurers"). The change in contract liabilities ceded to reinsurers can also be increased by new insurance contract liabilities that are ceded to reinsurers during the year, or the lapse of reinsurance contracts. The change in contract liabilities ceded to reinsurers also reflects increases or decreases due to changes in assumptions and other methodology changes.

Change in reinsurers' share of investment contract liabilities

Changes in reinsurers' share of investment contract liabilities primarily reflects the reduction in reinsured liabilities as a result of claims paid during the year by reinsurers. Such reduction is equivalent to the amount previously allocated for policyholder claims that were paid during the present year (which are reflected in the ReAssure Group's income statement under "Claims recovered from reinsurers"). The change in contract liabilities ceded to reinsurers can also be increased by new investment contract liabilities that are ceded to reinsurers during the year, or the lapse of reinsurance contracts. The change in contract liabilities ceded to reinsurers also reflects increases or decreases due to changes in assumptions and other methodology changes. The portion of movement that reflects changes in investment contract liabilities ceded to reinsurers reflects the fluctuation in the fair value of the assets underlying the relevant investment contract liabilities.

Transfer to unallocated surplus

The unallocated surplus comprises the shareholders' future share of with profit bonuses (including associated tax balances). When transfers are made from the unallocated surplus, the amounts to be received by such shareholders and policyholders in the future decrease accordingly.

Net policyholder claims and benefits incurred

Net policyholder claims and benefits incurred reflects the change in insurance and investment contract liabilities net of reinsurance. It is comprised of: policyholder claims, claims recovered from reinsurers, change in insurance contract liabilities, change in investment contract liabilities, change in reinsurers' share of insurance contract liabilities, change in reinsurers' share of investment contract liabilities and transfer to unallocated surplus.

Administration expenses

Administration expenses comprise primarily employee benefit related costs such as wages and salaries, social security costs and other pension costs as well as foreign exchange movements, investment management expenses, other miscellaneous expenditure, and the amortization of present value of future shareholder cash flows from in force covered business ("**PVIF**").

Finance costs

Finance costs comprise interest costs on deposits received from reinsurers and will include interest which will be payable on the RSPS.

Tax on profit for the year

In addition to the tax charge attributable to shareholders, the ReAssure Group also pays policyholders' tax. The ReAssure Group, as a proxy for policyholders in the UK, is required to pay taxes on investment income and gains each year. Accordingly, the tax credit or expense attributable to UK life assurance policyholder earnings is included in income tax expense.

Results of Operations

The following table summarises the ReAssure Group's results of operations for the six months ended 30 June 2019 and 2018 and the years ended 31 December 2018, 2017 and 2016.

	For the six months ended 30 June		For the year ended 31 December		
	2019	2018	2018	2017	2016
			(GBP millions)		
Gross premiums written	234.1	225.6	447.4	356.6	392.1
Less: premiums ceded to reinsurers	(196.3)	(202.2)	(403.1)	(416.1)	(429.7)
Net premiums written	**37.8**	**23.4**	**44.3**	**(59.5)**	**(37.6)**
Fee income	91.0	84.1	183.8	169.8	167.9
Investment (expense)/income	3,687.3	170.1	(1,199.6)	3,331.0	6,294.7
Other income	14.1	16.2	34.5	31.4	453.3
Net income/(expense)	**3,830.2**	**293.8**	**(937.0)**	**3,472.7**	**6,878.3**
Policyholder claims	(857.8)	(933.4)	(1,865.6)	(2,039.7)	(2,890.9)
Less: claims recovered from reinsurers	221.6	231.8	462.1	481.3	492.1
Change in insurance contract liabilities	(623.0)	1,254.2	2,089.8	2,175.0	(86.0)
Change in investment contract liabilities	(2,217.8)	(296.3)	877.8	(2,152.0)	(2,953.9)
Change in reinsurers' share of insurance contract liabilities	113.2	(116.6)	(131.3)	(337.8)	(134.0)
Change in reinsurers' share of investment contract liabilities	—	—	—	—	(5.2)
Transfer to unallocated divisible surplus	(11.1)	5.4	26.0	(8.8)	(17.1)
Net policyholder claims and benefits incurred	**(3,374.9)**	**145.1**	**1,458.8**	**(1,882.0)**	**(5,595.0)**
Administration expenses	(216.5)	(190.8)	(410.0)	(316.0)	(349.0)
Total (expenses)/income	**(3,591.4)**	**(45.7)**	**1,048.8**	**(2,198.0)**	**(5,944.0)**
Profit before finance costs and tax	**238.8**	**248.1**	**111.8**	**1,274.7**	**934.3**
Finance costs	(6.2)	(1.9)	(7.0)	(7.4)	(7.8)
Profit before tax	**232.6**	**246.2**	**104.8**	**1,267.3**	**926.5**
Tax on profit for the period/year	(82.2)	(54.6)	(13.1)	(256.2)	(122.0)
Profit for the period/year	**150.4**	**191.6**	**91.7**	**1,011.1**	**804.5**

Results of operations for the six months ended 30 June 2019 and 2018

Gross premiums written

Gross premiums written for the six months ended 30 June 2019 was £234.1 million, an increase of £8.5 million, or 3.8 per cent., compared to £225.6 million for the six months ended 30 June 2018. This increase was principally a result of the risk transfer arrangements for the L&G Business which achieved improved economic performance in the period as compared to the six months ended 30 June 2018. Excluding the impact of the risk transfer arrangements, gross premiums written fell, reflecting the run-off of the existing insurance business.

Premiums ceded to reinsurers

Premiums ceded to reinsurers for the six months ended 30 June 2019 was £196.3 million, a decrease of £5.9 million, or 2.9 per cent., compared to £202.2 million for the six months ended 30 June 2018. This decrease principally reflected the run-off of the existing insurance business.

Net premiums written

Net premiums written for the six months ended 30 June 2019 was £37.8 million, a movement of £14.4 million, as compared to income of £23.4 million for the six months ended 30 June 2018. This was primarily due to the increase in gross premiums written and the reduced premiums ceded to reinsurers as described above.

Fee income

Fee income for the six months ended 30 June 2019 was £91.0 million, an increase of £6.9 million, or 8.2 per cent., compared to £84.1 million for the six months ended 30 June 2018. This increase principally reflected improved investment performance in the period, increasing the underlying asset values and resulting in increased management fees.

Investment income

Investment income (which consists of investment income from both policyholder assets and shareholder assets) for the six months ended 30 June 2019 was £3,687.3 million, as compared to £170.1 million for the six months ended 30 June 2018, an increase of £3,517.2 million. The increase was principally driven by gains on equities and debt securities in the first half of 2019. Fixed income markets fell by approximately 2.6 per cent. during the first half of 2018 leading to approximately £0.6 billion of losses, compared to a strong fixed income market in the first half of 2019 increasing by approximately 4 per cent. leading to gains of approximately £0.9 billion. Equity markets were broadly flat during the first half of 2018 leading to nil gains or losses. Strong equity markets which increased by approximately 12 per cent. during the first half of 2019 led to approximately £1.8 billion of gains in the period.

Other income

Other income for the six months ended 30 June 2019 was £14.1 million, a decrease of £2.1 million, or 13.0 per cent., compared to £16.2 million for the six months ended 30 June 2018. This decrease was primarily a result of the run-off of third party administration business.

Net income

Net income for the six months ended 30 June 2019 was £3,830.2 million as compared to net income of £293.8 million for the six months ended 30 June 2018. This increase principally reflected the improved investment performance as described above.

Policyholder claims

Policyholder claims for the six months ended 30 June 2019 decreased to £857.8 million, a decrease of £75.6 million, or 8.1 per cent., compared to an increase of £933.4 million for the six months ended 30 June 2018. This was principally as a result of continued policy run-off and a large volume of endowment policies maturing in the second half of 2018, resulting in reduced claims on this block of business.

Claims recovered from reinsurers

Claims recovered from reinsurers for the six months ended 30 June 2019 decreased to £221.6 million, a decrease of £10.2 million, or 4.6 per cent., compared to £231.8 million for the six months ended 30 June 2018. This decrease principally reflected the natural run-off of the existing insurance business.

Change in insurance contract liabilities

Change in insurance contract liabilities for the six months ended 30 June 2019 resulted in an expense of £623.0 million compared to income of £1,254.2 million for the six months ended 30 June 2018. This change principally reflected the reduction in interest rates which required an increase in reserves held for insurance contracts.

Change in investment contract liabilities

Change in investment contract liabilities for the six months ended 30 June 2019 resulted in an expense of £2,217.8 million, an increase of £1,921.5 million, as compared to an expense of £296.3 million for the six months ended 30 June 2018. This change was mainly due to improved investment performance in the first half of 2019 compared to the first half of 2018, resulting in increased liabilities to investment policyholders. Together, the changes in insurance contract liabilities and investment contract liabilities broadly offset the changes in investment income described above.

Change in reinsurers' share of insurance contract liabilities

Change in reinsurers' share of insurance contract liabilities for the six months ended 30 June 2019 resulted in an income of £113.2 million, as compared to an expense of £116.6 million for the six months ended 30 June 2018. The main driver of the change was lower interest rates resulting in increased liabilities and thus an increased reinsurers' share of those liabilities.

Net policyholder claims and benefits incurred

Net policyholder claims and benefits incurred for the six months ended 30 June 2019 resulted in an expense of £3,374.9 million as compared to an income of £145.1 million for the six months ended 30 June 2018. This change principally reflected the same factors described in the changes in insurance and investment contract liabilities above.

Administration expenses

Administration expenses for the six months ended 30 June 2019 were £216.5 million, an increase of £25.7 million, or 13.5 per cent., compared to £190.8 million for the six months ended 30 June 2018. This was principally a result of exceptional expenses relating to the ReAssure Proposed IPO and ReAssure Reorganisation as well as L&G Business integration preparation costs, slightly offset by lower amortization of deferred acquisition costs associated with the L&G Business assets.

In addition, investment management expenses for the six months ended 30 June 2019 were £24.3 million, a decrease of £1.7 million, or 6.5 per cent., compared to £26.0 million for the six months ended 30 June 2018. This decrease was primarily due to fee reductions as a result of an internal fund rationalisation project undertaken during 2018.

Profit before finance costs and tax

As a result of the foregoing factors, profit before finance costs and tax for the six months ended 30 June 2019 was £238.8 million, a decrease of £9.3 million, or 3.7 per cent., compared to £248.1 million for the six months ended 30 June 2018.

Finance costs

Finance costs for the six months ended 30 June 2019 were £6.2 million, an increase of £4.3 million, or 226.3 per cent., compared to £1.9 million for the six months ended 30 June 2018. This increase was primarily due to increased costs associated with the ReAssure Reorganisation in June 2019, including the interest on the ReAssure Subordinated Notes issued in the first half of 2019.

Profit before tax

As a result of the foregoing factors, profit before tax for the six months ended 30 June 2019 was £232.6 million, a decrease of £13.6 million, or 5.5 per cent., compared to £246.2 million for the six months ended 30 June 2018.

Tax on profit for the period

In addition to the tax charge attributable to shareholders, the ReAssure Group also pays policyholders' tax. The ReAssure Group as a proxy for policyholders in the United Kingdom, is required to pay taxes on investment income and gains each year. Accordingly, the tax credit or expense attributable to UK life assurance policyholder earnings is included in income tax expense. Tax on profit for the six months ended 30 June 2019 was £82.2 million, an increase of £27.6 million, or 50.5 per cent., compared to £54.6 million for the six months ended 30 June 2018. The increase was primarily due to shareholder profits before tax being higher in the first half of 2019, resulting in increased shareholder current tax, and increases in policyholder investments leading to a higher policyholder tax impact.

The table below sets forth a breakdown of the ReAssure Group's tax on profit between tax attributable to the shareholders and tax attributable to the policyholders for the six months ended 30 June 2019 and 2018.

	For the six months ended 30 June	
	2019	2018
	(£ million)	
Tax charge attributable to the shareholders	(36.9)	(39.8)
Tax credit/(charge) attributable to the policyholders	(45.2)	(14.8)
Total tax charge on profit on ordinary activities	(82.2)	(54.6)

Profit for the period

As a result of the foregoing factors, profit for the six months ended 30 June 2019 was £150.4 million, a decrease of £41.2 million, or 21.5 per cent., compared to £191.6 million for the six months ended 30 June 2018.

Results of operations for the years ended 31 December 2018 and 2017

Gross premiums written

Gross premiums written for the year ended 31 December 2018 was £447.4 million, an increase of £90.8 million, or 25.5 per cent., compared to £356.6 million for the year ended 31 December 2017. This increase was principally a result of the economic benefits of the risk transfer arrangements that were entered into by ReAssure Limited on 1 December 2018, in relation to the policies acquired from the L&G Group.

Premiums ceded to reinsurers

Premiums ceded to reinsurers for the year ended 31 December 2018 was £403.1 million, a decrease of £13.0 million, or 3.1 per cent., compared to £416.1 million for the year ended 31 December 2017. This decrease principally reflected the run-off of the existing insurance business.

Net premiums written

Net premiums written for the year ended 31 December 2018 was £44.3 million, a movement of £103.8 million, as compared to an expense of £59.5 million for the year ended 31 December 2017. This was primarily due to the increase in the gross premiums written described above.

Fee income

Fee income for the year ended 31 December 2018 was £183.8 million, an increase of £14.0 million, or 8.2 per cent., compared to £169.8 million for the year ended 31 December 2017. An adjustment reduced the level of fee income recognised in 2017 by £17.7 million. This adjustment, which affected 2017 but not 2018 was required due to the removal of surrender penalties that had previously been applicable to certain unit-linked policies. Excluding the adjustment, fee income would have decreased by £3.7 million. This decrease reflected the natural run-off of the business and a decrease in unit-linked assets as a result of investment market performance for the year ended 31 December 2018. This was offset by lower investment management charges applied to the ReAssure Group's unit-linked funds as a result of the renegotiation of a number of investment management agreements in 2017 and 2018, which resulted in lower investment management charges that were imposed on the ReAssure Group (in line with the terms and conditions of each policy, policyholders were either charged the same Total Expenses Ratio or a lower Total Expenses Ratio).

Investment income

Investment income (which consists of investment income from both policyholder assets and shareholder assets) for the year ended 31 December 2018 was a loss of £1,199.6 million as compared to income of £3,331.0 million for the year ended 31 December 2017, a decrease of £4,530.6 million over 2018. This was principally driven by net unrealised losses on equity securities over 2018 of £3,476.8 million and net unrealised losses on debt securities over 2018 of £850.1 million. The net unrealised losses on equity securities is predominantly due to equity market movements between 31 December 2017 and 31 December 2018. The greatest proportion of equity assets are in the securities of UK issuers, which were exposed to a

13 per cent. fall in the FTSE All Share index over 2018 (from 4222 at 29 December 2017 to 3675 at 31 December 2018). The net unrealised losses on debt securities is predominantly due to a decrease in UK corporate bond prices between 31 December 2017 and 31 December 2018, which is driven by movements in UK corporate debt credit spreads and the interest rate environment.

Other income

Other income for the year ended 31 December 2018 was £34.5 million, an increase of £3.1 million, or 9.9 per cent., compared to £31.4 million for the year ended 31 December 2017. This increase was primarily a result of a one-off £3.0 million gain recognised in relation to the sale of the Guardian Group trading name in September 2018.

Net expense

Net expense for the year ended 31 December 2018 was £937.0 million as compared to net income of £3,472.7 million for the year ended 31 December 2017. This decrease principally reflected the decrease in investment income described above.

Policyholder claims

Policyholder claims for the year ended 31 December 2018 were £1,865.6 million, a decrease of £174.1 million, or 8.5 per cent., compared to £2,039.7 million for the year ended 31 December 2017. This was principally as a result of natural run-off of the existing insurance business and the poor performance of the UK, European and US equity markets in sterling terms in 2018.

Claims recovered from reinsurers

Claims recovered from reinsurers for the year ended 31 December 2018 were £462.1 million, a decrease of £19.2 million, or 4.0 per cent., compared to £481.3 million for the year ended 31 December 2017. This decrease in 2018 principally reflected the natural run-off of the existing insurance business.

Change in insurance contract liabilities

Change in insurance contract liabilities for the year ended 31 December 2018 resulted in an income of £2,089.8 million, a decrease of £85.2 million, or 3.9 per cent., compared to an income of £2,175.0 million for the year ended 31 December 2017. Although in 2018, interest rates and credit spreads decreased the ReAssure Group's liabilities, that contribution was lower than the one-off releases due to longevity and the extension to the Matching Adjustment portfolio in 2017.

Change in investment contract liabilities

Change in investment contract liabilities for the year ended 31 December 2018 resulted in an income of £877.8 million as compared to an expense of £2,152.0 million for the year ended 31 December 2017. This change was mainly due to weaker investment performance in 2018 than in 2017, which led to a decrease in the ReAssure Group's investment contract liabilities.

Change in reinsurers' share of insurance contract liabilities

Change in reinsurers' share of insurance contract liabilities for the year ended 31 December 2018 resulted in an expense of £131.3 million, a decrease of £206.5 million, or 61.3 per cent., compared to an expense of £337.8 million for the year ended 31 December 2017. The main driver of the decrease was a reduction in liabilities due to the change in longevity assumptions.

Transfer to unallocated divisible surplus

Transfer to unallocated divisible surplus for the year ended 31 December 2018 resulted in income of £26.0 million as compared to an expense of £8.8 million for the year ended 31 December 2017. This change principally reflected the same factors that affected investment income described above.

Net policyholder claims and benefits incurred

Net policyholder claims and benefits incurred for the year ended 31 December 2018 resulted in an income of £1,458.8 million as compared to an expense of £1,882.0 million for the year ended 31 December 2017. This change principally reflected the same factors that affected change in investment contract liabilities described above.

Administration expenses

Administration expenses for the year ended 31 December 2018 were £410.0 million, an increase of £94.0 million, or 29.7 per cent., compared to £316.0 million for the year ended 31 December 2017. This was principally a result of recognising the amortisation of deferred acquisition costs (£83.8 million) in relation to the L&G Transaction in 2018.

In addition, investment management expenses for the year ended 31 December 2018 were £57.3 million, an increase of £9.3 million, or 19.4 per cent compared to £48.0 million for the year ended 31 December 2017. This increase was primarily due to (i) exit fees of £3.9 million paid to external managers as part of the ReAssure Group's fund rationalisation programme, which is expected to result in £6.8 million annualised savings for 2019 and (ii) a one off true-up of £4.2 million in relation to the investment services provided in 2018.

Profit before finance costs and tax

As a result of the foregoing factors, profit before finance costs and tax for the year ended 31 December 2018 was £111.8 million, a decrease of £1,162.9 million, or 91.2 per cent., compared to £1,274.7 million for the year ended 31 December 2017.

Finance costs

Finance costs for the year ended 31 December 2018 were £7.0 million, a decrease of £0.4 million, or 5.4 per cent., compared to £7.4 million for the year ended 31 December 2017. This decrease was primarily due to a reduction in the deficit of the RSPS from £8.6 million as at 31 December 2017 to a surplus position of £15.1 million as at 31 December 2018 as interest expense is only incurred when the RSPS is in deficit.

Profit before tax

As a result of the foregoing factors, profit before tax for the year ended 31 December 2018 was £104.8 million, a decrease of £1,162.5 million, or 91.7 per cent., compared to £1,267.3 million for the year ended 31 December 2017.

Tax on profit for the year

Tax on profit for the year ended 31 December 2018 was £13.1 million, a decrease of £243.1 million or 94.9 per cent., compared to £256.2 million for the year ended 31 December 2017. The decrease principally reflects the lower profit before tax discussed above as well as a tax credit relating to investment losses to policyholders as a result of the poor performance of the UK, European and US equity markets in sterling terms in 2018 and lower UK corporate bond prices in 2018, which were driven by changing UK corporate debt credit spreads and interest rates.

The table below sets forth a breakdown of the ReAssure Group's tax on profit between tax attributable to shareholders and tax attributable to policy holders for the years ended 31 December 2018 and 2017.

	For the year ended 31 December	
	2018	**2017**
	(£ million)	
Tax charge attributable to the shareholders	(22.1)	(239.7)
Tax credit/(charge) attributable to the policyholders	9.1	(16.6)
Total tax charge on profit on ordinary activities	**(13.1)**	**(256.2)**

Profit for the year

As a result of the foregoing factors, profit for the year ended 31 December 2018 was £91.7 million, a decrease of £919.4 million, or 90.9 per cent., compared to £1,011.1 million for the year ended 31 December 2017.

Results of operations for the years ended 31 December 2017 and 2016

Gross premiums written

Gross premiums written for the year ended 31 December 2017 were £356.6 million, a decrease of £35.5 million or 9.1 per cent., compared to £392.1 million for the year ended 31 December 2016. The decrease principally reflected the natural run-off of the existing insurance business.

Premiums ceded to reinsurers

Premiums ceded to reinsurers for the year ended 31 December 2017 were £416.1 million, a decrease of £13.6 million or 3.2 per cent., compared to £429.7 million for the year ended 31 December 2016. The decrease principally reflected the natural run-off of the existing insurance business.

Net premiums written

As a result of the foregoing factors, net premiums written for the year ended 31 December 2017 was an expense of £59.5 million, a movement of £21.9 million, or 58.2 per cent., compared to an expense of £37.6 million for the year ended 31 December 2016. Premiums ceded to reinsurers were greater than gross premiums written in 2017 and 2016. This was principally as a result of premiums being ceded to a counter-party in relation to a reinsurance longevity swap agreement with no gross premiums written reported in 2017 and 2016 in relation to that agreement.

Fee income

Fee income for the year ended 31 December 2017 was £169.8 million, an increase of £1.9 million, or 1.1 per cent., compared to £167.9 million for the year ended 31 December 2016. The increase from 2016 to 2017 reflected an increase in the value of unit-linked assets and the subsequent annual management charges applied, which were partially offset by the natural run-off of the existing insurance business. This increase partially offset by an adjustment required due to the removal of surrender penalties that had previously been applicable to certain unit-linked policies, reduced the level of fee income recognised in 2017 by £17.7 million.

Investment income

Investment income (which consists of investment income from both policyholder assets and shareholder assets) for the year ended 31 December 2017 was £3,331.0 million, a decrease of £2,963.7 million, or 47.1 per cent., compared to £6,294.7 million for the year ended 31 December 2016. This was principally a result of 2016 being positively impacted by the particularly strong performance of UK, European and US equity markets in sterling terms. European and US equity markets also experienced strong performance in 2017, although their performance was not as strong as in 2016. Additionally, in 2016, both the environment of reducing interest rates and tightening of credit spreads resulted in the appreciation of fixed rate interest securities.

In 2017, the ReAssure Group undertook certain management actions, such as fund rationalisation and investment portfolio optimisation, resulting in an increase in sales of holdings in its investment portfolios compared to 2016, which led to higher realised gains.

Other income

Other income for the year ended 31 December 2017 was £31.4 million a decrease of £421.9 million, or 93.1 per cent., compared to £453.3 million for the year ended 31 December 2016.

Swiss Re Life Capital Ltd acquired and subsequently contributed the net assets of ReAssure Financial Services Holdings UK Limited (formerly Guardian Financial Services Holdings UK Limited) to ReAssure Limited. The value of this contribution reflected the value of ordinary share capital which was lower than the identifiable net assets received, thus producing a one-off benefit to the profit and loss account. As a result, other income for the year ended 31 December 2016 principally reflected a rise in other income in relation to the Guardian Group Acquisition.

Excluding the one-off effect of the Guardian Group Acquisition in 2016, other income for the year ended 31 December 2017 was lower than in the year ended 31 December 2016 as a result of less income being recorded in relation to the third-party administration of insurance contracts as a result of the natural run-off of the associated underlying insurance book.

Net income

Net income for the year ended 31 December 2017 was £3,472.7 million, a decrease of £3,405.6 million, or 49.5 per cent., compared to £6,878.3 million for the year ended 31 December 2016. The decrease principally reflected the decreased in investment income described above.

Policyholder claims

Policyholder claims for the year ended 31 December 2017 were £2,039.7 million, a decrease of £851.2 million, or 29.4 per cent., as compared to £2,890.9 million for the year ended 31 December 2016. This decrease was primarily due to the maturity of a significant tranche of products in the Ark Life business in 2016.

Claims recovered from reinsurers

Claims recovered from reinsurers for the year ended 31 December 2017 were £481.3 million, a decrease of £10.8 million, or 2.2 per cent., compared to £492.1 million for the year ended 31 December 2016. The decrease principally reflected the natural run-off of the existing insurance business.

Change in insurance contract liabilities

Change in insurance contract liabilities for the year ended 31 December 2017 resulted in an income of £2,175.0 million compared to a loss of £86.0 million for the year ended 31 December 2016. This was primarily a result of the movement for the year ended 31 December 2016 being impacted by changes in certain economic assumptions which fully off-set the decrease of insurance contract liabilities resulting from the natural run-off of the existing insurance business, which included the maturity of a significant tranche of products in the Ark Life business. In addition, investment performance while strong in 2017 was not as strong as investment performance in 2016 resulting in a lower expense in 2017. Furthermore, insurance contract liabilities decreased as a result of assumption changes (mainly from reviewing longevity assumptions from CMI 2014 to CMI 2016) resulting in an income in 2017 but were an expense in 2016.

Change in investment contract liabilities

Change in investment contract liabilities for the year ended 31 December 2017 resulted in an expense of £2,152.0 million, a decrease of £801.9 million, or 27.1 per cent., as compared to an expense of £2,953.9 million for the year ended 31 December 2016. Change in investment contract liabilities benefitted from the strong performance of European and US equity markets, although their performance was less strong in 2017 compared to 2016.

Change in reinsurers' share of insurance contract liabilities

Change in reinsurers' share of insurance contract liabilities for the year ended 31 December 2017 resulted in an expense of £337.8 million, an increase of £203.8 million or 152.1 per cent. as compared to an expense of £134.0 million for the year ended 31 December 2016. The main drivers of the increase in 2017 were a decrease in reinsurance balance receivables due to the natural run-off of the existing insurance business and a decrease in reserves due to assumption changes.

Change in reinsurers' share of investment contract liabilities

There was no change in reinsurers' share of investment contract liabilities for the year ended 31 December 2017 as compared to an expense of £5.2 million for the year ended 31 December 2016. There was no impact in 2017 as no investment contract liabilities were reinsured in that year.

Transfer to unallocated divisible surplus

Transfer to unallocated divisible surplus for the year ended 31 December 2017 resulted in an expense of £8.8 million, a decrease of £8.3 million, or 48.5 per cent., as compared to £17.1 million for the year ended 31 December 2016. The decrease in the amount transferred was primarily due to the same factors that affected investment income.

Net policyholder claims and benefits incurred

Net policyholder claims and benefits incurred for the year ended 31 December 2017 was an expense of £1,882.0 million, a decrease of £3,713.0 million, or 66.4 per cent., as compared to an expense of £5,595.0 million for the year ended 31 December 2016. This decrease primarily reflected the position change in insurance and investment contract liabilities and the lower cost of policyholder claims described above.

Administration expenses

Administration expenses for the year ended 31 December 2017 were £316.0 million, a decrease of £33.0 million, or 9.5 per cent., as compared to £349.0 million for the year ended 31 December 2016. This decrease was primarily a result of synergies being achieved in relation to the Guardian Group Acquisition, as well as the impact of cost reduction initiatives that were undertaken in 2017. See "*Key Factors Affecting the ReAssure Group's Historical and Future Results of Operations*" above.

In addition, investment management expenses for the year ended 31 December 2017 were £48.0 million, a decrease of £6.6 million or 12.1 per cent. compared to £54.6 million for the year ended 31 December 2016. This decrease reflected the synergy benefits from the integration of the non-linked assets acquired as part of the Guardian Group Acquisition into the ReAssure Group's non-linked investment portfolio.

Profit before finance costs and tax

As a result of the foregoing factors, profit before finance costs and tax for the year ended 31 December 2017 was £1,274.7 million, an increase of £340.4 million, or 36.4 per cent., compared to £934.3 million for the year ended 31 December 2016.

Finance costs

Finance costs for the year ended 31 December 2017 were £7.4 million, a decrease of £0.4 million, or 5.1 per cent., as compared to £7.8 million for the year ended 31 December 2016. The decrease was primarily due to a lower amount of reinsurance deposits being deposited with the ReAssure Group, which is consistent with the natural run-off of the overall insurance book.

Profit before tax

As a result of the foregoing factors, profit before tax for the year ended 31 December 2017 was £1,267.3 million, an increase of £340.8 million, or 36.8 per cent., compared to £926.5 million for the year ended 31 December 2016.

Tax on profit for the year

Tax on profit for the year ended 31 December 2017 was £256.2 million, an increase of £134.2 million, or 110.0 per cent., compared to £122.0 million for the year ended 31 December 2016. The increase was primarily due to (i) changes in profit on ordinary activities before taxation as a result of a decrease in total expenses, as well as £457 million of other income in relation to the Guardian Group Acquisition having been identified as being non-taxable for the year ended 31 December 2016, offset in part by (ii) a decrease in tax charge attributable to policyholders which reflected the fact that equity market performance was not as strong in 2017 compared to 2016.

The table below sets forth a breakdown of the ReAssure Group's tax on profit between tax attributable to the shareholders and tax attributable to the policyholders for the years ended 31 December 2017 and 2016.

	For the year ended 31 December	
	2017	**2016**
	(£ million)	
Tax charge attributable to the shareholders	(239.7)	(103.3)
Tax credit/ (charge) attributable to the policyholders	(16.6)	(18.7)
Total tax charge on profit on ordinary activities	(256.2)	(122.0)

Profit for the year

As a result of the foregoing factors, profit for the year ended 31 December 2017 was £1,011.1 million, an increase of £206.6 million, or 25.7 per cent., compared to £804.5 million for the year ended 31 December 2016.

Surplus Generation for the ReAssure Group

The ReAssure Group's Surplus Generation is the movement (compared to the prior reporting period) in the ReAssure Group's subsidiaries' surplus capital available for distribution in accordance with the ReAssure Group's capital management policy and regulatory requirements.

The ReAssure Group's Surplus Generation for the year ended 31 December 2018 was a negative movement in surplus capital of £186.0 million, which comprised: (i) ordinary Surplus Generation (which is the Surplus Generation produced by the run-off of the ReAssure Group's back book of business, excluding significant one-offs impacts related to acquisitions, longevity assumptions and the ReAssure Proposed IPO) of £0.4 billion; (ii) one-off costs associated with the implementation of a new capital management policy of £0.3 billion; and (iii) costs associated with the ReAssure Proposed IPO of £0.2 billion. Surplus Generation for the year ended 31 December 2017 was £1,024.2 million, which comprised: (i) ordinary Surplus Generation of £0.5 billion; (ii) positive cash generation from the reinsurance arrangement entered into for the L&G Transaction in late 2017 of £0.3 billion; and (iii) favourable changes in longevity assumptions in 2017 of £0.3 billion. Surplus Generation for the year ended 31 December 2016 was £663.2 million, which was comprised: (i) ordinary Surplus Generation of £0.2 billion, and (ii) the positive impact of the Guardian Group Acquisition of £0.5 billion.

The decrease in Surplus Generation for the year ended 31 December 2018 as compared to the year ended 31 December 2017 was primarily due to the lack of acquisition impacts and favourable changes in longevity and mortality assumptions in 2018 as well as the incurrence of costs as described in the paragraph above. The increase in Surplus Generation for the year ended 31 December 2017 of £361.0 million, or 54.4 per cent., as compared to the year ended 31 December 2016 was due to more favourable market conditions and more favourable changes in longevity and mortality assumptions in 2017.

Liquidity and Capital Resources

Overview

The principal cash requirements of ReAssure and RML (together, the "**ReAssure Holding Companies**") are the payment of dividends to shareholders, the servicing of debt, contributions to the pension schemes and the payment of expenses. The principal sources of cash for the ReAssure Holding Companies are borrowings, dividends from operating subsidiaries and when required, equity contributions from shareholders.

The ReAssure Group's principal operating subsidiaries are ReAssure Limited, RUKSL and Ark Life (collectively the "**ReAssure Operating Subsidiaries**"). The ReAssure Operating Subsidiaries' principal sources of liquidity are saleable assets, cashflows, dividends received, revolving credit facilities, policyholder premiums, cash balances, net investment income received and proceeds from investments as they are repaid, redeemed or sold. The ReAssure Operating Subsidiaries principally use their liquidity to pay policyholder benefits (including withdrawals and surrender payments) and operating expenses, pay dividends, insurance stresses, the ReAssure Group's stressed derivative and reinsurance collateral requirement and to purchase investments.

The ReAssure Operating Subsidiaries are subject to various regulatory restrictions on the maximum amount of payments, including dividends, loans or cash advances that they may make to their shareholders. The amount of cash that the ReAssure Operating Subsidiaries may distribute to the ReAssure Holding Companies depends on the individual solvency position of each of the ReAssure Operating Subsidiaries. Cash may be distributed only to the extent that (i) the individual solvency positions of the ReAssure Operating Subsidiaries is positive and (ii) there is excess capital over and above an additional solvency buffer determined by the respective ReAssure Operating Subsidiary company's board, subject to any regulatory limitations imposed. The ReAssure Operating Subsidiaries are also required to maintain certain minimum levels of liquidity which can restrict their ability to pay dividends.

The ReAssure Group has a liquidity coverage ratio ("**LCR**") target of over 110 per cent. The ReAssure Group's LCR is calculated as sources of liquidity under stress over a twelve-month time horizon over uses of liquidity under stress over a twelve-month time horizon. If its LCR were to fall between 100 per cent and 110 per cent., the ReAssure Group would consider taking management actions, and if its LCR were to fall below 100 per cent., the ReAssure Group would take management actions to improve its LCR. The ReAssure Group is currently operating comfortably above its LCR target.

Cash flows

The ReAssure Group's consolidated cash flow statements prepared in accordance with IFRS for the six months ended 30 June 2019 and 2018 and the years ended 31 December 2018, 2017 and 2016 reflect cash flows relating both to policyholders and to shareholders.

The following table summarises the ReAssure Group's cash flows for six months ended 30 June 2019 and 2018 and the years ended 31 December 2018, 2017 and 2016.

	For the six months ended 30 June		For the year ended 31 December		
	2019	2018	2018	2017	2016
			(£ million)		
Cash flows from operating activities					
Cash from operating activities	(835.8)	73.0	94.8	1,169.3	71.9
Taxation paid	(7.6)	(171.2)	(188.7)	(130.2)	(19.6)
Net cash (used in)/ from operating activities	**(843.4)**	**(98.2)**	**(93.9)**	**1,039.1**	**52.3**
Net cash used in financing activities					
Ordinary and preference share dividends paid	(519.0)	(921.0)	(921.0)	(891.0)	(346.0)
Capital contribution received from parent company	—	—	—	650.0	12.5
Issuance of subordinated and intercompany debt	970.0	—	—	—	—
Interest accrued on subordinated and intercompany debt	2.6	—	—	—	—
Net cash used in financing activities	**453.6**	**(921.0)**	**(921.0)**	**(241.0)**	**(333.5)**
Cash flows from investing activities					
Net purchase of property, plant and equipment	(1.0)	—	(1.7)	(5.6)	(3.7)
Acquisition of subsidiary	—	—	—	—	1,430.9
Net cash (used in)/ from investing activities	**(1.0)**	—	**(1.7)**	**(5.6)**	**1,427.2**
Net (decrease)/ increase in cash and cash equivalents	**(390.8)**	**(1,019.2)**	**(1,016.6)**	**792.5**	**1,146.0**
Cash and cash equivalents at the beginning of the year	2,137.6	3,151.5	3,151.5	2,349.1	1,163.5
Effect of exchange rate fluctuations on cash held	(0.4)	(0.6)	2.7	9.9	39.6
Cash and cash equivalents at the end of the period/year	**1,746.4**	**2,131.7**	**2,137.6**	**3,151.5**	**2,349.1**

Cash flows (used in)/from operating activities

Cash outflows from operating activities for the six months ended 30 June 2019 were £835.8 million as compared to cash inflows from operating activities of £73.0 million for the six months ended 30 June 2018. The change was primarily due to fair value losses on financial assets, offset by a smaller increase in insurance and investment contract liabilities.

Cash inflows from operating activities for the year ended 31 December 2018 were £94.8 million as compared to cash inflows from operating activities of £1,169.3 million for the year ended 31 December 2017. The change was primarily due to a reduction in the ReAssure Group's profit before tax in 2018 as compared to 2017, the purchase of a deferred acquisition cost asset in relation to the acquired business from the L&G Group and higher cash tax paid during 2018.

Cash inflows from operating activities for the year ended 31 December 2017 were £1,169.3 million, a £1,097.4 million increase, as compared to cash inflows of £71.9 million for the year ended 31 December 2016.

The increase was primarily due to timing differences between the sale of policyholder assets in the fourth quarter of 2017 and the reinvestment or use of those proceeds in 2018, which resulted in higher cash inflows from operating activities in 2017 as compared to 2016 which did not have the same timing effect.

Cash flows (used in)/from financing activities

Cash inflows from financing activities for the six months ended 30 June 2019 were £453.6 million, principally reflected the ReAssure Reorganisation, including the issuance of the ReAssure Subordinated Notes offset in part by the payment of a dividend.

Cash outflows from financing activities for the year ended 31 December 2018 were £921.0 million and principally reflected dividend payments in that year as a result of the ReAssure Group applying its historical dividend payment policy.

Cash outflows from financing activities for the year ended 31 December 2017 were £241.0 million and principally reflected dividend payments being higher than capital contributions. Such dividends were paid as a result of the ReAssure Group applying its historical dividend payment policy and the capital contribution received was in relation to the L&G Transaction.

Cash outflows from financing activities for the year ended 31 December 2016 were £333.5 million and principally reflected dividend payments being higher than the capital contributions received in cash, the proceeds of which were used to pay transaction expenses in relation to the Guardian Group Acquisition.

Cash flows (used in)/from investing activities

Cash outflows from investing activities for the six months ended 30 June 2019 were £1.0 million and principally reflected the net purchases of property, plant and equipment.

Cash outflows from investing activities for the year ended 31 December 2018 were £1.7 million and principally reflected the net purchases of property, plant and equipment.

Cash outflows from investing activities for the year ended 31 December 2017 were £5.6 million and reflected the net purchase of property, plant and equipment.

Cash inflows from investing activities for the year ended 31 December 2016 were £1,427.2 million and principally reflected the net cash position acquired from the Guardian Group companies.

Retirement benefit schemes

ReAssure operates two defined benefit schemes, the RSPS and the PRT which are both closed to future accruals. A defined contribution scheme is operated by RUKSL, a subsidiary undertaking. ReAssure has an unconditional right to the return of any surplus in the RSPS 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 ReAssure's IFRS balance sheet.

Future funding requirements are determined by the outcome of the triennial scheme valuation for the RSPS which was last performed at 31 December 2017. The PRT is not subject to the Pensions Regulator's review and therefore is not required to undergo a triennial scheme valuation. The Trustee's primary funding objective is the statutory funding objective, which is to have sufficient and appropriate assets to cover the RSPS' technical provisions (the amount that the Trustee has determined to be required to make provision for the RSPS' liabilities).

The most recent actuarial valuation for the RSPS was undertaken as at 31 December 2017, where the deficit was £59.0 million. The ReAssure Group has ring-fenced funds totalling £42 million in a security account that has been set up to support the RSPS, and has committed to fund a further £17 million into the security fund on 29 March 2019 to ensure that the monies in the security account fully match the deficit. The next actuarial valuation for the RSPS is scheduled to take place on 31 December 2020.

As at 30 June 2019, the IAS 19 valuation of the ReAssure Group's defined benefit pension schemes showed a deficit of £1.0 million for the RSPS and a deficit of £1.8 million for the PRT.

The table below details the net position of the pension assets and liabilities for the RSPS recorded on the balance sheet for the six months ended 30 June 2019 and the years ended 31 December 2018, 2017 and 2016.

	For the six months ended 30 June	For the years ended 31 December		
	2019	2018	2017	2016
	(£ million)			
Net surplus/(net liability) recognised on the balance sheet	(1.0)	15.1	(8.6)	(41.1)

Regulatory Capital Requirements

Solvency II is the regulatory regime applicable to the insurance industry that sets the prudential capital requirements in the EU, including associated Implementing Technical Standards and guidelines, which became effective on 1 January 2016. Solvency II introduced a holistic approach to group supervision with a single group supervisor responsible for supervising all risks related to entities within a group, including intra-group transactions, changes to group structure and risk concentrations.

Solvency Capital Requirements

Solvency II introduced a risk-sensitive SCR, which can be calculated using a Standard Formula ("**Standard Formula**"), a regulatory approved internal model or a combination of both (a "**PIM**") and requires insurers and reinsurers to hold capital in relation to all quantifiable risks with a confidence level of 99.5 per cent.

In December 2018, the PRA approved the ReAssure Group to use its PIM to calculate the ReAssure Group's SCR on both a solo basis for ReAssure Limited and for the ReAssure Group. The calculation of the capital requirements under the PIM comprises two components—an internal model calculation for the assets associated with the ReAssure Non-Profit Fund, including a number of items such as the pension fund and the use of the Standard Formula for the calculation of the SCR for its with-profit funds and the risk transfer for the acquired business from the L&G Group. As a result, the ReAssure Group's Solvency II report for the year ended 31 December 2018 has been prepared on the basis that the PIM will provide a more accurate determination of the risks run by the ReAssure Group with respect to the ReAssure Non-Profit Fund (which relates to its non-linked and unit-linked products).

Since Solvency II was introduced in 2016, the ReAssure Group has maintained a Solvency II Surplus ("**Solvency II Surplus**") where its Own Funds were more than sufficient to cover its SCR at all times. The ReAssure Group's Own Funds differ materially from IFRS equity for a number of reasons, including the recognition of future shareholder transfers from the with-profit funds and future management charges on investment contracts, the treatment of certain subordinated debt instruments as capital items, and a number of valuation differences, most notably with regard to insurance liabilities and intangible assets. The SCR is calibrated so that the likelihood of a loss exceeding the SCR is less than 0.5 per cent. over one year. This ensures that capital is sufficient to withstand a broadly "1 in 200-year event" and is calculated in accordance with the ReAssure Group's PIM. Management actions which could be undertaken to restore the Own Funds level above SCR in a stress scenario include market risk hedging, further longevity swaps, reinsurance, issuance of hybrid debt, deferral or reduction in shareholder dividends, sale of business lines and/or portfolios, review of future planned management actions, review of outsourcing arrangements and equity issuance.

The ReAssure Group's Solvency II Surplus (on a regulatory basis) as at 31 December 2018, 2017 and 2016 was as follows:

	As at 31 December		
	2018	2017	2016
	(£ million, except percentages)		
Total Own Funds[(1)]	3,685.6[(2)]	3,865.3	3,327.6
Comprised of:			
Unrestricted Tier 1	3,581.6	3,865.3	3,327.2
Tier 2	—	—	—
Tier 3	104.0[(3)]	—	0.4
SCR[(4)(5)]	2,851.4[(2)(6)]	3,122.5[(7)]	2,764.2[(7)]
Solvency II Surplus	834.3[(2)]	742.8	563.4
Solvency II ratio (post dividend)[(8)]	129%[(2)]	124%	120%

Notes:

(1) Own Funds (on a shareholder capital basis) as at 31 December 2018, 2017 and 2016, would have been £3,535.0 million, £3,676.1 million and £3,116.6 million, respectively.

(2) The following table reconciles the ReAssure Group's regulatory position to its shareholder Solvency II capital ratio for the year ended 31 December 2018:

	Own Funds	SCR	Solvency II ratio (post dividend)	Solvency II Surplus
	(£ million, except percentages)			
Regulatory position	3,686	2,851	129%	834
Less: with profits	151	151	—	—
Shareholder view	3,535	2,701	131%	834

(3) Relates to the ReAssure Group's deferred tax assets.

(4) SCR (on a shareholder capital basis) as at 31 December 2018, 2017 and 2016, would have been £2,700.8 million, £2,933.3 million and £2,553.2 million, respectively.

(5) The table below sets forth the split of the ReAssure Group's SCR (on a regulatory basis net of the loss absorbing capacity of technical provisions) by risk module as at 31 December 2018, 2017 and 2016:

	As at 31 December		
	2018[(a)]	2017[(b)]	2016[(b)]
	(£ million)		
Market risks	1,698.6	2,290.2	2,089.0
Life risks	1,700.0	1,673.7	1,462.9
Health risks	—	36.9	38.6
Default risk	251.8	31.7	38.3
Migration risk	487.0	—	—
Diversification	(1,690.7)	(830.6)	(757.2)
Operational risk	547.5	124.3	120.3
Loss absorbing capacity of deferred tax	(142.8)	(203.6)	(227.7)
Total	**2,851.4**	**3,122.5**	**2,764.2**

(a) Calculated using the PIM.

(b) Calculated using the Standard Formula.

(6) Calculated using the PIM (for the ReAssure Non-Profit Fund) and the Standard Formula (for the ReAssure With-Profit Funds).

(7) Calculated using the Standard Formula

(8) Solvency II ratio (on a shareholder capital basis) as at 31 December 2018, 2017 and 2016, would have been 131 per cent., 125 per cent. and 122 per cent., respectively.

The ReAssure Group's Solvency II ratio (on a shareholder capital basis) (post dividend) was 122 per cent. and 125 per cent. in 2016 and 2017, respectively, reflecting the strong capital position of the ReAssure Group. The ReAssure Group's Solvency II ratio (on a shareholder capital basis) (post dividend) increased to 131 per cent. in 2018, reflecting the net impacts of positive Surplus Generation, changing capital requirements and the dividend payment.

As part of the ReAssure Group's internal risk management processes and regulatory requirements, its regulatory capital requirements are tested against a number of financial scenarios. In addition, the ReAssure Group also undertakes scenario testing where the impact of a range of adverse market and other credit risk and life and health movements are quantified via the construction of a number of consistent scenarios. Each of these scenarios is designed to test the impact of a number of adverse factors occurring at the same time. The results of this stress testing shows that the scenarios that have the most adverse impact on the balance sheet typically involve adverse financial market movements (interest rates, equity markets and credit events) and improvements in longevity. The results of that stress testing are provided below and demonstrate the resilience of the ReAssure Group Solvency II ratio (on a shareholder capital basis):

	As at 31 December 2018(1)(2)
	(movement in %)
Base: 31 December 2018	130.9
25 per cent. fall in GBP rates	2.8
1 per cent. credit spread widening	1.5
25 per cent. fall in property values	(0.9)
10 per cent. change in lapse rates(3)	(2.0)
40 basis-point fall in interest rates	(4.6)
25 per cent. fall in equity markets(4)	(5.7)
5 per cent. decrease in annuitant mortality rate(5)	(9.8)

Notes:

(1) Figures based on disclosure with TMTP recalculation.

(2) The table is not calculated on a Post-L&G Illustrative Basis, although the economics of the L&G Transaction are largely included given that the RTA has been in effect since January 2018.

(3) Assumes most onerous impact of a 10 per cent. increase/decrease in lapse rates across different product groups.

(4) Assumes hedging in relation to asset values and foreign exchange remains in place and expands in line with the business plan.

(5) Equivalent of four months' increase in longevity applied to the annuity portfolio.

Long Term Guarantee Measures under Solvency II

In calculating its Solvency II regulatory capital, the ReAssure Group has approval from the PRA to apply three adjustments, which help to mitigate volatility arising from financial and market conditions to the ReAssure Group's regulatory balance sheet.

The first is a Matching Adjustment to certain long-term liabilities that are closely matched by an assigned matching adjustment portfolio of assets of equivalent nature, term and currency. Under Solvency II, insurers are required to calculate the value of their liabilities using a risk-free interest rate, which is determined by and is based on the prevailing swap curve. The Matching Adjustment is an upward adjustment to the risk-free rate where insurers hold certain long-term assets with cash flows that match the duration, currency and profile of the liabilities, which partially mitigates the sensitivity of the balance sheet to changes in the market prices of assets held in the ReAssure Group's Matching Adjustment portfolio. The Matching Adjustment provides a material mitigation to movement in credit spreads on corporate bonds and movement in gilts not reflected by movement in the prevailing swap curve that are allocated to the Matching Adjustment portfolio. The adjustment is determined by the yield of the allocated asset portfolio less the risk-free rate and the "fundamental spread", which reflects the expected default and downgrade risk of the Matching Adjustment portfolio. The "fundamental spread" is determined by the EIOPA in accordance with its published guidelines. The Matching Adjustment is subject to strict criteria and ongoing compliance in relation to maintenance of close matching, asset and liability characteristics and segregation of the management of the assigned Matching Adjustment portfolios.

The second adjustment that the ReAssure Group applies is a Volatility Adjustment to most of its index-linked annuities in payment and some other liabilities to which a Matching Adjustment has not already been applied. The Volatility Adjustment is also an upward adjustment to the risk-free rate, which is published monthly by the EIOPA and is based on a representative portfolio of assets rather than the actual asset portfolio held by the insurer and is therefore not as responsive to credit spread movements as the Matching Adjustment. The purpose of the Volatility Adjustment is to prevent the requirement for market-consistent valuation of assets and liabilities under Solvency II from dis-incentivising insurers from investing in assets that it would otherwise be appropriate for the insurer to hold, considering the nature and duration of their insurance liabilities. The Volatility Adjustment aims to mitigate 'artificial' balance sheet volatility caused by short-term market volatility in the value of assets by allowing insurers to reflect movements to those asset prices within the market-consistent valuation of the corresponding liabilities.

The third adjustment that the ReAssure Group applies is a deduction to the technical provisions, otherwise known as TMTP, which is used to smooth the transition from the Solvency I Directive ("**Solvency I**") to Solvency II. Solvency II increased the regulatory capital and reserving requirements on the ReAssure Group and TMTP corresponds to the difference between the net technical provisions computed in accordance with Solvency II principles and those computed in accordance with Solvency I principles. This adjustment is subject to a financial resources requirement test to ensure that the TMTP does not lead to an overall lower level of financial resources requirement under Solvency II than would have been the case under Solvency I. The TMTP deduction can also be recalculated to reflect changes in market conditions, such as interest rate and credit spread movements, where these changes impact the Solvency II and Solvency I balance sheet differently. For example, risk margin is sensitive to interest rate movements and it does not appear on the Solvency I balance sheet and credit spread movements on assets outside the Matching Adjustment portfolio would reduce Solvency I liabilities but not Solvency II, and as a result, the TMTP deduction will provide some mitigation in those instances. However, such mitigation is not complete or automatic as market movements may in isolation be insufficient to trigger a recalculation of TMTP.

TMTP is to be phased out over a period ending on 1 January 2032, and is subject to mandatory recalculation every two years, or sooner where there is a material change to the risk profile of the business. An application to the PRA is required to recalculate TMTP following a change in risk profile that meets the specified criteria for a recalculation application.

The following table shows the effect of the Matching Adjustment, Volatility Adjustment and TMTP on the ReAssure Group's Own Funds (on a regulatory basis) and SCR as at 31 December 2018, 2017 and 2016.

	As at 31 December					
	2018		2017		2016	
	Total Own Funds	SCR(1)	Total Own Funds	SCR(2)	Total Own Funds	SCR(2)
	(£ million)					
With Matching Adjustment........	3,685.6	2,851.4	3,865.3	3,122.5	3,327.6	2,764.2
Without Matching Adjustment...	2,598.5	4,496.0	2,944.8	3,739.6	2,094.2	3,245.2
With Volatility Adjustment	3,685.6	2,851.4	3,865.3	3,122.5	3,327.6	2,764.2
Without Volatility Adjustment ...	3,624.5	2,868.2	3,819.4	3,140.1	3,171.1	2,806.7
With TMTP	3,685.6	2,851.4	3,865.3	3,122.5	3,327.6	2,764.2
Without TMTP	3,028.0	2,949.7	3,480.6	3,198.4	2,879.9	2,852.5

Notes:

(1) Calculated using the PIM (for the ReAssure Non-Profit Fund) and the Standard Formula (for the ReAssure With-Profit Funds).

(2) Calculated using the Standard Formula.

Minimum Capital Requirement

The MCR is intended to be the minimum amount of capital an insurer is required to hold under Solvency II below which policyholders and beneficiaries would become exposed to an unacceptable level of risk if the insurer was allowed to continue its operations.

MCR is calculated according to a formula prescribed by Solvency II and is subject to a floor of 25 per cent. of the SCR or £3.7 million, whichever is higher, and a cap of 45 per cent. of the SCR. The prescribed formula is based on factors applied to technical provisions and capital at risk. The ReAssure Group's MCR as at 31 December 2018 was £693.3 million. The ReAssure Group's Own Funds as at 31 December 2018 was £3,685.6 million, leaving an excess of Own Funds over MCR of £2,992.3 million, which translates into a ratio of total Own Funds to MCR of 531.6 per cent.

Description of Certain Indebtedness

ReAssure Tier 2 Notes and ReAssure Tier 3 Subordinated Notes

On 13 June 2019, ReAssure issued the ReAssure Tier 2 Subordinated Notes to SRFJL. Part of the proceeds from the issuance of the ReAssure Tier 2 Subordinated Notes were used to pay part of the Swiss Re Dividend. On 23 July 2019, the ReAssure Tier 2 Subordinated Notes were admitted to the Official List and to trading on the PSM. Following such listing, the ReAssure Tier 2 Subordinated Notes were sold by

SRFJL to third party investors. The ReAssure Tier 2 Subordinated Notes constitute direct, subordinated and unsecured obligations of ReAssure. On a winding-up of ReAssure or in the event that an administrator of ReAssure is appointed and gives notice that it intends to declare and distribute a dividend or other distributions of assets of ReAssure, the claims of the holders of the ReAssure Tier 2 Subordinated Notes will rank junior to the claims of all senior creditors of ReAssure and the ReAssure Tier 3 Subordinated Notes. Unless previously redeemed or purchased and cancelled, the ReAssure Tier 2 Subordinated Notes are scheduled to mature on 13 June 2029, subject to and in accordance with their terms. The ReAssure Tier 2 Subordinated Notes do not give the holders any early redemption rights.

On 13 June 2019, ReAssure issued the ReAssure Fixed Rate Reset Callable Tier 2 Subordinated Notes to SRFJL. Part of the proceeds from the issuance of the ReAssure Fixed Rate Reset Callable Tier 2 Subordinated Notes were used to pay part of the Swiss Re Dividend. On 23 July 2019 the ReAssure Fixed Rate Reset Callable Tier 2 Subordinated Notes were admitted to the Official List and to trading on the PSM. Following such listing the ReAssure Fixed Rate Reset Callable Tier 2 Subordinated Notes were sold by SRFJL to third party investors. The ReAssure Fixed Rate Reset Callable Tier 2 Subordinated Notes constitute direct, subordinated and unsecured obligations of ReAssure. On a winding-up of ReAssure or in the event that an administrator of ReAssure is appointed and gives notice that it intends to declare and distribute a dividend or other distributions of assets of ReAssure, the claims of the holders of the ReAssure Fixed Rate Reset Callable Tier 2 Subordinated Notes will rank junior to the claims of all senior creditors of ReAssure and the ReAssure Tier 3 Subordinated Notes. The ReAssure Fixed Rate Reset Callable Tier 2 Subordinated Notes are callable by ReAssure after 5 years. Unless previously redeemed or purchased and cancelled, the ReAssure Fixed Rate Reset Callable Tier 2 Subordinated Notes are scheduled to mature on 13 June 2029, subject to and in accordance with their terms. The ReAssure Fixed Rate Reset Callable Tier 2 Subordinated Notes do not give the holders any early redemption rights.

On 13 June 2019, ReAssure issued the ReAssure Tier 3 Subordinated Notes to SRFJL. Part of the proceeds from the issuance of the ReAssure Tier 3 Subordinated Notes were used to pay part of the Swiss Re Dividend. On 15 August 2019, the ReAssure Tier 3 Subordinated Notes were admitted to the Official List and to trading on the PSM. Following such listing the ReAssure Tier 3 Subordinated Notes were sold by SRFJL to third party investors. The ReAssure Tier 3 Subordinated Notes constitute direct, subordinated and unsecured obligations of ReAssure. On a winding-up of ReAssure or in the event that an administrator of ReAssure is appointed and gives notice that it intends to declare and distribute a dividend or other distributions of assets of ReAssure, the claims of the holders of the ReAssure Tier 3 Subordinated Notes will rank junior to the claims of all senior creditors of ReAssure and senior to the ReAssure Tier 2 Notes. Unless previously redeemed or purchased and cancelled, the ReAssure Tier 3 Subordinated Notes are scheduled to mature on 13 June 2026, subject to and in accordance with their terms. The ReAssure Tier 3 Subordinated Notes do not give the holders any early redemption rights.

Taken together the ReAssure Subordinated Notes will have an annual interest cost of £53,790,000.

ReAssure Revolving Credit Facility

On 6 June 2019, ReAssure entered into the ReAssure RCF with Barclays Bank PLC, BNP Paribas (Suisse) SA, HSBC Bank plc, Lloyds Bank plc and NatWest Markets Plc as mandated lead arrangers and as original lenders and Lloyds Bank plc as agent, which was amended on 19 August 2019. The ReAssure RCF became available for drawing on 20 August 2019 and was made available for the ReAssure Group's general corporate and working capital purposes in various currencies.

Contractual Commitments and Contingencies

The principal contractual commitments that the ReAssure Group incurs in the ordinary course of business, are in relation to investment contract liabilities and insurance contract liabilities. Investment contract policyholders have the option to terminate or transfer their contracts at any time and in return receive the surrender or transfer value of their policies. Although these commitments are presented in the table as all being due within three months, the ReAssure Group does not expect all these amounts to be paid out within one year of the reporting date.

The following table is a maturity analysis (as of 31 December 2018) of liability cash flows based on contractual maturity dates for investment contract liabilities and expected claim dates for insurance contracts. The undiscounted cash flows of discretionary participating investment contracts only include amounts vested or to be vested, while their carrying amount includes reserves that are payable at the discretion of the ReAssure Group.

	No contractual maturity date	Less than 1 Year	Between one and five years	More than five years	Total	Carrying Value
			(£ million)			
Financial Liabilities						
Financial liabilities under unit-linked investment contracts	—	2,058.2	3,233.7	12,069.4	**17,361.3**	17,361.3
Financial liabilities under non-profit investment contracts	—	22.9	—	—	**22.9**	22.9
Financial liabilities under investment with DPF	—	147.6	540.8	1,480.0	**2,168.4**	2,168.4
Claims outstanding	254.9	—	—	—	**254.9**	254.9
Deposits received from reinsurers	—	9.1	32.7	78.7	**120.5**	103.9
Lease liabilities	—	1.8	3.9	1.9	**7.6**	6.1
Other financial liabilities	—	—	—	79.5	**79.5**	79.5
Total	254.9	2,239.6	3,811.1	13,709.5	**20,015.1**	19,997.0

In addition, the ReAssure Group issued the ReAssure Subordinated Notes on 13 June 2019 and entered into the ReAssure RCF on 6 June 2019, which was amended on 19 August 2019 and became available for drawing on 20 August 2019, as identified in "*Description of Certain Indebtedness*" above. See Note 49 in Part B of Part VIII ("*Financial Information of the ReAssure Group*").

The ReAssure Group is not a party to any other material non-cancellable commitment.

Off-balance sheet arrangements

The ReAssure Group is not a party to any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Contingent Liabilities

In the normal course of business, the ReAssure Group is exposed to certain legal issues, which involve litigation and arbitration. As at 30 June 2019, the ReAssure Group has a number of contingent liabilities in this regard, none of which is considered by the ReAssure Group to be material.

For a discussion of the ReAssure Group's contingent liabilities see Note 35 in Part B of Part VIII ("*Financial Information of the ReAssure Group*") of this document.

Quantitative and Qualitative Disclosures about Market Risks

Market risk

The ReAssure Group defines market risk as the risk of loss arising from holding a portfolio of positions and contracts, due to market changes impacting the economic value of the portfolio. Market risk therefore refers to the risk that the fair value of future cash flows of the ReAssure Group's financial instruments will fluctuate because of changes in market conditions. These changes may arise in several forms including:

- Regular or stressed movement in market observable parameters such as equity prices, or interest rate levels; regular or stressed movement in parameters used for financial modelling such as volatility or correlation; and
- Regular or stressed movement in market observable credit variables such as credit spreads or recovery assumptions.

The ReAssure Group is exposed to market risk through its assets and liabilities. Movements in financial market prices or rates, such as equity prices, interest rates, credit spreads, foreign exchange rates or real estate prices, affect the value of these assets and liabilities. The ReAssure Group is exposed to market risks from two main sources: through its investment activities and through the sensitivity of the economic value of liabilities to financial market fluctuations. The three most material risks which the ReAssure Group may be subject to are movements in credit spreads, interest rates and equity prices. These movements may arise owing to factors specific to the individual instrument or its issuer, or to factors affecting all similar financial instruments in the market. The materiality of these risks was assessed based on the contribution each risk factor has on the ReAssure Group's post-diversified SCR and also the impact that each risk has on the Solvency II Surplus.

Interest rate risk

Interest rate risk is defined as the impact of movement in the risk-free yield curve on the ReAssure Group's assets, liabilities and capital requirements. Interest rate risk arises primarily from investments in fixed interest securities. In addition to the extent that claims costs are related to interest rates, liabilities to policyholders are exposed to interest rate risk. Non-profit insurance and investment contracts have benefit payments that are fixed at the inception of the contract. The ReAssure Group's primary financial risk on these contracts is that the interest income and capital redemptions from the financial assets backing the liabilities are insufficient to fund the policy benefits payable.

Therefore, changes in interest rates will impact the cash flows available to meet liabilities as they fall due. Movements in market interest rates affect the liabilities of the ReAssure Group as well as the assets. Investment policy is designed to limit the amount of any mismatch between the two, when interest rates fluctuate. The ReAssure 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 ReAssure Investment Committees.

Equity price risk

Equity price risk is the risk of losses due to variations in the value of equity assets. The majority of the ReAssure Group's exposure to equity risk arises through the charges it incurs from its unit-linked funds under external asset management. The ReAssure Group has additional exposure through its direct holding of equity investments via shareholder transfers from the with-profit funds and in relation to the RSPS. Equity futures are used to hedge some of the ReAssure Group's equity risk arising on charges under unit-linked policies.

The ReAssure Group is exposed to equity price risk in its with-profit funds through its holdings in equity investments to the extent that they are not matched by liabilities to policyholders. Exposure to individual companies and to equity shares in aggregate are monitored by the ReAssure Investment Committees in order to ensure compliance with the relevant regulatory limits for solvency purposes. Equities listed and traded in the UK are benchmarked against the relevant equity index. Equities listed overseas are benchmarked against appropriate overseas indices.

Credit spread risk

The ReAssure Group defines credit spread risk as the risk of losses on assets and liabilities due to changes in the value of credit spreads. The ReAssure Group is exposed to the widening of credit spreads in its 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 risk is the ReAssure Group's largest single market risk. The majority of the ReAssure Group's credit spread exposure arises from its non-linked products, as the ReAssure Group's unit-linked funds and RSPS do not materially contribute to its overall exposure. The ReAssure Group's exposure is monitored by its ReAssure Investment Committees as well as the ReAssure Group's risk management department who monitor and report ReAssure's exposure to the board of directors of ReAssure and the ReAssure Group's risk committee through monthly and quarterly risk and solvency reports. This regular reporting ensures that the ReAssure Group is operating in line with its risk appetite framework, which was established in order to control the ReAssure Group's credit spread exposure.

The ReAssure Group mitigates a significant amount of its credit spread exposure by matching its long-term liabilities with fixed interest assets. By holding all assets in the Matching Adjustment portfolio to maturity, the ReAssure Group is able to mitigate its credit spread exposure as the ReAssure Group's assets and liabilities are protected from fluctuating credit spreads.

Foreign exchange risk

Foreign exchange risk is defined as the risk of loss from the movements in foreign exchange rates which cause the value of the ReAssure Group's foreign denominated assets and liabilities to change resulting in a loss. The ReAssure Group is exposed to foreign exchange risk owing to its investments denominated in foreign currencies or via charges on its non-pound sterling equity investments in its managed unit-linked funds. It also has a small exposure through foreign denominated liabilities.

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

Outside the unit-linked funds, the ReAssure Group has limited foreign currency denominated investments and as a result it is not exposed to significant risk.

Reinvestment risk

Reinvestment risk is defined as the risk that the ReAssure Group will be unable to reinvest its cashflow (for example bond coupon payments) at rates comparable to those of their current investments. The ReAssure Group is exposed to reinvestment risk if it does not hold assets with maturity profiles long enough to match the expected duration of its liabilities. Reinvestment risk can potentially exist across the ReAssure Group's business, however, due to the close matching position of assets and liabilities that the ReAssure Group holds, and because maturities occur over an extended period of time thus reducing the likelihood of a large reinvestment requirement occurring at a particular point in time, reinvestment risk is largely immaterial and therefore is not a factor recognised in the PIM.

Selected sensitivity analysis

Interest rate movements, credit risk under corporate bonds and annuitant mortality

The impact on the consolidated income statement and equity attributable from changes to interest rates, credit risk under corporate bonds and annuitant mortality is set out in the table below. Five scenarios are considered (i) a uniform rise of 1.00 per cent. (2017: 1.00 per cent., 2016: 1.00 per cent.) in fixed-interest yields; (ii) a uniform fall of 1.00 per cent. (2017: 1.00 per cent., 2016: 1.00 per cent.) in fixed interest yields; (iii) a uniform rise of 1.00 per cent. (2017: 1.00 per cent., 2016: 1.00 per cent.) in credit spreads; (iv) an increase of 10 per cent. in expenses (2017: 10 per cent; 2016: 10 per cent.); and (v) a reduction of 5.00 per cent. (2017: 5.00 per cent., 2016: 5.00 per cent.) in the base mortality rate used to value annuities-in-payment.

	Interest rate rise	Interest rate fall	Credit spreads rise	Increase of 10% in expenses	Reduction of 5% in mortality (annuities)
2018			(£ million)		
Change in shareholder equity	58.4	(96.8)	(115.0)	(87.3)	(221.4)

	Interest rate rise	Interest rate fall	Credit spreads rise	Increase of 10% in expenses	Reduction of 5% in mortality (annuities)
2017			(£ million)		
Change in shareholder equity	96.4	(164.5)	(118.8)	(76.3)	(221.6)

	Interest rate rise	Interest rate fall	Credit spreads rise	Increase of 10% in expenses	Reduction of 5% in mortality (annuities)
2016			(£ million)		
Change in shareholder equity	(19.4)	(45.3)	(301.4)	(81.1)	(216.6)

The impact on the consolidated income statement and 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 per cent. (2017:20 per cent., 2016: 20 per cent.) in worldwide equity prices; (ii) a uniform fall of 20 per cent. (2017: 20 per cent., 2016: 20 per cent.,) in worldwide equity prices; (iii) a rise in inflation of 0.50 per cent. (2017: 0.50 per cent., 2016: 0.50 per cent.); (iv) a reduction of 20 per cent. (2017: 20 per cent., 2016: 20 per cent.) in property prices; and (v) a 20 per cent. fall in sterling relative to other foreign currencies (2017: 20 per cent., 2016: 20 per cent).

	Equity rise +20%	**Equity fall -20%**	**Inflation +0.5%**	**Property -20%**	**GBP +20%**
2018			**(£ million)**		
Change in shareholder equity	(15.3)	15.3	(43.4)	(0.9)	(11.3)

	Equity rise +20%	**Equity fall -20%**	**Inflation +0.5%**	**Property -20%**	**GBP +20%**
2017			**(£ million)**		
Change in shareholder equity	(20.3)	(20.3)	(41.7)	(7.3)	(15.6)

	Equity rise +20%	**Equity fall -20%**	**Inflation +0.5%**	**Property -20%**	**GBP +20%**
2016			**(GBP millions)**		
Change in shareholder equity	(11.3)	11.3	(63.5)	(8.9)	(8.2)

Critical Accounting Policies

For a description of the ReAssure Group's critical accounting judgments and key sources of estimation uncertainty, see Note 2 in Part B of Part VIII ("*Financial Information of the ReAssure Group*") of this document.

PART XI — UNAUDITED *PRO FORMA* IFRS FINANCIAL INFORMATION OF THE ENLARGED GROUP

PART A: *PRO FORMA* IFRS FINANCIAL INFORMATION

The unaudited *pro forma* IFRS income statement and unaudited *pro forma* IFRS statement of net assets of the Enlarged Group (together, the "**Unaudited *Pro Forma* IFRS Financial Information**") set out below have been prepared in accordance with Annex 20 of Commission Delegated Regulation (EU) 2019/980 and on the basis of the notes set out below. The unaudited *pro forma* IFRS income statement has been prepared to illustrate the effect on the earnings of the Company as if: (i) the proposed Acquisition (including, in respect of ReAssure, the L&G Transaction and the OMW Acquisition); (ii) the associated financing; and (iii) the SLA Acquisition had taken place on 1 January 2018. The unaudited *pro forma* IFRS statement of net assets has been prepared to illustrate the effect on the net assets of the Company as if the proposed Acquisition (including, in respect of ReAssure, the L&G Transaction and the OMW Acquisition) and the associated financing had taken place on 30 June 2019. The Unaudited *Pro Forma* IFRS Financial Information has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and does not, therefore, represent the Company's or the Enlarged Group's actual financial position or results. The Unaudited *Pro Forma* IFRS Financial Information is stated on the basis of the IFRS accounting policies expected to be adopted by the Company in preparing its consolidated financial statements for the year ended 31 December 2019.

Unaudited *pro forma* statement of consolidated IFRS income for the Enlarged Group for the year ended 31 December 2018

				***Pro forma* adjustments for the Group**					
	Phoenix Note 1	**Adjustments to Phoenix Note 2**	**ReAssure Note 3**	**OMW Note 4**	**Adjustments to conform disclosures Note 5**	**Pre-Completion adjustments Note 6**	**Financing adjustments Note 7**	**Acquisition adjustments Note 8**	***Pro forma* total**
					(£ million)				
Gross premiums written	2,645	1,284	447	146	—	—	—	—	4,522
Less premiums ceded to reinsurers	(481)	(28)	(403)	(87)	—	—	—	—	(999)
Net premiums written	**2,164**	**1,256**	**44**	**59**	**—**	**—**	**—**	**—**	**3,523**
Fees and commissions	385	393	184	69	—	—	—	(11)	1,020
Total revenue, net of reinsurance payables	**2,549**	**1,649**	**228**	**128**	**—**	**—**	**—**	**(11)**	**4,543**
Net investment income	(9,600)	2,155	(1,200)	(767)	—	—	—	—	(9,412)
Other operating income	37	19	35	—	—	—	—	—	91
Gain on acquisition	141	—	—	—	—	—	—	—	141
Net income	**(6,873)**	**3,823**	**(937)**	**(639)**	**—**	—	**—**	**(11)**	**(4,637)**
Policyholder claims	(5,295)	(2,688)	(1,866)	(86)	—	—	—	—	(9,935)
Less: reinsurance recoveries	866	307	462	59	—	—	—	—	1,694
Change in insurance contract liabilities	4,768	994	2,090	(109)	—	—	—	—	7,743
Change in reinsurers' share of insurance and contract liabilities	(20)	(338)	(131)	103	—	—	—	—	(386)
Transfer to unallocated surplus	88	41	26		—	—	—	—	155
Net policyholder claims and benefits incurred	**407**	**(1,684)**	**581**	(33)	**—**	**—**	—	—	**(729)**
Change in investment contract liabilities	7,975	(1,475)	878	771	—	—	—	—	8,149
Change in present value of future profits	1	—	—	—	—	—	—	—	1
Amortisation of acquired in-force business	(196)	(196)	—	—	(34)	—	—	(249)	(675)
Amortisation and impairment of other intangibles	(18)	(2)	—	—	—	—	—	—	(20)
Commission expenses	—	—	—	(32)	32	—	—	—	—
Change in deferred acquisition costs	—	—	—	(21)	21	—	—	—	—
Administrative expenses	(1,056)	(439)	(410)	(46)	(19)	(18)	—	68	(1,920)
Net income under arrangements with reinsurers	2	20	—	—	—	—	—	—	22

	Phoenix Note 1	Adjustments to Phoenix Note 2	ReAssure Note 3	*Pro forma* adjustments for the Group OMW Note 4	Adjustments to conform disclosures Note 5	Pre-Completion adjustments Note 6	Financing adjustments Note 7	Acquisition adjustments Note 8	*Pro forma* total
					(£ million)				
Net expense attributable to unitholders	159	—	—	—	—	—	—	—	159
Total operating expenses	**7,274**	**(3,776)**	**1,049**	**639**	—	(18)		(181)	**4,987**
Profit before finance costs and tax	**401**	**47**	**112**	—	—	(18)		(192)	**350**
Finance costs	(142)	—	(7)	—	—	—	(60)	—	(209)
Profit before tax	**259**	**47**	**105**	—	**—**	(18)	(60)	(192)	**141**
Tax credit attributable to policyholders' returns	211	(17)	9	98	—	—	—	—	301
Profit before tax attributable to owners	**470**	**30**	**114**	**98**	**—**	(18)	(60)	(192)	**442**
Tax credit/(charge)	151	(49)	(13)	89	—	7	11	24	220
Add: tax attributable to policyholders' returns	(211)	17	(9)	(98)	—	—	—	—	(301)
Tax credit/(charge) attributable to owners	**(60)**	**(32)**	**(22)**	**(9)**	**—**	7	11	**24**	**(81)**
Profit for the year attributable to owners	**410**	**(2)**	**92**	**89**	**—**	(11)	**(49)**	(168)	**361**
Attributable to:									
Owners of the parent	379	(2)	92	89	—	(11)	(49)	(168)	330
Non-controlling interests	31	—	—	—	—	—	—	—	31

Notes:

Note 1—The financial information for Phoenix has been extracted, without material adjustment, from the Group's Annual Report and Accounts for the year ended 31 December 2018.

Note 2—The financial information for Phoenix includes the results of the acquired Standard Life Assurance businesses for a period of four months post completion of the SLA Acquisition on 31 August 2018. Adjustments have therefore been made to include the results of the acquired Standard Life Assurance businesses for the first eight months of the year ended 31 December 2018, based on the underlying financial records of the acquired entities.

Note 3—The financial information for the ReAssure Group has been extracted, without material adjustment, from the consolidated historical financial information as at and for the year ended 31 December 2018 included in Part B of Part VIII ("*Financial Information of the ReAssure Group*") of this document.

Note 4—The financial information for OMW has been extracted, without material adjustment, from the historical financial information as at and for the year ended 31 December 2018 included in Part A of Part IX ("*Financial Information of OMW*") of this document.

Note 5—This column reflects adjustments to align the presentation of the income statement of the ReAssure Group and for OMW to that of Phoenix as follows:

(a) Phoenix discloses the amortisation of acquired in-force business separately in the income statement, whereas the ReAssure Group discloses such amounts within "Administrative expenses". Accordingly a reclassification of £34 million has been made between "Administrative expenses" and "Amortisation of acquired in-force business".

(b) OMW discloses "Commission expenses" and "Change in deferred acquisition expenses" separately in the income statement, whereas Phoenix discloses these items within "Administrative expenses". Accordingly, reclassifications of £32 million and £21 million have been made from "Commission Expenses" and "Change in deferred acquisition expenses" respectively to "Administrative expenses".

Note 6—This column represents the following adjustments:

(a) An adjustment of £7 million has been made to "Administrative expenses" to reflect one-off transaction costs incurred in association with the OMW Acquisition.

(b) Adjustments of £11 million to "Administrative expenses" and a £7 million credit to "Tax credit/(charge) attributable to owners" have been made to reflect migration expenses associated with the L&G Transaction, net of the contribution from the L&G With Profit Fund, and as described in note 6(a) to the unaudited *pro forma* statement of IFRS net assets of the Enlarged Group.

Note 7—A charge of £60 million has been recognised in "Finance costs" to reflect the estimated annual interest charges calculated under the effective interest method and payable under the £1,200 million of hybrid capital instruments assumed to be entered into to finance part of the Acquisition (see Note 7(a) to the unaudited *pro forma* statement of IFRS net assets of the Enlarged Group). An associated tax credit of £11 million has been recognised within "Tax attributable to owners".

Note 8—This column represents the following adjustments:

(a) A charge of £40 million has been made to the line item "Administrative expenses" to reflect an estimate of the one-off transaction costs incurred. No tax relief is expected to be available on these expenses.

(b) As described in note 8(d) to the unaudited *pro forma* statement of IFRS net assets of the Enlarged Group, a fair valuation exercise of the assets and liabilities as at the date of Acquisition will be performed on Completion. This will include a fair valuation of the future cashflows associated with the in-force insurance contracts of the acquired entities. The resultant asset will be recognised as AVIF business in the statement of consolidated financial position.

Under the Group's accounting policy, AVIF is amortised over the estimated life of the contracts on a basis which recognises the emergence of the economic benefits. The estimated life of the contracts will not be known until completion of the fair valuation exercise, and therefore the actual amortisation rate will not be known until completion of the Acquisition.

In order to provide an indication of the effect of amortising the estimated AVIF asset and related deferred tax liability shown in the *pro forma* statement of net assets, an estimated annual amortisation charge of £283 million has been calculated on a straight line basis over 10 years. The estimated useful life of 10 years is based on an analysis of underlying management information with regards to the expected emergence of profits from the book of business.

This has resulted in the following adjustments:

(i) A £283 million charge within the line item "Amortisation of acquired value of in-force";

(ii) A £34 million credit to "Amortisation of acquired value of in-force" relating to the reversal of the charge recognised by the ReAssure Group pertaining to AVIF previously recognised;

(iii) A £108 million credit to "Administrative expenses" relating to the reversal of the amortisation of Deferred Acquisition Costs previously recognised by the ReAssure Group and OMW written off on acquisition and replaced by the AVIF asset;

(iv) A £11 million charge to "Fees and commissions" relating to the reversal of the amortisation of Deferred income previously recognised by the ReAssure Group and OMW; and

(v) A £24 million tax credit, representing the net tax impact of the items above.

Note 9—In preparing the unaudited *pro forma* IFRS income statement, no account has been taken of the amortisation of other intangibles other than AVIF arising on acquisition or items subject to fair value acquisition accounting, on the basis that the fair valuation exercise will be performed on Completion.

Note 10—As the reinsurance impact of the L&G Transaction is included in the financial information presented for the ReAssure Group, the impact of the L&G Transaction has not been separately included as an adjustment to the unaudited *pro forma* statement of consolidated income for the Enlarged Group.

Note 11—The adjustments described in notes 7 and 8 (i) (and the related tax impacts) to the unaudited *pro forma* income statement will have a continuing impact.

Note 12—In preparing the unaudited *pro forma* IFRS income statement, no account has been taken of the trading activity or other transactions of the Group, the Reassure Group, the L&G Business or OMW since 31 December 2018.

Summary unaudited *pro forma* statement of IFRS net assets of the Enlarged Group as at 30 June 2019

				***Pro forma* adjustments for the Group**					
	Phoenix As at 30 June 2019 Note 1	**ReAssure Group As at 30 June 2019 Note 2**	**L&G Part VII Transfer As at 31 Dec 2018 Note 3**	**OMW As at 31 Dec 2018 Note 4**	**Adjustments to conform disclosures Note 5**	**Pre-Completion adjustments Note 6**	**Financing adjustments Note 7**	**Acquisition adjustments Note 8**	***Pro forma* total**
						(£ million)			
Assets									
Pension Scheme asset	284	—	—	—	—	—	—	—	284
Intangible Assets:									
—Goodwill	57	—	—	—	—	—	—	—	57
—Acquired in-force business	3,841	419	67	—	—	615	—	1,729	6,671
—Deferred acquisition costs	—	554	61	63	—	(615)	—	(63)	—
—Other intangibles	215	—	—	—	—	—	—	—	215
	4,113	973	128	63	—	—	—	1,666	6,943
Deferred tax	—	42		—	—	—	—	—	42
Property, plant and equipment	116	17		—	—	—	—	—	133
Investment property	6,184	811	1,175	—	—	—	—	—	8,170
Financial Assets:				—					
—Loans and deposits	4,216	901		—	—	—	—	—	5,117
—Derivatives	4,607	10	62	—	—	—	—	—	4,679
—Equities	57,639	14,555	7,738	—		—	—	—	79,932
—Investment in associates	512	—	—	—	—	—	—	—	512
—Debt securities	73,633	19,869	6,096	173	—	—	—	—	99,771
—Collective investment schemes	71,581	5,443	13,027	9,940	—	—	—	—	99,991
—Reinsurers' share of investment contract liabilities	5,603	—	563	1,672	—	—	—	—	7,838
	217,791	40,778	27,486	11,785	—	—	—	—	297,840
Insurance Assets:									
—Reinsurers' share of insurance contract liabilities	7,642	1,879	—	490	—	—	—	—	10,011
—Reinsurance receivables	41	112	—	—	—	—	—	—	153
—Insurance contract receivables	59	19	2	—	—	—	—	—	80
	7,742	2,010	2	490		—	—	—	10,244
Current tax	92	—	51	23	21	—	—	—	187
Prepayments and accrued income	563	313	71	1	—	—	—	—	948

	Phoenix As at 30 June 2019 Note 1	ReAssure Group As at 30 June 2019 Note 2	L&G Part VII Transfer As at 31 Dec 2018 Note 3	OMW As at 31 Dec 2018 Note 4	*Pro forma* adjustments for the Group: Adjustments to conform disclosures Note 5	Pre-Completion adjustments Note 6	Financing adjustments Note 7	Acquisition adjustments Note 8	*Pro forma* total
						(£ million)			
Other receivables	1,763	416	160	29	(21)	—	—	—	2,347
Cash and cash equivalents	5,218	1,746	314	87	—	(562)	1,190	(1,240)	6,753
Total assets	**243,866**	**47,106**	**29,387**	**12,478**	—	**(562)**	**1,190**	**426**	**333,891**
Liabilities									
Pension Scheme liabilities	1,746	3	—	—	—	—	—	—	1,749
Insurance Contract Liabilities:									
—Liabilities under insurance contracts	96,315	21,766	5,510	602	—	(49)	—	—	124,144
—Unallocated surplus	1,413	158	638	—	—	—	—	—	2,209
	97,728	21,924	6,148	602	—	(49)	—	—	126,353
Financial Liabilities:									
—Investment contracts	119,877	20,968	22,845	11,239	—	—	—	—	174,929
—Borrowings	2,171	973	—	—	—	—	1,190	—	4,334
—Deposits received from reinsurers	4,384	104	—	—	—	—	—	—	4,488
—Derivatives	816	120	62	—	—	—	—	—	998
—Net asset value attributable to unit holders	3,520	—	—	—	—	—	—	—	3,520
—Obligations for repayment of collateral received	3,559	—	—	—	—	—	—	—	3,559
	134,327	22,165	22,907	11,239	—	—	1,190	—	191,828
Provisions	318	17	1	35	—	64	—	—	435
Deferred tax	867	—	75	19	—	—	—	408	1,369
Reinsurance payables	109	40	—	—	—	—	—	—	149
Payables related to direct insurance contracts	976	29	164	—	257	—	—	—	1,426
Current tax	44	108	—	8	—	—	—	—	160
Accruals and deferred income	356		4	31	7	—	—	(38)	360
Claims outstanding		257	—	—	(257)	—	—	—	—
Lease liabilities	74				5	—	—	—	79
Other payables	1,530	444	105	158(5)		—	—	—	2,232
Deferred revenue	—	7	—	—	(7)	—	—	—	—
Total liabilities	**238,075**	**44,994**	**29,404**	**12,092**	—	**15**	**1,190**	**370**	**326,140**
Net assets attributable to owners of the parent	5,007	2,112	(17)	386	—	(577)	—	56	6,967
RT1 Notes	494	—	—	—	—	—	—	—	494
Non-controlling interests	290	—	—	—	—	—	—	—	290

Notes:

Note 1—The financial information for Phoenix has been extracted, without material adjustment, from Phoenix's Interim Report for the six months ended 30 June 2019.

Note 2—The financial information for the ReAssure Group has been extracted, without material adjustment, from the consolidated historical financial information as at and for the six months ended 30 June 2019 included in Part A of Part IX ("*Financial Information of the ReAssure Group*") of this document.

Note 3—The financial information has been extracted, without material adjustment, from information provided by the L&G Group based on the discontinued operations note of the L&G Group financial statements for the year ended 31 December 2018 relating to the acquired mature savings business. The amounts included for the acquired mature savings business of the L&G Group reflect the currently expected perimeter with regards to the business that will be transferred. These assumptions may change before the L&G Transaction is completed.

Note 4—The financial information for OMW has been extracted, without material adjustment, from the historical information as at and for the year ended 31 December 2018 included in Part A of Part IX ("*Financial Information of OMW*") of this document.

Note 5—This column reflects adjustments to align the presentation of the ReAssure Group, the L&G Group and Quilter statement of net assets with that of the Group:

(a) The ReAssure Group discloses Claims Outstanding separately in the statement of net assets, whereas Phoenix discloses such amounts within "Payables related to direct insurance contracts". Accordingly a reclassification of £257 million has been made between "Claims Outstanding" and "Payables related to direct insurance contracts".

(b) Phoenix discloses Lease liabilities separately in the statement of net assets, whereas the ReAssure Group discloses such amounts within "Other payables". Accordingly a reclassification of £5 million has been made between "Other payables" and "Lease liabilities".

(c) The ReAssure Group discloses Deferred revenue separately in the statement of net assets, whereas Phoenix discloses such amounts within "Accruals and deferred income". Accordingly a reclassification of £7 million has been made between "Deferred revenue" and "Accruals and deferred income".

Note 6—This column represents the following adjustments:

(a) The following adjustments have been made in respect of the L&G Transaction:

(i) Acquired in-force business and deferred acquisition costs adjustment:

The ReAssure Group's existing DAC asset relates to the £650 million purchase price of the L&G Business and its associated amortisation to 30 June 2019. This price was calculated using a discounted cashflow model using the internal rate of return required by the ReAssure Group. Upon completion of the L&G Transaction, this DAC will be written off to nil and replaced by an acquired in-force business asset. The DAC balance of £61 million, which is being transferred with the L&G Business will also be replaced by an acquired in-force business asset. A full exercise to determine whether this balance will be any different to the DAC asset will be undertaken on completion of the L&G Transaction. The calculation of these adjustments is set out below:

	Total
	£'m
Total ReAssure standalone DAC	**554**
DAC balance transferred with L&G Business	61
DAC balance assumed to equal acquired in-force business within the Enlarged Group	(615)
Total DAC balance post Part VII Transfer	—

(ii) Reduction in Expense Provision:

Prior to the L&G Transaction, the L&G Group carried out all administration related to the acquired policies and incurred the expenses of doing so, but in return were paid management charges by ReAssure Limited. Once the L&G Transaction is complete, ReAssure Limited will administer the contracts directly and will therefore directly incur the expenses and not be required to pay any charges to the L&G Group. This saving results in a reduction in the expense provision on an IFRS basis of £49 million. This is lower than the increase in surplus on a solvency basis due to the IFRS expense provision only being required for insurance contract liabilities and not investment contract liabilities.

(iii) Other balance sheet impacts of the L&G Transaction:

After completion of the L&G Transaction asset management services for the acquired mature savings business will be provided by the L&G Group and hence fees will be subject to VAT that were previously exempt from charge. An additional provision of £60 million is made for all future VAT payments using a projection of existing management fees multiplied by the rate of VAT. In addition, management expects to incur £61 million of migration expenses. The L&G With-Profit Fund has agreed to contribute £50 million towards these migration costs and creation of the management services agreement to protect the with-profit policyholders from increases to future expenses other than inflation. The adjustment is set out as follows:

	Total
	£'m
VAT on future asset management services	60
Migration expenses	61
L&G Group's contribution to migration expenses	(50)
Net tax impact of migration expenses	(7)
Total *Pro Forma* provision adjustment	**64**

(b) OMW declared and paid a dividend in March 2019 of £90 million. An adjustment of £(90) million has been made to "Cash and cash equivalents" to reflect the payment of the dividend.

(c) Under the terms of the OMW SPA:

(i) OMW paid a dividend of £40 million prior to completion of the OMW Acquisition by the ReAssure Group. An adjustment of £(40) million has been made to "Cash and cash equivalents" to reflect the payment of the dividend; and

(ii) The ReAssure Group agreed to pay a total consideration of £425 million to acquire OMW. An adjustment of £(425) million has been made to "Cash and cash equivalents" to reflect payment of the consideration. The consideration is subject to interest for the period from 1 January 2019 to the date of completion of the OMW Acquisition, resulting in final consideration payable of approximately £446 million at 31 December 2019.

Note 7—The total consideration is £3,200 million and will be met through the issuance to Swiss Re (or a nominated member of the Swiss Re Group) of consideration shares in the Enlarged Group with a value of £2,000 million and cash consideration of £1,200 million. The number of Acquisition Shares to be issued by Phoenix to Swiss Re (or a nominated member of the Swiss Re Group) has been determined using a 30 day VWAP up to and including the date of signing of the Share Purchase Agreement of 721.3 pence, representing 27.8 per cent of the enlarged Phoenix share capital following completion of the Acquisition. The cash consideration is assumed to be financed through the gross proceeds of a £1,200 million issuance of hybrid capital instruments. The actual amount of hybrid capital issued by Phoenix to finance the cash consideration will depend on a number of factors, including market conditions and the implementation of management actions undertaken to reduce the Enlarged Group's SCR. This results in the following financing adjustment:

(a) An adjustment of £1,190 million has been made to "Borrowings" and to "Cash and Cash Equivalents" to reflect the borrowings under the assumed £1,200 million issuance of hybrid capital instruments, net of associated expenses of £10 million.

Note 8—This column represents the following adjustments:

(a) An adjustment of £40 million has been made to "Cash and cash equivalents" to reflect provision for estimated one-off transaction costs. No tax relief is expected to be available on these expenses.

(b) Payment of the cash consideration of £1,200 million results in a decrease in "Cash and Cash Equivalents" of that amount.

(c) Under IFRS 3 Business Combinations, it is a requirement to fair value the consideration paid and all assets and liabilities acquired as at the acquisition date. This fair valuation exercise will not be performed until Completion, and therefore no adjustments have been made to the fair values of the individual assets and liabilities of ReAssure, the L&G Business or OMW when preparing the unaudited *pro forma* statement of net assets, with the exception of AVIF as per note 8(d) below.

(d) A significant adjustment arising from the fair value exercise is expected to be the valuation of the future cashflows associated with the in-force insurance contracts of ReAssure, the L&G Business and OMW and the subsequent recognition of an AVIF asset.

Whilst the fair value of the of the projected cashflows will not be known until completion of the acquisition accounting exercise, an indication of the AVIF to be recognised on Completion is provided below.

	(£ million)
Total consideration	**3,200**
Less IFRS value of the net assets acquired:	
Value of the IFRS net assets of ReAssure group	(2,112)
Value of the IFRS net assets of the L&G Business	17
Value of the IFRS net assets of OMW	(386)
Value of the IFRS net assets of the pre-completion adjustments	577
	(1,904)
Adjusted to derecognise intangible items currently recognised in those entities, which will be written off on acquisition:	
Value of deferred acquisition costs, net of related deferred tax, included within the net assets of the above entities	47
Value of the AVIF, net of related deferred tax, recognised in the above entities	1,044
Value of deferred income liabilities, net of related deferred tax, included within the net assets of the above entities	(38)
	1,053
Indicative AVIF, net of deferred tax	2,349
Gross up for deferred tax at 17 per cent.	481
Indicative AVIF	2,830

The value of the IFRS net assets of the ReAssure Group, the L&G Business and OMW in the table above have been stated after reflecting the pre-Completion adjustments described in Note 6 and the adjustments detailed in Note 8(c).

As such, the following adjustments have been made in the unaudited *pro forma* statement of net assets:

(i) an adjustment of £1,729 million has been recognised to "Acquired in-force business", reflecting the recognition of the indicative AVIF of £2,830 million as calculated above, offset by the write-off of existing AVIF balances currently recognised in the acquired entities of £1,101 million (gross of tax);

(ii) adjustments of £63 million and £38 million have been made to "Deferred acquisition costs" and "Accruals and deferred income" to reflect the removal of the acquired entity Deferred acquisition costs asset and Deferred income liability, as these amounts are replaced by the value of the AVIF upon acquisition; and

(iii) an adjustment of £408 million has been made to the caption "Deferred tax" to reflect the difference between the deferred tax liability of £481 million arising on the indicative AVIF balance as calculated above (using a tax rate of 17 per cent., reflecting future reductions in corporate tax rates where enacted in legislation) and the removal of a £73 million deferred tax liability recognised in respect of the Deferred acquisition costs and AVIF previously recognised in the acquired entities.

(e) No other adjustments have been made to the fair values of assets and liabilities acquired, including the recognition of goodwill or other intangible assets, as the necessary remeasurements will not be known until Completion.

Note 9—In preparing the unaudited *pro forma* IFRS net asset statement, no account has been taken of the trading activity or other transactions of the Group and ReAssure since 30 June 2019, and for the L&G Business and OMW since 31 December 2018.

PART B: ACCOUNTANT'S REPORT IN RELATION TO THE *PRO FORMA* IFRS FINANCIAL INFORMATION

Building a better working world

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17 January 2020

Dear Sirs,

We report on the unaudited *pro forma* IFRS financial information (the "***Pro Forma* IFRS Financial Information**") set out in Part A of Part XI ("*Unaudited Pro Forma* IFRS Financial Information of the Enlarged Group") of the combined prospectus and class 1 circular dated 17 January 2020 (the "**Prospectus**"), which has been prepared on the basis described in the notes to the unaudited *Pro Forma* IFRS Financial Information, for illustrative purposes only, to provide information about how (i) the acquisition by Phoenix Group Holdings plc (the "**Company**") of ReAssure Group plc ("**ReAssure**"), including ReAssure's acquisitions of the mature savings business of the L&G Assurance Society Limited group and Old Mutual Wealth Life Assurance Limited, (ii) the associated financing and (iii) the Company's acquisition of Standard Life Assurance Limited, might have affected the financial information presented on the basis of the accounting policies to be adopted by the Company in preparing the IFRS financial statements for the year ended 31 December 2019. This report is required by Section 3 of Annex 20 of Commission Delegated Regulation (EU) 2019/980 and is given for the purpose of complying with that item and for no other purpose.

Save for any responsibility arising under Prospectus Regulation Rule 5.3.2R(2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 1.3 of Annex 1 to Commission Delegated Regulation (EU) 2019/980 and Listing Rule 13.4.1R (6), consenting to its inclusion in the Prospectus.

Responsibilities

It is the responsibility of the directors of the Company to prepare the *Pro Forma* IFRS Financial Information in accordance with Sections 1 and 2 of Annex 20 of Commission Delegated Regulation (EU) 2019/980.

It is our responsibility to form an opinion, as required by Section 3 of Annex 20 of the Commission Delegated Regulation (EU) 2019/980, as to the proper compilation of the *Pro Forma* IFRS Financial Information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the *Pro Forma* IFRS Financial Information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the *Pro Forma* IFRS Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the *Pro Forma* IFRS Financial Information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

- the *Pro Forma* IFRS Financial Information has been properly compiled on the basis stated; and
- such basis is consistent with the accounting policies of the Company.

Declaration

For the purposes of Prospectus Regulation Rule 5.3.2R(2)(f) we are responsible for this report as part of the Prospectus and declare that, to the best of our knowledge, the information contained in this report is in accordance with the facts and that the report contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with item 1.2 of Annex 1 of Commission Delegated Regulation (EU) 2019/980.

Yours faithfully

Ernst & Young LLP

PART XII — UNAUDITED *PRO FORMA* SOLVENCY INFORMATION OF THE ENLARGED GROUP

PART A: *PRO FORMA* SOLVENCY INFORMATION

The unaudited *pro forma* statement of Group Solvency II Surplus of the Enlarged Group (the "**Unaudited *Pro Forma* Solvency Information**") set out below has been prepared in accordance with Annex 20 of Commission Delegated Regulation (EU) 2019/980 and on the basis of the notes set out below. The Unaudited *Pro Forma* Solvency Information has been prepared to illustrate the effect on the Group solvency position at the level of Phoenix as if the proposed Acquisition (including, in respect of ReAssure, the L&G Transaction and the OMW Acquisition) and the associated financing had taken place on 30 September 2019. The Unaudited *Pro Forma* Solvency Information has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and does not, therefore, represent the Company or the Enlarged Group's actual financial position, results or solvency position. The Unaudited *Pro Forma* Solvency Information is stated on the Company's basis of Solvency II reporting (the "**Solvency Accounting Policies**") **expected to be applied by the Company for the year ending 31 December 2019.**

The ReAssure Group has regulatory approval to calculate its solvency capital requirements in accordance with its own PIM. The preparation of the unaudited *pro forma* solvency information for the Enlarged Group has been completed using Method 2. Under this method, the ReAssure Group will continue to calculate its solvency capital requirements in accordance with its existing PIM. The use of Method 2 is subject to approval at the discretion of the PRA. The Group intends to make the relevant application to use Method 2 ahead of Completion.

The Group will seek the approval of the PRA to harmonise to a single Enlarged Group Internal Model in the future and to incorporate the ReAssure Group within that model. Any such approval to use a single Enlarged Group Internal Model will also be within the discretion of the PRA.

Unaudited *pro forma* statement of Enlarged Group Solvency II Surplus as at 30 September 2019

				Pro forma adjustments				
	Phoenix Note 1	**ReAssure Note 2**	**L&G Note 3**	**OMW Note 4**	**Pre-Completion adjustments Note 5**	**Financing adjustments Note 6**	**Acquisition adjustments Note 7**	***Pro forma* Enlarged Group total**
Own Funds *(£ billion)*	11.4	4.8	0.5	0.4	(0.5)	1.2	(1.2)	16.6
Solvency Capital Requirement *(£ billion)*	(8.4)	(3.3)	(0.4)	(0.3)	—	—	—	(12.4)
Solvency II Surplus *(£ billion)*	3.0	1.5	0.1	0.1	(0.5)	1.2	(1.2)	4.2
Regulatory Coverage Ratio	136%	—	—	—	—	—	—	134%
Shareholder Capital Coverage Ratio *(Note 8)*	156%	—	—	—	—	—	—	148%

Notes:

Note 1—The solvency information for Phoenix has been extracted, without material adjustment, from the Phoenix Q3 Trading Update, as at 30 September 2019.

Note 2—The solvency information for ReAssure has been extracted from the underlying management schedules used to prepare regulatory returns for the ReAssure Group as at 30 September 2019, as adjusted to assume a dynamic recalculation of TMTP, thereby stating on a consistent basis with the Solvency Accounting Policies.

Note 3—The solvency information for the L&G Business as at 31 December 2018 has been extracted from management information prepared on a Standard Formula basis relating to the L&G Business. A breakdown of additional surplus on a regulatory basis over and above that included under the Risk Transfer Agreement ('RTA') is as follows:

	Own Funds (£ billion)	**Solvency Capital Requirement (£ billion)**	**Solvency II Surplus (£ billion)**
a) Impact of Part VII Transfer on cost base	0.2	—	0.2
b) Provision for VAT on investment expenses	(0.1)	—	(0.1)
c) Migration of L&G With-Profit Fund:			
Removal of RTA With-Profit Fund elements	(0.3)	0.1	(0.2)
Addition of L&G With-Profit Fund	0.7	(0.5)	0.2
	0.5	**(0.4)**	**0.1**

(a) Prior to the L&G Transaction, the L&G Group carried out all administration related to the acquired policies and incurred the expenses of doing so, but in return were paid management charges by ReAssure Limited. Once the L&G Transaction is complete, ReAssure Limited will administer the contracts directly and will therefore directly incur the expenses and not be required to pay any charges to the L&G Group. As a result, Own Funds and Solvency II Surplus will increase by £0.2 billion which represents the reduction in cost base and hence decrease in the Solvency II expense provision.

Separately the SCR decreases as a result of the lower expense risk component of the SCR.

This results in an increase in Solvency II Surplus of £0.2 billion. This surplus is subject to tax but the tax leads to a reduction in the SCR of an equivalent amount so no further adjustment is required.

(b) After the L&G Transaction, asset management services for the acquired mature savings business will be provided by the L&G Group and hence fees that were previously exempt will now be subject to VAT. An additional provision of £0.1 billion, which reduces Own Funds by the same amount, is therefore made for all future VAT payments using a projection of existing management fees multiplied by the rate of VAT.

(c) At the date of the L&G Transaction, the L&G With-Profit Fund elements of the RTA will be cancelled and replaced with the L&G With-Profit Fund.

(i) Removal of the RTA results in (1) a decrease in Own Funds of £0.3 billion and (2) an increase in the SCR of £0.1 billion. The change in Own Funds includes an increase in the Best Estimate Liability ("**BEL**") of £0.2 billion, and a reduction in Transitional Provisions of £0.1 billion.

In relation to (1) the decrease in Own Funds of £0.3 billion:

(A) The BEL is the present value of shareholders' transfers grossed up for tax in accordance with the RTA.

(B) The change in Transitional Provision arises because under the ReAssure approach the solvency capital for the shareholders' transfers is held in the ReAssure Non-Profit Fund for Solvency I Pillar II but in its With–Profit Funds for Solvency II. Although Solvency II capital reduces in the ReAssure Non-Profit Fund with cancellation of the RTA Solvency I Pillar II, capital does not and hence the Transitional Provision is reduced.

(C) The Risk Margin change is not significant as most of the SCR for the shareholders' transfers is market related which does not affect the risk margin calculation.

(D) There is a small reduction in the deferred tax liability following the cancellation of the with-profits elements of the RTA. It is also recalculated to reflect that the savings business element will be taxed as basic life assurance and general annuity business in future.

(ii) The addition of the L&G With-Profit Fund results in an increase of Own Funds of £0.7 billion and an increase in the SCR of £0.5 billion. The net impact on Solvency II Surplus is £0.2 billion, which is equivalent to the value of shareholders' transfers net of tax.

(d) As noted in note 6(a) to the *pro forma* statement of IFRS net assets, the L&G With-Profit Fund has agreed to contribute £50 million towards the migration costs and creation of the management services agreement to protect the with-profit policyholders from increases to future expenses. The migration expenses are budgeted to be £61 million. After deducting the tax impact of £7 million, the net impact to Own Funds is £(4) million, given approximately half of the contribution is subject to tax.

These adjustments have been calculated using BEL information, cash flow and solvency capital projections provided by the L&G Group with an effective date of 31 December 2018. Risk Margin, Transitional Provisions and deferred tax liabilities reflect the ReAssure interpretation of the underlying source information and is reliant upon the accuracy of the data provided. The actual values at the date of completion of the L&G Transaction will differ from above reflecting economic and demographic experience between 31 December 2018 and the completion date of the L&G Transaction.

Note 4—The solvency information for OMW has been extracted, without material adjustment, from the OMW Solvency and Financial Condition Report, as at and for the year ended 31 December 2018.

Note 5—This column represents the following adjustments which reduce Own Funds by £0.5 billion:

(a) Under the terms of the OMW SPA:

(i) OMW paid a dividend of £40 million prior to completion of the OMW Acquisition by ReAssure. The £90 million dividend paid in March 2019 was considered foreseeable and was reflected in the OMW Own Funds as at 31 December 2018; and

(ii) ReAssure agreed to pay consideration of £425 million to acquire OMW. The consideration is subject to interest for the period from 1 January 2019 to the date of completion, resulting in final consideration payable of approximately £446 million at 31 December 2019.

Adjusting for the above items results in a reduction in Own Funds of £0.5 billion.

Note 6—The financing adjustments in connection with the Acquisition include the following item which impacts Own Funds. These adjustments have no impact on SCR:

(a) The assumed receipt of debt financing in the form of £1,200 million of hybrid capital instruments will increase the Own Funds by £1.2 billion as the hybrid capital instruments qualify as Own Funds under Solvency II. The actual amount of hybrid capital issued by Phoenix to finance the cash consideration will depend on a number of factors, including market conditions and the implementation of management actions undertaken to reduce the Enlarged Group's SCR.

Note 7—The acquisition adjustments comprise the following:

(a) The payment of the cash consideration reduces Own Funds by £1.2 billion. The cash consideration is calculated as the total consideration of £3.2 billion less the value of the share capital in the Group issued to Swiss Re (or a nominated member of the Swiss Re Group) of £2.0 billion. The number of Acquisition Shares to be issued by Phoenix to Swiss Re has been determined using a 30 day VWAP price up to and including the date of signing of the Share Purchase Agreement of 721.3 pence, representing 27.8% of the enlarged Phoenix share capital following completion of the Acquisition.

(b) Expenses incurred in association with the proposed Acquisition and the associated financing including the assumed issuance of £1,200 million of hybrid capital instruments will be borne by Phoenix and therefore decrease the Group Solvency II Surplus by £50 million.

Note 8—The Shareholder Capital Coverage Ratio represents the ratio of Own Funds to SCR, after elimination of amounts related to unsupported with profit funds and the PGL Pension Scheme. Unsupported with profit funds and pension schemes are those whose Own Funds exceed their SCR.

As detailed in the table below, the Group Own Funds of £11.4 billion and Group SCR of £8.4 billion include amounts in respect of unsupported with profit funds and the PGL Pension Scheme of £3.0 billion. Excluding these amounts gives a Group Shareholder Capital position of 8.4 billion of Own Funds, £5.4 billion of SCR and a ratio of 156 per cent. The Group Solvency II Surplus is unchanged at £3.0 billion.

The Group	**Base solvency**	**Unsupported with profit funds and PGL Pension Scheme**	**Shareholder Capital**
Own Funds *(£ billion)*	11.4	(3.0)	8.4
SCR *(£ billion)*	(8.4)	3.0	(5.4)
Solvency II Surplus *(£ billion)*	3.0	—	3.0
Shareholder Capital Coverage Ratio	—	—	156%

The ReAssure Group Own Funds of £4.8 billion include amounts in respect of unsupported with profit funds of £0.2 billion. The ReAssure Group SCR of £3.3 billion includes amounts in respect of unsupported with profit funds of £0.2 billion. Excluding these amounts gives a Shareholder Capital position for ReAssure Group of £4.6 billion of Own Funds, £3.1 billion of SCR and a ratio of 148 per cent. The ReAssure Group Solvency II Surplus is unchanged at £1.5 billion.

ReAssure Group	**Base solvency**	**Unsupported with profit funds and Pension Schemes**	**Shareholder Capital**
Own Funds *(£ billion)*	4.8	(0.2)	4.6
SCR *(£ billion)*	(3.3)	0.2	(3.1)
Solvency II Surplus *(£ billion)*	1.5	—	1.5
Shareholder Capital Coverage Ratio	—	—	148%

OMW does not have any unsupported with profit funds, and therefore no adjustments are required in order to disclose a Shareholder Capital position for this entity.

The adjustments detailed in Note 3 to reflect the L&G Transaction include Own Funds and SCR amounts of £0.4 billion pertaining to the L&G unsupported with-profit fund. These amounts are excluded in the *pro forma* Enlarged Group shareholder capital position.

The pre-Completion, financing and acquisition adjustments described in Notes 5, 6 and 7 all impact the Shareholder Capital position. The Enlarged Group Shareholder Capital position therefore comprises £13.0 billion of Own Funds, £8.8 billion of SCR and a Shareholder Capital Coverage Ratio of 148 per cent. The Shareholder Capital position for the Enlarged Group excludes Own Funds and SCR amounts of £3.6 billion in respect of unsupported with profit funds and the PGL Pension Scheme. The Enlarged Group's Solvency II Surplus of £4.2 billion is unchanged.

Enlarged Group	**Base Solvency II position**	**Unsupported with profit funds and PGL Pension Scheme**	**Shareholder Capital**
Own Funds *(£ billion)*	16.6	(3.6)	13.0
SCR *(£ billion)*	(12.4)	3.6	(8.8)
Solvency II Surplus *(£ billion)*	4.2	—	4.2
Shareholder Capital Coverage Ratio	—	—	148%

Note 9—In preparing the unaudited *pro forma* statement of Group Solvency II Surplus, no account has been taken of the trading activity or other transactions of the Group or ReAssure Group since 30 September 2019, and since 31 December 2018 for the L&G Group and OMW.

PART B: ACCOUNTANT'S REPORT IN RELATION TO THE *PRO FORMA* SOLVENCY INFORMATION

The Directors
Phoenix Group Holdings plc
Juxon House
100 St. Paul's Churchyard
London EC4M 8BU
United Kingdom

Ernst & Young LLP
25 Churchill Place
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E14 5EY

17 January 2020

Dear Sirs,

We report on the unaudited *pro forma* solvency information (the "***Pro Forma*** **Solvency Information**") set out in Part B of Part XII ("*Unaudited Pro Forma Solvency Information of the Enlarged Group*") of the combined prospectus and class 1 circular dated 17 January 2020 (the "**Prospectus**"), which has been prepared on the basis described in the notes to the unaudited *Pro Forma* Solvency Information, for illustrative purposes only, to provide information on the effect on the solvency position at the level of Phoenix Group Holdings plc (the "**Company**") of (i) the acquisition of ReAssure Group plc ("**ReAssure**"), including ReAssure's acquisitions of the mature savings business of the L&G Assurance Society Limited group and Old Mutual Wealth Life Assurance Limited and (ii) the associated financing. The *Pro Forma* Solvency Information is presented on the Solvency II reporting basis expected to be adopted by the Company for the period ending 31 December 2019 (the "**Solvency Accounting Policies**"). This report is required by Section 3 of Annex 20 of Commission Delegated Regulation (EU) 2019/980 and is given for the purpose of complying with that item and for no other purpose.

Save for any responsibility arising under Prospectus Regulation Rule 5.3.2R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 1.3 of Annex 1 to Commission Delegated Regulation (EU) 2019/980 and Listing Rule 13.4.1R (6), consenting to its inclusion in the Prospectus.

Responsibilities

It is the responsibility of the directors of the Company to prepare the *Pro Forma* Solvency Information in accordance with Sections 1 and 2 of Annex 20 of Commission Delegated Regulation (EU) 2019/980.

It is our responsibility to form an opinion, as required by Section 3 of Annex 20 of the Commission Delegated Regulation (EU) 2019/980, as to the proper compilation of the *Pro Forma* Solvency Information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the *Pro Forma* Solvency Information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the *Pro Forma* Solvency Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the *Pro Forma* Solvency Information has been properly compiled on the basis stated and that such basis is consistent with the Solvency Accounting Policies of the Company.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

- the *Pro Forma* Solvency Information has been properly compiled on the basis stated; and
- such basis is consistent with the Solvency Accounting Policies of the Company

Declaration

For the purposes of Prospectus Regulation Rule 5.3.2R (2)(f) we are responsible for this report as part of the Prospectus and declare that, to the best of our knowledge, the information contained in this report is in accordance with the facts and that the report contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with item 1.2 of Annex 1 of Commission Delegated Regulation (EU) 2019/980.

Yours faithfully

Ernst & Young LLP

PART XIII — TAXATION

The following statements do not constitute legal or tax advice and are intended only as a general guide to certain UK tax considerations relating to holding and disposing of Shares. The statements are based on current UK tax law as applied in England and Wales and HMRC published practice as at the date of this document and such provisions may be repealed, revoked or modified, possibly with retrospective effect. These statements are not intended to be exhaustive and do not purport to be a complete analysis of all UK tax consequences of holding or disposing of Shares.

The statements below relate only to holders of Shares who are and will be the absolute beneficial owners of his, her or its Shares and who are resident and, in the case of an individual, resident and domiciled in (and only in) the UK for tax purposes ("**UK resident**"), except insofar as express reference is made to the treatment of non-UK residents.

These statements may not apply to certain holders of Shares, such as (but not limited to) brokers or dealers in securities, insurance companies, collective investment schemes, tax exempt organisations, persons who receive dividends through an Individual Savings Account or Self Investment Personal Pension, persons who control or hold (either alone or together with one or more associated or connected persons) directly or indirectly, 10 per cent. or more of the shares and/or voting power of the Company, persons who hold Shares as part of hedging transactions, persons who are subject to tax on a split year basis, persons who hold their Shares as trading stock and not as investment and persons who have (or are deemed to have) acquired their Shares or will (or will be deemed to) acquire their Shares by virtue of an office or employment. Such persons may be subject to special rules.

Taxation of dividends

The Company will not be required to withhold tax when paying a dividend. Liability to tax on dividends will depend upon the individual circumstances of a Shareholder.

Individuals

An individual Shareholder who is resident for tax purposes in the UK will pay no tax on the dividends they receive from the Company to the extent that (taking into account any other dividend income received in the same tax year) such dividends falls within the dividend allowance of £2,000 (the "**Dividend Allowance**"). For these purposes "dividend income" includes the gross amount of any UK and non-UK source dividends and certain other distributions in respect of shares (including dividends on the Shares).

To the extent that (taking account of any other dividend income received by the individual Shareholder in the same tax year) the dividend exceeds the Dividend Allowance, it will be subject to income tax at 7.5 per cent. to the extent that it falls below the threshold for higher rate income tax. To the extent that (taking account of other dividend income received in the same tax year) it falls above the threshold for higher rate income tax then the dividend will be taxed at 32.5 per cent. to the extent that it is within the higher rate band, or 38.1 per cent. to the extent that it is within the additional rate band. For the purposes of determining which of the taxable bands dividend income falls into, dividend income is treated as the highest part of an individual Shareholder's income. In addition, dividends within the nil rate band which would (if there was no nil rate band) have fallen within the basic or higher rate bands will use up those bands respectively for the purposes of determining whether the threshold for higher rate or additional rate income is exceeded.

Companies

Shareholders who are within the charge to UK corporation tax which are "small companies" (for the purposes of UK taxation of dividends) will not generally be subject to UK corporation tax on dividends on the Shares, provided certain conditions are met.

Other Shareholders who are within the charge to UK corporation tax will prima facie be subject to UK corporation tax on any dividends on the Shares unless certain conditions for exemption are satisfied. Although each Shareholder's position will depend on its own individual circumstances, and subject to anti-avoidance rules, the exemption is of wide application and such Shareholders will therefore generally not be subject to UK corporation tax on the dividend.

If the conditions for exemption are not met (or cease to be satisfied), or a Shareholder elects for an otherwise exempt dividend to be taxable, the Shareholder will be subject to UK corporation tax on dividends received from the Company at the rate of corporation tax applicable to that Shareholder (currently 19 per cent.).

UK resident exempt Shareholders

UK resident Shareholders who are not liable to UK tax on dividends, including exempt pension funds and charities, are not entitled to any tax credit in respect of dividends paid by the Company.

Non-UK resident Shareholders

No tax credit will attach to any dividend paid by the Company. A Shareholder resident outside the UK may also be subject to non-UK taxation on dividend income under local law. A Shareholder who is resident outside the UK for tax purposes should consult his or her own tax adviser concerning his or her tax position on dividends received from the Company.

Taxation of chargeable gains

A disposal or deemed disposal of Shares by a Shareholder may, depending on the Shareholder's circumstances and subject to any available exemption or relief, give rise to a chargeable gain or an allowable loss for the purposes of UK taxation of chargeable gains.

Individuals

An individual Shareholder has a UK capital gains tax ("**CGT**") annual exemption (£12,000 for the 2019/2020 tax year) and so will only be subject to CGT to the extent his or her total chargeable gains in the year exceed this annual exemption.

The rate of CGT will depend on the individual Shareholder's total taxable income and gains in the relevant tax year. Gains arising on a disposal or deemed disposal of Shares by a UK resident individual Shareholder will be subject to CGT at the rate of: (i) 10 per cent. (2019/2020) for individuals who are subject to income tax at the basic rate (rising to 20 per cent. on any amount above the basic rate band); and (ii) 20 per cent. (2019/2020) for individuals who are subject to income tax at the higher or additional rates.

Companies

For a Shareholder within the charge to UK corporation tax, a disposal or deemed disposal of Shares may give rise to a chargeable gain or an allowable loss for the purposes of UK corporation tax, subject to any available exemptions, reliefs or allowances. The main rate of UK corporation tax is currently 19 per cent.

Stamp duty and SDRT

The following comments are intended as a general guide to the current UK stamp duty and SDRT position, and apply regardless of whether or not a Shareholder is resident in the UK. It should be noted that certain categories of person, including market makers, brokers, dealers, and other specified market intermediaries, are entitled to exemption from stamp duty and SDRT in respect of purchases of securities in specified circumstances.

Issue of Shares

No stamp duty or SDRT will generally be payable on the issue of the Shares.

Subsequent transfers and agreements to transfer

Stamp duty at the rate of 0.5 per cent. (rounded up to the next multiple of £5) of the amount or value of the consideration given will generally be payable on an instrument transferring Shares. The liability to pay stamp duty is generally satisfied by the purchaser or transferee. An exemption from stamp duty is available on an instrument transferring Shares where the amount or value of the consideration is £1,000 or less, and it is certificated on the instrument that the transaction effected by the instrument does not form part of a larger transaction or series of transactions for which the aggregate consideration exceeds £1,000.

A charge of SDRT will also arise on an unconditional agreement (or a conditional agreement which becomes unconditional) to transfer Shares (at the rate of 0.5 per cent. of the amount or value of the consideration payable). However, if within six years of the date of the agreement becoming unconditional, an instrument of transfer is executed pursuant to the agreement, and stamp duty is paid on that instrument which is duly stamped, any SDRT already paid will be refunded (generally, but not necessarily, with interest) provided that a claim for repayment is made, and any outstanding liability to SDRT will be cancelled. The liability to pay SDRT falls on the purchaser or transferee (although it may not always be accounted for by the purchaser or transferee in practice). In addition, certain persons (called 'accountable persons', such as brokers, dealers and custodians) may have further compliance and payment obligations in respect of SDRT.

From 29 October 2018, the transfer of listed securities to connected companies has been subject to stamp duty or SDRT on no less than the full market value of the listed securities at the time the charge to tax is triggered.

Shares transferred through paperless means including CREST

Paperless transfers of Shares, such as those occurring within CREST, are generally liable to SDRT rather than stamp duty, at the rate of 0.5 per cent. of the amount or value of the consideration. CREST is obliged to collect SDRT on relevant transactions settled within the system. The liability to pay SDRT falls on the purchaser (but as noted above, the tax may not always be accounted for by the purchaser in practice). Under the CREST system, no stamp duty or SDRT will generally arise on a transfer of Shares into the system unless such a transfer is made for a consideration in money or money's worth (although see above in respect of transfers of connected companies), in which case a liability to SDRT (usually at a rate of 0.5 per cent.) will arise.

Shares held through clearance systems or depositary receipt arrangements

Special rules apply where Shares are issued or transferred to, or to a nominee or agent for, either a person whose business is or includes issuing depositary receipts or a person providing a clearance service, under which SDRT or stamp duty may be charged at a rate of 1.5 per cent. On such issue or transfer (with subsequent transfers within the clearance service or transfers of depositary receipts then being free from stamp duty or SDRT). Following decisions of the CJEU and the First-Tier Tribunal, HMRC confirmed that they will no longer seek to apply the 1.5 per cent. SDRT charge on an issue of shares into a clearance service or depositary receipt arrangement on the basis that the charge is not compatible with EU law. This view has not yet been reflected in a change in UK tax legislation, but it was confirmed in the Autumn 2017 Budget that the Government intend to continue this approach following Brexit. HMRC's view has been that the 1.5 per cent. SDRT and stamp duty charge will continue to apply to issues of shares into a clearance service or depositary receipt arrangement unless they are an integral part of an issue of share capital. A further CJEU case has held that, in very limited circumstances, the 1.5 per cent. charge should not apply to certain transfers of legal title to a clearance service. **Accordingly, specific professional advice should be sought before incurring a 1.5 per cent. stamp duty or SDRT charge in any circumstances.**

THE DISCUSSION ABOVE IS A GENERAL SUMMARY. IT DOES NOT COVER ALL TAX MATTERS THAT MAY BE OF IMPORTANCE TO A PARTICULAR INVESTOR. ACCORDINGLY, EACH PROSPECTIVE INVESTOR IS URGED TO CONSULT ITS OWN TAX ADVISOR ABOUT THE TAX CONSEQUENCES TO IT OF AN INVESTMENT IN THE SHARES IN LIGHT OF THE INVESTOR'S OWN CIRCUMSTANCES.

PART XIV — TERMS OF THE ACQUISITION

1. PRINCIPAL TERMS OF THE SHARE PURCHASE AGREEMENT

1.1 Parties

On 6 December 2019, Phoenix (as buyer), Swiss Re (as seller) (the "**Seller**") and SRL (as guarantor) entered into a share purchase agreement (the "**Share Purchase Agreement**"). Under its terms, and subject to certain conditions, the entire share capital of ReAssure shall transfer to the Company.

1.2 Timing and conditions

While the Share Purchase Agreement was signed on 6 December 2019, the entire share capital of ReAssure shall transfer to the Company upon Completion. Completion cannot occur until each of the following conditions is satisfied (or waived by the agreement of the Company and Swiss Re under the terms of the Share Purchase Agreement):

(a) approval of the Acquisition (as a class 1 transaction under the Listing Rules) by a majority of votes cast by Shareholders at the General Meeting;

(b) actual or deemed consent from the PRA and the FCA for the acquisition of control of the PRA and/or FCA regulated entities within the ReAssure Group by the Company;

(c) actual or deemed consent from the CBI for the acquisition of control of Ark Life by the Company;

(d) actual or deemed consent from the PRA and the FCA for the acquisition of control of the PRA and/or FCA regulated entities within the Group, as a result of the issue of the Acquisition Shares to Swiss Re (or a nominated member of the Swiss Re Group) and transfer of part of the Acquisition Shares to MS&AD;

(e) actual or deemed consent from the CBI for the acquisition of control of the CBI regulated entity within the Group, as a result of the issue of the Acquisition Shares to Swiss Re (or a nominated member of the Swiss Re Group) and transfer of part of the Acquisition Shares to MS&AD; and

(f) actual or deemed antitrust clearance from the Competition and Consumer Protection Commission (Ireland) and no objection from the Competition and Markets Authority (United Kingdom).

If each of the conditions has not been satisfied (or waived) by 11.59 p.m. on the Long Stop Date then the Share Purchase Agreement will terminate and the Acquisition will not proceed.

Completion shall take place on the date falling seven Business Days after the date on which all of the conditions above are satisfied or waived (or at a date agreed by the parties).

1.3 Consideration

The total consideration for the Acquisition comprises of a series of components:

A fixed cash component of £1.2 billion. If Completion does not occur before 31 July 2020 then interest applies on the cash component (and the notional dividend amount described below) at a rate of 5 per cent. per annum with interest accruing from 31 July 2020 until Completion.

The Acquisition uses a locked box structure. This means that if leakage occurs (which is any value transfer from the ReAssure Group to Swiss Re or MS&AD after 30 September 2019) then the value of that leakage will be deducted from the cash component paid.

The Company will also pay Swiss Re an amount equal to any dividends Swiss Re or MS&AD would have received, if it had held the Acquisition Shares from, and the Acquisition Shares were issued at, the date of the Share Purchase Agreement.

The consideration also includes a non-cash component, the Acquisition Shares, being 277,277,138 ordinary shares of £0.10 each in the capital. The Acquisition Shares will be admitted to the Official List following Completion.

1.4 Termination

The Share Purchase Agreement will terminate automatically if the conditions are not satisfied by the Long Stop Date. Otherwise, it is subject to customarily limited termination rights.

1.5 Representations and warranties

The Company (as buyer), on the one hand, and Swiss Re (as seller) and SRL (as the seller's guarantor), on the other hand, have given each other certain customary representations and warranties in relation to the Acquisition and the issue of the Acquisition Shares.

1.6 Limitations on liability

Swiss Re's aggregate liability in respect of all claims relating to the Acquisition is not to exceed £3.2 billion and liability is subject to certain caps and limitations. The exception to the aggregate liability cap is leakage claims.

1.7 Covenants until Completion

Swiss Re has undertaken that ReAssure and its subsidiaries will be run in the ordinary course of business until Completion and will not make any material change to the nature of the business. The Share Purchase Agreement contains customary restrictions on the conduct of certain activities by ReAssure prior to Completion.

The Company has undertaken to Swiss Re not to take certain actions until Completion. For the most part, these relate to the preservation of value of Swiss Re's holdings in the Company.

1.8 Guarantee

The obligations of Swiss Re have been guaranteed by SRL, which is a material member of the Swiss Re Group.

1.9 Employment

Except as provided for in the Transitional Services Agreement, the employees used by ReAssure's business are employed by entities within the transaction perimeter. Therefore no transfer of employees from Swiss Re into ReAssure is anticipated at or before Completion.

1.10 Tax Covenant

Swiss Re has provided the Company with customary protections in relation to certain potential historic tax liabilities of the ReAssure Group. Swiss Re has also provided the Company with a specific indemnity in respect of certain tax liabilities of the ReAssure Group relating to the transfer to Swiss Re of MS&AD's shareholding in ReAssure and the transfer to MS&AD of part of the Acquisition Shares received by Swiss Re (each pursuant the Swiss Re MS&AD SPA).

The tax covenant is effective as of Completion and claims under the covenant will be subject to certain exclusions and limitations, including the financial limitation set out at paragraph 1.6 above.

Swiss Re and Phoenix have agreed certain customary arrangements in relation to the settlement and conduct of tax affairs of ReAssure following Completion.

1.11 Additional Terms

In the context of the OMW Acquisition, ReAssure has undertaken to provide Quilter with the opportunity to participate in processes to appoint new investment managers and to introduce customers for advice, in each case, within its group. In connection with the Acquisition, Swiss Re has agreed that it will approach Quilter and seek an amendment to that undertaking so that it is clear that ReAssure's obligations apply only to the ReAssure Group and not the wider Enlarged Group, and ensure that Quilter's rights are consistent with any other rights that may be held by other third parties.

ReAssure has issued £1 billion in aggregate principal amount of ReAssure Subordinated Notes which are both eligible and available to qualify as Own Funds of the ReAssure Group. The qualification of the ReAssure Subordinated Notes as available Own Funds of the Enlarged Group requires confirmation from the PRA. The Company is liaising with the PRA in order to confirm such availability. There are a range of potential routes to achieve such confirmation, some of which may involve the incurrence of external costs.

2. PRINCIPAL TERMS OF THE TRANSITIONAL SERVICES AGREEMENT

The Transitional Services Agreement is an arms' length, commercial contract between the ReAssure Group and the Swiss Re Group, designed to ensure that both parties are able to operate their businesses with no or minimal disruption while functions and resources that were shared between them are separated. It was executed between RUKSL, on behalf of the ReAssure Group, and Swiss Re Management Limited and Swiss Re Life Capital Management Ltd, on behalf of the Swiss Re Group, on 13 November 2019 and deemed to take effect from 1 July 2019.

As a result of the separation of the ReAssure Group from the Swiss Re Group, some functions and resources used by the ReAssure Group were retained by the Swiss Re Group, while other functions and resources used by the Swiss Re Group were retained by the ReAssure Group. Consequently, for the relevant transitional periods, the Transitional Services Agreement requires the Swiss Re Group to provide the shared functions and resources that it retained, but that are still used by the ReAssure Group, as a service back to the ReAssure Group. Similarly, the Transitional Services Agreement required, for a period of time that has now expired, the ReAssure Group to provide the shared functions and resources that it retained, but that were still used by the Swiss Re Group, as a service back to the Swiss Re Group.

The main categories of services provided by the Swiss Re Group to the ReAssure Group under the Transitional Services Agreement include: (a) asset management back office services; (b) use of IT infrastructure; and (c) a mail forwarding service.

The services provided under the Transitional Services Agreement vary in length of time, ranging from an initial period of four months to an initial period of time that is equivalent to the length of time it is expected to complete the separation exercise (which is expected to be completed in mid-2020). However, the Transitional Services Agreement provides flexibility to the recipient of each service to terminate that service earlier (if separation is completed ahead of target) or to extend that service (if separation is delayed for any reason). The fees for the Transitional Services Agreement services are set by reference to the cost of delivering those services.

A principle underlying the Transitional Services Agreement is that it should be "business as usual", which means that the services should be no different (in terms of scope, quality and standard of service) compared to what the ReAssure Group or Swiss Re Group received in the ordinary course prior to the separation.

The Transitional Services Agreement also establishes the framework for agreeing a plan for the separation of shared functions and resources, as well as certain support to be provided by the provider of the services to the recipient to enable the recipient to plan for and execute the separation project.

3. PRINCIPAL TERMS OF THE RELATIONSHIP AGREEMENTS

3.1 Introduction

Phoenix has agreed the terms of a relationship agreement to be entered into with each of Swiss Re and MS&AD, in the case of Swiss Re, upon Completion and, in the case of MS&AD, upon the transfer by Swiss Re to MS&AD of Acquisition Shares that represent 10 per cent. or more of the Company's total issued share capital pursuant to the Swiss Re MS&AD SPA, to govern each of Swiss Re's and MS&AD's holdings of Shares and the continuing relationship between the Company and each of Swiss Re and MS&AD following Completion (the "**Relationship Agreements**"). Each of the Relationship Agreements will cease to be effective if at any time following Completion the Shares are no longer listed on the premium listing segment of the Official List and admitted to trading on the Main Market. In addition, if the Swiss Re Group and its associates (excluding any member of the Group) (the "**Swiss Re Group Members**") or MS&AD group and its associates (excluding any member of the Group) (the "**MS&AD Group Members**"), respectively, cease to be interested in aggregate in at least 10 per cent. of the Shares from time to time (excluding Shares held by the Swiss Re Group or MS&AD group, as applicable, (a) for the purposes of providing asset management services to a person other than a Swiss Re Group Member or MS&AD Group Member, as applicable; or (b) on behalf of a customer other than another Swiss Re Group Member or MS&AD Group Member, as applicable (together, the "**Asset Management Shares**")), the relationship agreement between the Company and Swiss Re, or the relationship agreement between the Company and MS&AD, as applicable, will also cease to be effective.

As a result of each of Swiss Re's (or a nominated member of the Swiss Re Group) and MS&AD's direct and indirect (as a result of their investment management businesses) shareholding in the Company being 10 per cent. or more, following Completion and, in the case of MS&AD, the transfer of Acquisition Shares pursuant to the Swiss Re MS&AD SPA, both Swiss Re (or a nominated member of the Swiss Re Group) and MS&AD will each be a "related party" of the Company for the purposes of Listing Rule 11.

3.2 Board composition and Board committees

Under the Relationship Agreements, subject to compliance with applicable law or regulations, for so long as the aggregate holding of Shares by all Swiss Re Group Members (excluding any Asset Management Shares) (the "**Swiss Re Group Holding**") or MS&AD Group Members (excluding any Asset Management Shares) (the "**MS&AD Group Holding**"), respectively, is at least 10 per cent. of the Shares, each of Swiss Re and

MS&AD, respectively, shall be entitled to appoint (and remove and reappoint) one non-executive director to the Board.

3.3 Independence and conduct

The Relationship Agreements provide that:

(a) all transactions or relationships between a Swiss Re Group Member and any member of the Group or between a MS&AD Group Member and any member of the Group must be conducted at arm's length and on normal commercial terms;

(b) no Swiss Re Group Member or MS&AD Group Member shall take any action that would have the effect of preventing the Company from carrying on an independent business as its main activity or preventing the Company from complying with its obligations under the Listing Rules; and

(c) any member of the Board nominated by Swiss Re or MS&AD shall be deemed to have an interest in any matter in respect of which the Chairman determines (acting in good faith) that there is a material conflict between the interests of any Swiss Re Group Member or director nominated by Swiss Re, or a MS&AD Group Member or director nominated by MS&AD, on the one hand and the interests of any member of the Group on the other, in each case, in relation to the relevant matter. In relation to such matter, information provided to the Board shall not be provided to the members of the Board nominated by Swiss Re or MS&AD, respectively, unless, in the case of commercial negotiations between the Company on the one hand and a Swiss Re Group Member or MS&AD Group Member, on the other, adequate information barriers are in place to prevent any information being shared with any individuals acting on behalf of a Swiss Re Group Member or MS&AD Group Member, as applicable, if to do so would materially disadvantage the Company or materially advance Swiss Re or MS&AD's ability, as applicable, to negotiate with the Company or a third party.

3.4 Standstill

Under the Relationship Agreements, each of Swiss Re and MS&AD severally undertakes that, for a period of two years, in the case of Swiss Re, from the date of Admission and, in the case of MS&AD, the date that the MS&AD Group Holding represents at least 10 per cent. of the Company's total issued share capital (or, in each case, until termination of the Relationship Agreement, if earlier) and subject to customary exemptions, it will not (and will procure (so far as it is legally able to do so) that each other Swiss Re Group Member or MS&AD Group Member, as applicable, will not) purchase, receive or otherwise obtain Shares, or agree to do any of the above if such action would result in:

(a) the Swiss Re Group Holding or MS&AD Group Holding, as applicable, increasing above 24.9 per cent. of the Company's total issued share capital;

(b) if the Swiss Re Group Holding or MS&AD Group Holding, as applicable, has already increased above 24.9 per cent. with the prior written consent of the Company, any increase in the Swiss Re Group Holding or MS&AD Group Holding, as applicable; or

(c) the aggregate of the Swiss Re Group Holding and the Asset Management Shares or the MS&AD Group Holding and the Asset Management Shares, as applicable (the "**Aggregate Holding**"), representing an interest in Shares which (taken together with Shares in which persons acting in concert are interested) carries 30 per cent. or more of the rights attaching to Shares to vote at general meetings of the Company (the "**Aggregate Limit**").

3.5 Disposal of Shares

The Relationship Agreements contain lock-up provisions pursuant to which each of Swiss Re and MS&AD undertakes for a period of 12 months from, in the case of Swiss Re, the date of Admission and, in the case of MS&AD, the date the MS&AD Group Holding represents at least 10 per cent. of the Company's total issued share capital (or, in each case, until termination of the Relationship Agreement, if earlier), subject to the exemptions outlined below, that neither it, nor any other Swiss Re Group Member or MS&AD Group Member, as applicable, will dispose in any way, or agree to dispose in any way, of its interests in any Shares in such a way that reduces the Swiss Re Group Holding or MS&AD Group Holding, as applicable.

After the expiry of the lock-up period, the Swiss Re Group Members or MS&AD Group Members, as applicable, are entitled to sell Shares under an exemption or provided that:

(a) no Swiss Re Group Member or MS&AD Group Member, as applicable, shall transfer (or agree to transfer) Shares if Swiss Re or MS&AD, as applicable, has actual knowledge or a reasonable expectation when committing to the transfer that such transfer would result in any person holding (together with its persons acting in concert) 30 per cent. or more of the Shares; and

(b) Swiss Re or MS&AD, as applicable, notifies the Company in advance of its initial disposal of Shares and of any disposal of more than five per cent. of the Shares and takes into account any reasonable representations made by the Company regarding the impact of the proposed disposal on the maintenance of an orderly market in the Shares.

The lock-up restrictions in the Relationship Agreements shall not apply:

(a) if a majority of the Directors not appointed by Swiss Re or MS&AD, as applicable, have given their consent to the relevant transaction;

(b) to any disposal by Swiss Re or MS&AD, as applicable, that is necessary to ensure that the Aggregate Holding is not at any time equal to or greater than the Aggregate Limit;

(c) in the event of an intervening court order;

(d) to the acceptance of an offer (in accordance with the Articles or applicable law or regulation) made to Shareholders (or to all Shareholders other than the offeror and/or any persons acting in concert with the offeror) to acquire all the Shares (other than any Shares already owned by the offeror and any person acting in concert with the offeror) or to the execution of an irrevocable undertaking to accept such offer;

(e) to any actions pursuant to a compromise or arrangement under the Companies Act, or applicable law from time to time between the Company and its creditors (or any class of them) or between the Company and its members (or any class of them) and which is agreed to by the requisite majority of the members (or class of members) of creditors (or class of creditors), as the case may be, and sanctioned by the relevant authorities;

(f) to the acceptance of an offer by the Company to purchase its own shares which is made on identical terms to the holders of shares of the same class and otherwise complies with applicable law;

(g) to any transfer by Swiss Re to a Swiss Re Group Member or MS&AD to a MS&AD Group Member, provided that: (i) in the event that any transferee under this exemption ceases, prior to the expiry of the lock-up period, to be a Swiss Re Group Member or MS&AD Group Member, as applicable, such transferee shall transfer the transferred Shares back to Swiss Re or another Swiss Re Group Member or MS&AD or another MS&AD Group Member, as applicable; and (ii) the transferee shall enter into a deed of adherence to be bound by the restrictions of the relevant Relationship Agreement; and

(h) in respect of Swiss Re only, to any transfer from Swiss Re to MS&AD in connection with the Acquisition and from time to time to increase the MS&AD Group Holding up to 15 per cent. of the Company's total issued share capital.

3.6 Key Company undertakings

The Company undertakes that it shall not undertake any redemption or purchase of its own Shares or any other reduction in its share capital without the prior written consent of Swiss Re or MS&AD, as applicable if such action would or might reasonably be expected to result in any Swiss Re Group Member or MS&AD Group Member, as applicable, being obliged to make an offer (in accordance with the Articles or applicable law or regulation) to Shareholders (or to all Shareholders other than the relevant Swiss Re Group Member or MS&AD Group Member, as applicable, and/or any persons acting in concert with it) to acquire all the Shares (other than any Shares already owned by the relevant Swiss Re Group Member or MS&AD Group Member, as applicable and/or any persons acting in concert with it).

If the Company wishes to issue new Shares for cash subscription and the participation by any Swiss Re Group Member or MS&AD Group Member, as applicable, in such subscription would or might reasonably be expected to result in the circumstances described above, then the parties will discuss in good faith ways of facilitating the participation of the Swiss Re Group or the MS&AD group, as applicable, in such subscription which would not result in the circumstances described above.

PART XV— ADDITIONAL INFORMATION

1. RESPONSIBILITY

The Company and the Directors, whose names appear in paragraph 5.1 (“*Directors*”) of this Part XV (“*Additional Information*”), accept responsibility for the information contained in this document. To the best of the knowledge of the Company and the Directors, the information contained in this document is in accordance with the facts and makes no omission likely to affect its import.

2. INCORPORATION AND REGISTERED OFFICE

(a) The Company was incorporated and registered in England and Wales on 5 October 2018 as a public company limited by shares under the Companies Act with the registered number 11606773. The Company’s Legal Entity Identifier number is 2138001P49OLAEU33T68.

(b) The Company’s registered office and its principal place of business is at Juxon House, 100 St Paul’s Churchyard, London EC4M 8BU, United Kingdom. Phoenix’s telephone number is 0203 567 9100.

(c) The principal legislation under which the Company operates are the Companies Act and regulations made thereunder. The Shares are issued pursuant to the terms of the Articles and the Companies Act.

3. SHARE CAPITAL

3.1 History

The share capital of the Company on incorporation was £50,000.20, divided into two ordinary shares of £0.10 each and 50,000 redeemable shares of £1.00 each. On 31 October 2018, the redeemable shares were redeemed and cancelled.

The number of Shares issued and allotted as at 31 December 2019 was as follows:

	Issued and allotted
As at 31 December 2019	721,514,944

3.2 Existing shareholder authorities

At an annual general meeting (“**AGM**”) of the Company convened and held on 2 May 2019 (the “**2019 AGM**”), the following resolution, among others, was passed.

The nineteenth resolution provided the Directors the authority to allot Shares pursuant to the Articles in accordance with the Share Capital Management Guidelines of the Investment Association. Paragraph A of the resolution provides the Directors with the authority to allot Shares up to an aggregate nominal amount equal to £24,040,091.50 (representing 240,400,915 Shares). This represents approximately one third of the Company’s issued ordinary share capital as at 21 March 2019 (being the latest practicable date prior to the publication of the 2019 AGM notice dated 22 March 2019). In line with the guidance issued by the Investment Association, paragraph B of the resolution gives the Directors the authority to allot further Shares in connection with a rights issue in favour of holders of Shares (or interest therein) up to an aggregate nominal amount, including the Shares referred to in paragraph A of the resolution, of £48,080,182.99 (representing 480,801,829 Shares). This amount represents approximately two thirds of the Company’s issued ordinary share capital as at 21 March 2019 (being the latest practicable date prior to the publication of the 2019 AGM notice dated 22 March 2019). The authority provided under the resolution will expire at the conclusion of the 2020 annual general meeting of the Company (or, if earlier, at the close of business on the date which is 15 months after 2 May 2019).

3.3 Shareholder authorities proposed at the General Meeting

The Resolutions are set out in the Notice of General Meeting in the section of this document headed “*Notice of General Meeting*” and it is proposed that the Resolutions will be voted on at the General Meeting on 13 February 2020. For a summary of the Resolutions, see paragraph 13 (“*General Meeting*”) of Part I (“*Letter from the Chairman of Phoenix Group Holdings plc*”) of this document.

3.4 Share capital

The Company has one class of ordinary shares with a nominal value of £0.10 each (the "**Shares**"). The ISIN of the Shares is GB00BGXQNP29 and the SEDOL number is BGXQNP2.

Immediately prior to the publication of this document, the issued share capital of the Company was 721,517,296 Shares (all of which were fully paid or credited as fully paid). There are no restrictions on the transferability of the Shares. The Shares do not carry any rights to participate in a distribution (including on a winding-up) other than those that exist under the Companies Act.

The Acquisition Shares will, when issued and fully paid, rank equally in all respects with the existing Shares in issue immediately prior to Completion, including the right to receive all dividends and other distributions made, paid or declared after the date of issue of the Acquisition Shares.

3.5 Share or loan capital

Save as disclosed in this document, including in paragraphs 7 ("*Interests of Major Shareholders*") and 12 ("*Material Contracts*") of this Part XV ("*Additional Information*"):

(a) no share or loan capital of the Company, other than intercompany loans, has, since the date of incorporation of the Company on 5 October 2018, been issued or agreed to be issued, or is now proposed to be issued, fully or partly paid, either for cash or for a consideration other than cash, to any person;

(b) no commissions, discounts, brokerages or other special terms have been granted by the Company in connection with the issue or sale of any share or loan capital of any such company; and

(c) no share or loan capital of the Company is under option or agreed conditionally or unconditionally to be put under option.

3.6 Description of the Company's share capital

Shareholders have voting rights for the election of the Directors and all other matters requiring shareholder action. Shareholders are entitled to one vote per share on matters to be voted on by Shareholders and also are entitled to receive such dividends, if any, as may be declared from time to time by the Board in its discretion out of funds legally available therefore. There is no cumulative voting with respect to the election of the Directors, with the result that the holders of more than 50 per cent. of the shares voted for the election of the Directors can elect all of the Directors.

Other than as provided in the Articles, the Shareholders have no conversion, pre-emption or other subscription rights, and there are no sinking fund or redemption provisions applicable to the shares. For information on Shareholders' pre-emption rights, see paragraph 14 ("*Pre-emption rights*") of this Part XV ("*Additional Information*").

The Shares are in registered form and may be held in certificated form in CREST.

3.7 CREST and Shares

The Shares are in registered form and, subject to the provisions of the CREST Regulations, the Directors may permit the holding of Shares (of any class in uncertificated form) and title to such shares may be transferred by means of a relevant system (as defined in the CREST Regulations).

4. ARTICLES OF ASSOCIATION

The Articles are available for inspection at website specified in paragraph 22 ("*Documents Available for Inspection*") of this Part XV ("*Additional Information*").

Set out below is a summary of the provisions of the Articles.

4.1 Share rights

The liability of the members is limited to the amount, if any, unpaid on the shares held by them.

Subject to the provisions of the Companies Act, and without prejudice to any rights attached to any existing shares or class of shares: (i) any Share may be issued with such rights or restrictions as the Company may by ordinary resolution determine or, subject to and in default of such determination, as the Board shall determine; and (ii) Shares may be issued which are to be redeemed or are liable to be redeemed at the option of the Company or the holder and the Board may determine the terms, conditions and manner of redemption of such shares provided that it does so before the shares are allotted.

4.2 Voting rights

Subject to any rights or restrictions attached to any Shares, on a show of hands every member who is present in person shall have one vote and on a poll every member present in person or by proxy shall have one vote for every Share of which the person is the holder.

No member shall be entitled to vote at any general meeting in respect of a Share unless all moneys presently payable by the member in respect of that share have been paid.

If, at any time, the Board is satisfied that any member, or any other person appearing to be interested in Shares held by such member, has been duly served with a notice under section 793 of the Companies Act and is in default for the prescribed period in supplying to the Company the information thereby required, or, in purported compliance with such a notice, has made a statement which is false or inadequate in a material respect, then the Board may, in its absolute discretion at any time thereafter by notice to such member direct that, in respect of the Shares in relation to which the default occurred, the member shall not be entitled to attend or vote either personally or by proxy at a general meeting or at a separate meeting of the holders of that class of shares or on a poll.

4.3 Dividends and other distributions

Subject to the provisions of the Companies Act, the Company may, by ordinary resolution, declare dividends in accordance with the respective rights of the members, but no dividend shall exceed the amount recommended by the Board.

Subject to the provisions of the Companies Act, the Board may pay interim dividends if it appears to the Board that they are justified by the profits of the Company available for distribution.

If the share capital is divided into different classes, the Board may also pay interim dividends on shares which confer deferred or non-preferred rights with regard to dividends as well as on shares which confer preferential rights with regard to dividends (provided no interim dividend shall be paid on shares carrying deferred or non-preferred rights if, at the time of payment, any preferential dividend is in arrear); and pay at intervals settled by it any dividend payable at a fixed rate if it appears to the Board that the profits available for distribution justify the payment.

Every dividend shall, at any point prior to its payment, be cancellable or deferrable by the Board if such cancellation or deferral is required by any applicable law or regulation (including, without limitation, to meet any applicable capital requirement) or if the Board considers, in its sole discretion, that it would be appropriate or prudent to cancel or defer any such dividend. If the Board acts in good faith it shall not incur any liability to the members of the Company or any of them in respect of any decision by the Board to cancel or defer a dividend.

The Board may, before recommending or declaring any dividend, set aside out of the funds legally available for distribution, such sums as they think proper as reserve or reserves which shall, in the absolute discretion of the Board, be applicable for meeting contingencies, or for equalising dividends or for any other purpose to which those funds may be properly applied.

Except as otherwise provided by the rights and restrictions attached to shares, all dividends shall be declared and paid according to the amounts paid up on the shares on which the dividend is paid, but no amount paid on a share in advance of the date on which a call is payable shall be treated for these purposes as paid on the share.

A general meeting declaring a dividend may, on the recommendation of the Board, by ordinary resolution direct that it shall be satisfied wholly or partly by the distribution of assets, including without limitation paid up shares or debentures of another body corporate. The Board may make any arrangements it thinks fit to settle any difficulty arising in connection with the distribution.

The Board may, if authorised by an ordinary resolution of the Company, offer any holder of shares the right to elect to receive shares, credited as fully paid, instead of cash in respect of the whole (or some part, to be determined by the Board) of all or any dividend.

Any dividend that has remained unclaimed for twelve years from the date when it became due for payment shall, if the Board so resolves, be forfeited and cease to remain owing by the Company.

No dividend or other moneys payable in respect of a share shall bear interest against the Company unless otherwise provided by the rights attached to the share.

Except as provided by the rights and restrictions attached to any class of shares, the Shareholders will, under general law, be entitled to participate in any surplus assets in a winding up in proportion to their shareholdings. A liquidator may, with the sanction of a special resolution and any other sanction required by the Insolvency Act 1986, divide among the members in specie the whole or any part of the assets of the Company and may, for that purpose, value any assets and determine how the division shall be carried out as between the members or different classes of members.

4.4 Variation of rights

Subject to the provisions of the Companies Act, the rights attached to any class of shares may be varied or abrogated with the written consent of the Shareholders of three quarters in nominal value of the issued shares of the class, or the sanction of a special resolution passed at a separate general meeting of the Shareholders.

4.5 Lien, calls on shares and forfeiture

The Company shall have a first and paramount lien on every Share (not being a fully paid share) for all moneys payable to The Company (whether presently or not) in respect of that share. The Company may sell, in such manner as the Board determines, any share on which the Company has a lien if a sum in respect of which the lien exists is presently payable and is not paid within 14 clear days after notice has been sent to the holder of the share demanding payment and stating that if the notice is not complied with, the share may be sold.

Subject to the terms of allotment of a share, the Board may from time to time make calls on the members in respect of any moneys unpaid on their shares. Each member shall (subject to receiving at least 14 clear days' notice) pay to the Company the amount called on his or her shares.

If a call or any instalment of a call remains unpaid in whole or in part after it has become due and payable, the person from whom it is due and payable shall pay interest on the amount unpaid from the day it became due and payable until it is paid.

If a call or any instalment of a call remains unpaid in whole or in part after it has become due and payable, the Board may give the person from whom it is due not less than 14 clear days' notice requiring payment of the amount unpaid, together with any interest which may have accrued and any costs, charges and expenses incurred by the Company by reason of such non-payment. The notice shall name the place where payment is to be made and shall state that if the notice is not complied with, the shares in respect of which the call was made will be liable to be forfeited. If that notice is not complied with, any share in respect of which it was sent may, at any time before the payment required by the notice has been made, be forfeited by a resolution of the Board.

4.6 Transfer of shares

A member may transfer all or any of his or her certificated shares by an instrument of transfer in any usual form or in any other form which the Board may approve. An instrument of transfer shall be signed by or on behalf of the transferor and, unless the share is fully paid, by or on behalf of the transferee. An instrument of transfer need not be under seal.

The Board may, in its absolute discretion, refuse to register the transfer of a certificated share which is not a fully paid share, provided that the refusal does not prevent dealings in shares in the Company from taking place on an open and proper basis. The Board may also refuse to register the transfer of a certificated share unless the instrument of transfer:

- is lodged, duly stamped (if stampable), at the office or at another place appointed by the Board accompanied by the certificate for the share to which it relates and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer;
- is in respect of one class of share only; and
- is in favour of not more than four transferees.

If the Board refuses to register a transfer of a share in certificated form, it shall send the transferee notice of its refusal within two months after the date on which the instrument of transfer was lodged with the Company.

No fee shall be charged for the registration of any instrument of transfer or other document relating to or affecting the title to a share.

Subject to the provisions of the Uncertified Securities Regulations 2001, the Board may permit the holding of shares in any class of shares in uncertificated form and the transfer of title to shares in that class by means of a relevant system and may determine that any class of shares shall cease to be a participating security.

4.7 **Alteration of share capital**

The Articles do not restrict the Company's ability to increase, consolidate or sub-divide its share capital. Therefore, subject to the Companies Act, the Company may by ordinary resolution increase, consolidate or sub-divide its share capital.

4.8 **Purchase of own shares**

The Articles do not restrict the Company's ability to purchase its own shares. Therefore, subject to the Companies Act and without prejudice to any relevant special rights attached to any class of shares, the Company may purchase any of its own shares of any class in any way and at any price (whether at par, or above or below par).

4.9 **General meetings**

The Board shall convene and the Company shall hold general meetings as annual general meetings in accordance with the requirements of the Companies Act. The Board may call general meetings whenever and at such times and places as it shall determine. The Articles permit the Board to determine that a general meeting shall be held (wholly or partly) by electronic means.

4.10 **Directors**

4.10.1 ***Number of directors***

Unless otherwise determined by ordinary resolution, the number of Directors shall be not less than five but shall not be subject to any maximum in number.

4.10.2 ***Appointment of Directors***

Directors may be appointed by ordinary resolution of Shareholders or by the Board.

4.10.3 ***No share qualification***

A Director shall not be required to hold any shares in the capital of the Company by way of qualification.

4.10.4 ***Annual retirement of Directors***

At every annual general meeting all the Directors at the date of notice convening the annual general meeting shall retire from office. A retiring Director shall be eligible for appointment.

4.10.5 ***Remuneration of Directors***

The emoluments of any Director holding executive office for his or her services as such shall be determined by the Board, and may be of any description.

The ordinary remuneration of the Directors who do not hold executive office for their services (excluding amounts payable under any other provision of the Articles) shall not exceed in aggregate £2,000,000 per annum or such higher amount as the members of the Company may from time to time by ordinary resolution determine. Subject thereto, each such Director shall be paid a fee for that service (which shall be deemed to accrue from day to day) at such rate as may from time to time be determined by the Board.

In addition to any remuneration which the Directors are entitled to under the Articles, they may be paid all travelling, hotel and other expenses properly incurred by them in connection with their attendance at meetings of the Board or committees of the Board, general meetings or separate meetings of the holders of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties.

The Board may provide benefits, whether by the payment of gratuities or pensions or by insurance or otherwise, for any past or present Director or employee of the Company or any of its subsidiary undertakings or any body corporate associated with, or any business acquired by, any of them, and for any member of his or her family or any person who is or was dependent on him or her.

4.10.6 ***Permitted interests of Directors***

Provided that he or she has disclosed to the Board the nature and extent of his or her interest (unless the circumstances referred to in section 177(5) or section 177(6) of the Companies Act apply, in which case no such disclosure is required), a Director notwithstanding his or her office:

- may be a party to, or otherwise interested in, any transaction or arrangement with the Company or in which the Company is otherwise (directly or indirectly) interested;
- may act by himself or herself or for his or her firm in a professional capacity for the Company (otherwise than as auditor), and he or she or his or her firm shall be entitled to remuneration for professional services as if he or she were not a Director;
- may be a director or other officer of, or employed by, or a party to any transaction or arrangement with, or otherwise interested in, any body corporate in which the Company is (directly or indirectly) interested as a shareholder or otherwise or with which he or she has such relationship at the request or direction of the Company; and
- shall not, by reason of his or her office, be accountable to the Company for any remuneration or other benefit which he or she derives from any such office or employment or from any such transaction or arrangement or from any interest in any such body corporate, the acceptance, entry into or existence of which has been approved by the Board or which he or she is permitted to hold or enter into by virtue of the Articles.

4.10.7 ***Restrictions on voting***

Except as provided otherwise by the Articles, a Director shall not vote at a meeting of the Board or a committee of the Board on any resolution of the Board concerning a matter in which he or she has an interest (other than by virtue of interests in securities of the Company) which can reasonably be regarded as likely to give rise to a conflict with the interests of the Company, unless that interest arises only because the resolution concerns one or more of the following matters:

- the giving of a guarantee, security or indemnity in respect of money lent or obligations incurred by him or her or any other person at the request of, or for the benefit of, the Company or any of its subsidiary undertakings;
- the giving of a guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which the Director has assumed responsibility (in whole or in part and whether alone or jointly with others) under a guarantee or indemnity or by the giving of security;
- a contract, arrangement, transaction or proposal concerning an offer of shares, debentures or other securities of the Company or any of its subsidiary undertakings for subscription or purchase, in which offer he or she is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which he or she is to participate;
- a contract, arrangement, transaction or proposal concerning any other body corporate in which he or she or any person connected with him or her is interested, directly or indirectly, and whether as an officer, shareholder, creditor or otherwise, if he or she and any persons connected with him or her do not to his or her knowledge hold an interest (as that term is used in sections 820 to 825 of the Companies Act) representing one per cent. or more of either any class of the equity share capital (excluding any shares of that class held as treasury shares) of such body corporate (or any other body corporate through which his or her interest is derived) or of the voting rights available to members of the relevant body corporate (any such interest being deemed for the purpose of this Article to be likely to give rise to a conflict with the interests of the Company in all circumstances);
- a contract, arrangement, transaction or proposal for the benefit of employees of the Company or of any of its subsidiary undertakings which does not award him or her any privilege or benefit not generally accorded to the employees to whom the arrangement relates; and
- a contract, arrangement, transaction or proposal concerning any insurance which the Company is empowered to purchase or maintain for, or for the benefit of, any Directors or for persons who include Directors.

4.10.8 ***Indemnity of Directors and officers***

Subject to the provisions of the Companies Act, but without prejudice to any indemnity to which the person concerned may otherwise be entitled, every Director or other officer of the Company (other than any person (whether an officer or not) engaged by the Company as auditor) shall be indemnified out of the assets of the Company against any liability incurred by him or her for negligence, default, breach of duty or breach of trust in relation to the affairs of the Company provided that this Article shall be deemed not to provide for, or entitle any such person to, indemnification to the extent that it would cause this Article, or any element of it, to be treated as void under the Companies Act.

4.11 **Application of the Takeover Code**

The Company is subject to the provisions of the UK Takeover code on Takeovers and Mergers (the "**Takeover Code**"), including the rules regarding mandatory takeover offers set out in the Takeover Code.

Under Rule 9 of the Takeover Code, when: (i) a person acquires shares which, when taken together with shares already held by him or persons acting in concert with him (as defined in the Takeover Code), carry 30 per cent. or more of the voting rights of a company subject to the Takeover Code; or (ii) any person who, together with persons acting in concert with him, holds not less than 30 per cent. but not more than 50 per cent. of the voting rights of a company subject to the Takeover Code, and such person, or any person acting in concert with him, acquires additional shares which increases his percentage of the voting rights in the company, then, in either case, that person, together with the persons acting in concert with him, is normally required to make a general offer in cash at the highest price paid by him or any person acting in concert with him for shares in the company within the preceding 12 months for all of the remaining equity share capital of the company.

For the purposes of the Takeover Code, the Company understands that the Takeover Panel does not consider Swiss Re and MS&AD to be concert parties based on the nature and circumstances of their relationship.

5. DIRECTORS AND SENIOR MANAGERS

5.1 Directors

The following table lists the names, ages and positions of the current Directors and the Proposed Director:

Name	Age	Position
Nicholas Lyons	61	Chairman and Nomination Committee Chairman
Clive Bannister(1)	61	Group Chief Executive Officer
Andy Briggs(2)	53	Chief Executive Officer Designate and Proposed Director
James McConville	63	Group Finance Director and Group Director, Scotland
Alastair Barbour	66	Senior Independent Non-Executive Director and Audit Committee Chairman
Karen Green	52	Independent Non-Executive Director
Wendy Mayall	62	Independent Non-Executive Director
John Pollock	61	Independent Non-Executive Director and Risk Committee Chairman
Belinda Richards	61	Independent Non-Executive Director
Nicholas Shott	68	Independent Non-Executive Director
Kory Sorenson	51	Independent Non-Executive Director and Remuneration Committee Chairman
Campbell Fleming	55	Non-Executive Director, Standard Life Aberdeen Appointed Director
Michael Tumilty	48	Non-Executive Director, Standard Life Aberdeen Appointed Director

Notes:

(1) Clive Bannister will retire from the Board from 10 March 2020.

(2) Andy Briggs will be appointed to the Board on receipt of regulatory approval.

The business address of each of the Directors is Juxon House, 100 St. Paul's Churchyard, London EC4M 8BU.

5.1.1 ***Directors' biographies***

Nicholas Lyons
Chairman

Nicholas Lyons was appointed Chairman of the Board (of then PGH Cayman) and Chairman of the Nomination Committee of the Company (then PGH Cayman) with effect from 31 October 2018. Nicholas joined JP Morgan in 1982, where he worked for 12 years in debt and equity capital markets and mergers and acquisitions. He spent eight years at Lehman Brothers, as a Managing Director in their European financial institutions group, ending his executive career in 2003 as Global Co-Head of Recruitment. Mr Lyons has held a number of positions on the boards of other financial institutions including the Pension Insurance Corporation where he was the Senior Independent Director from 2016 until July 2018 and Miller Insurance Services where he was Chairman from 2008 until December 2016. He also held positions on the boards of Catlin Group Limited, Friends Life Group Limited and Friends Life Holdings plc amongst others. Nicholas is a Non-Executive Director of the British United Provident Association Limited (BUPA) and Convex Group Limited and is also Chairman of Clipstone Industrial REIT plc. He is the Alderman for Tower Ward in the City of London.

Clive Bannister

Group Chief Executive Officer

Clive Bannister joined the Group in February 2011 as Group Chief Executive Officer of the Company (then PGH Cayman). Prior to this, Mr Bannister was Group Managing Director of Insurance and Asset Management at HSBC Holdings plc. He joined HSBC in 1994 and held various leadership roles in planning and strategy in the Investment Bank (USA) and was Group General Manager and CEO of HSBC Group Private Banking. He started his career at First National Bank of Boston and prior to working at HSBC was a partner in Booz Allen Hamilton in the Financial Services Practice providing strategic support to financial institutions including leading insurance companies, banks and investment banks. Mr Bannister is also Chairman of the Museum of London.

Clive Bannister will retire from the Board from 10 March 2020.

Andy Briggs

Chief Executive Officer Designate and Proposed Director

Andy Briggs was appointed Group Chief Executive Officer Designate of the Company on 1 January 2020 and will be appointed to the Board on receipt of regulatory approval. Mr Briggs has over 30 years of insurance industry leadership experience and is a qualified actuary. He was Group Chief Executive of Friends Life, the listed insurer, Managing Director of Scottish Widows, Chief Executive of the Retirement Income division at Prudential and Chairman of the ABI. Most recently he was CEO UK Insurance of Aviva plc until April 2019. He is a Trustee and Chair of the Income Generation Committee of the NSPCC and also serves as the UK Government's Business Champion for the Ageing Society.

James McConville

Group Finance Director and Group Director, Scotland

James McConville was appointed to the Board (then PGH Cayman) as Group Finance Director with effect from 28 June 2012. Between April 2010 and December 2011, Mr McConville was Chief Financial Officer of Northern Rock plc. Prior to that, between 1988 and 2010, he worked for Lloyds Banking Group plc (formerly Lloyds TSB Group plc) in a number of senior finance and strategy related roles, latterly as Finance Director of Scottish Widows Group and Director of Finance for the Insurance and Investments Division. During 2011 and 2012, Mr McConville was a Non-Executive Director of the life businesses of Aegon UK. In 2014, Mr McConville joined the board of Tesco Personal Finance plc as a Non-Executive Director. Mr McConville qualified as a Chartered Accountant whilst at Coopers and Lybrand.

Alastair Barbour

Senior Independent Non-Executive Director

Alastair Barbour has over 30 years of audit experience with KPMG, where he worked across the full spectrum of financial services clients from large general insurers and reinsurers to the life assurance and investment management sector, working on a range of operational and strategic issues. Mr Barbour is the former Head of Financial Services, Scotland for KPMG. He retired from KPMG in 2011 to build a Non-Executive career. He is a Director and Audit Committee Chairman of RSA Insurance Group plc and Chairman of Liontrust Asset Management plc (both LSE-listed companies). He is also a Director and Audit Committee Chairman of The Bank of N. T. Butterfield & Son Limited, a group listed on the New York Stock Exchange and in Bermuda. Mr Barbour was appointed to the Board (of then PGH Cayman) on 1 October 2013 and was appointed Senior Non-Executive Independent Director on 2 May 2018. He is Chairman of the Board Audit Committee and a member of the Board Nomination Committee and Risk Committee.

Campbell Fleming

Non-Executive Director

Campbell Fleming is the Global Head of Distribution at Aberdeen Standard Investments, the asset management business of Standard Life Aberdeen. He joined Aberdeen Asset Management in August 2016 from Columbia Threadneedle Investments where he was the Chief Executive – EMEA and Global COO for four years. Mr Fleming is the Chair of the Investment Association Trade Committee and previously held senior positions at JP Morgan Asset Management. Mr Fleming was nominated by Standard Life Aberdeen and appointed to the Board (of then PGH Cayman) on 31 August 2018.

Karen Green

Independent Non-Executive Director

Karen Green is the former Chief Executive of Aspen UK, which comprised the UK insurance companies' global US-listed insurer and reinsurer, Aspen Insurance Holdings and was a member of the Aspen Group Executive Committee for 12 years. She also held a number of other senior positions including as Group Head of Corporate Development, Strategy, and Office of the Group CEO. Prior to that, she held various senior private equity and corporate finance roles from 1997 to 2005 at GE Capital and then MMC Capital, gaining substantial M&A experience, having worked previously at Baring Brothers and Schroders. Ms Green is a non-executive director at Admiral Group plc and is a Council Member of Lloyd's of London. She is also a Vice President of the Insurance Institute of London. Ms Green was appointed to the Board (of then PGH Cayman) with effect from 1 July 2017.

Wendy Mayall

Independent Non-Executive Director

Wendy Mayall has over thirty years of asset management experience, including as Group Chief Investment Officer and later consultant at Liverpool Victoria from 2012 to 2015, having previously been Chief Investment Officer for Unilever's UK pension fund from 1996 to 2011 and holding management responsibility for Unilever's pension funds globally. From 2006 to 2009, Mrs Mayall was the Chair of the Investment Committee of the Mineworkers Pension Scheme, a British government appointment to one of the largest government backed pension schemes in the UK. Mrs Mayall is a non-executive director of Aberdeen Global Funds (Luxembourg) and Old Mutual Wealth Oversight Council. She is also the Senior Independent Director and audit committee Chair of Fidelity Investments Life Insurance Company Limited and Chair of the Funding Committee for TPT Retirements Solutions. Mrs Mayall was appointed to the Board (of then PGH Cayman) with effect from 1 September 2016.

John Pollock

Independent Non-Executive Director

John Pollock had a career in life assurance at the Legal & General Group from 1980 to 2015, including as an executive director of Legal & General Group plc from 2003 to 2015. Mr Pollock held numerous senior roles, gaining wide strategic and technical experience, finally as Chief Executive Officer of LGAS (L&G Assurance Society), one of Legal and Generals' three primary business units. Prior to Mr Pollock's retirement from Legal and General in 2015, he held positions as Deputy Chair of the FCA Practitioner Panel, Chairman of investment platform Cofunds, and as a non-executive director of the Cala Homes Group. Mr Pollock was appointed to the Board (of then PGH Cayman) with effect from 1 September 2016.

Belinda Richards

Independent Non-Executive Director

Belinda Richards has held senior executive positions at KPMG, EY, and latterly Deloitte from 2000 to 2010 where she was a senior corporate finance Partner and the Global Head of Merger Integration and Separation Advisory Services. She is an experienced Non-Executive Director, currently on the boards of WM Morrison Supermarkets plc, Avast plc, The Monks Investment Trust plc and Schroder Japan Growth Fund Plc. Previously, she has also been on the boards of Aviva UK Life & Pensions, Grainger plc, Balfour Beatty plc and Friends Life Group Limited. Ms Richards was appointed to the Board (of then PGH Cayman) with effect from 1 October 2017.

Nicholas Shott

Independent Non-Executive Director

Nicholas Shott is an investment banker, who has been European Vice Chairman of Lazard since 2007 and Head of UK Investment Banking at Lazard since 2009. Mr Shott joined Lazard in 1991 and became a partner in 1997. He also serves as a Non-Executive Director on the board of the Home Office. Mr Shott was appointed to the Board (of then PGH Cayman) with effect from 1 September 2016.

Kory Sorenson

Independent Non-Executive Director

Kory Sorenson is currently a Non-Executive Director and Chairman of the Audit Committee of SCOR SE, a Non-Executive Director and Chairman of the Remuneration Committee of Pernod Ricard SA, a Non-Executive Director and member of the Audit Committee of SGS SA and a member of the Supervisory Board of the privately-owned Bank Gutmann AG. Ms Sorenson has over 25 years of experience in the financial services sector, most of which has been focused on insurance and banking. She was a Non-Executive Director of Aviva Insurance Limited, Managing Director, Head of Insurance Capital Markets of Barclays Capital and also held senior positions in the financial institutions divisions of Credit Suisse, Lehman Brothers and Morgan Stanley. She began her career in the finance department of Total SA. Ms Sorenson was appointed to the Board (of then PGH Cayman) with effect from 1 July 2014 and is Chairman of the Remuneration Committee and a member of the Board Risk and Nomination Committees.

Michael Tumilty

Non-Executive Director

Michael Tumilty is the Global Chief Operating Officer of Standard Life Aberdeen. He has worked in the Financial Services industry for 24 years, holding various senior positions, including Director of Operations at Aberdeen Standard Investments and Head of Investment Operations at Standard Life. He was nominated by Standard Life Aberdeen and appointed to the Board of Directors on 1 September 2019.

5.1.2 ***Other directorships/partnerships of the Directors***

In respect of each Director, details are set out below of the companies (not including any member of the Group) of which such Director has been a member of the administrative, management or supervisory bodies or partner at any time in the five years prior to the date of this document:

Name	Current directorship/partnership	Previous directorship/partnership
Nicholas Lyons	The British United Provident Association Limited Clipstone Industrial REIT plc Convex Group Limited Convex re Limited Convex Insurance UK Limited Future Fuels No.1 LLP Lord Mayor's Show Limited The Merchant Taylors' and Christopher Boone's Almhouses Charity	Dawson 2012 Limited Dawson Investments (UK) Limited Dawson Trustees Limited Friends Life Group Limited Friends Life Holdings plc Miller Insurance Holdings Limited Pension Insurance Corporation Group Limited Pension Insurance Corporation plc PFIH Limited Price Forbes & Partners Limited Temple Bar Investment Trust plc
Clive Bannister	Association of British Insurers Doorfield Property Management Limited Dreamchasing Rougemont Management Limited	Punter Southall Group Limited Unigestion Holding SA
Andy Briggs (Proposed Director)	None	Aviva Administration Limited Aviva Annuity UK Limited Aviva Employment Services Limited Aviva Insurance Limited Aviva Life & Pensions UK Limited Aviva Life Holdings UK Limited Aviva Life Services UK Limited Aviva plc

Name	Current directorship/partnership	Previous directorship/partnership
		Aviva UK Digital Limited Friends Life and Pensions Limited Friends Life FPG Limited Friends Life FLP Limited Friends Life FPLMA Limited Friends Life Group Limited Friends Life Holdings plc Friends Life Limited Undershaft Fal Limited
James McConville........	Tesco Personal Finance Group Limited Tesco Personal Finance plc(1)	
Alastair Barbour...........	Bank of N.T. Butterfield & Son Limited CATCo Reinsurance Fund Limited Liontrust Asset Management PLC Markel CATCo Reinsurance Fund Ltd RSA Insurance Group PLC Scottish Equitable Policyholders Trust Limited	CATCo Reinsurance Opportunities Fund Ltd Standard Life European Private Equity Trust plc
Campbell Fleming........	21 Aberdeen Standard Investments Limited Aberdeen Asset Managers Limited Aberdeen Asset Investments Limited Aberdeen Investment Solutions Limited Aberdeen Standard Capital Limited Finca Santa Teresa Limited Fleming Flagship Limited Moy Sheep Farms LLP The Heather Club Limited The Truelove Foundation The Big Exchange Limited	ADT Nominees Limited Convivo Asset Management Limited Sackville Property (GP) Limited Sackville SPF IV (GP) No.1 Limited Sackville SPF IV (GP) No.2 Limited Sackville SPF IV Property (GP) Limited Sackville SPF IV (GP) No.3 Limited Sackville Tandem Property (GP) Limited Sackville TIPP Property (GP) Limited Sackville TPEN Property (GP) Limited Sackville TSP Property (GP) Limited Sackville UK Property Select II (GP) Limited Sackville UK Property Select II (GP) No.1 Limited Sackville UK Property Select II (GP) No.2 Limited Sackville UK Property Select II (GP) No.3 Limited Sackville UKPEC1 Leeds (GP) Limited Sackville UKPEC2 Galahad (GP) Limited Sackville UKPEC3 Croxley (GP) Limited Sackville UKPEC4 Brentford (GP) Limited Sackville UKPEC5 Kensington (GP) Limited Tam UK Holdings Limited TC Financing Limited The Gael Syndicate LLP(2) Threadneedle Asset Management (Nominees) Limited Threadneedle Asset Management Finance Limited Threadneedle Asset Management Holdings Limited Threadneedle Asset Management Limited Threadneedle Capital Management Limited

Name	Current directorship/partnership	Previous directorship/partnership
		Threadneedle Holdings Limited Threadneedle International Limited Threadneedle Investment Advisors Limited Threadneedle Investments Limited Threadneedle Investment Services Limited Threadneedle Management Services Limited Threadneedle Navigator ISA Manager Limited Threadneedle Pensions Limited Threadneedle Portfolio Managers Limited Threadneedle Portfolio Services Limited Threadneedle Property Investments Limited Threadneedle Unit Trust Manager Limited
Karen Green.................	Admiral Group plc Council of Lloyd's Ffolkes Solutions Ltd	Aspen European Holdings Limited Aspen Insurance UK Limited Aspen Insurance UK Services Limited Aspen Managing Agency Limited Aspen Risk Management Limited Aspen Underwriting Limited
Wendy Mayall.............	Aberdeen Alpha Fund Aberdeen Global Fund Aberdeen Global II Aberdeen Islamic SICAV Fund Aberdeen Liquidity Fund (Lux) Fil Life Insurance Limited Fidelity Investments Life Insurance Company Old Mutual Wealth Oversight Council TPT Retirement Solutions	Aberdeen UK Tracker Trust PLC
John Pollock.................	None	Cala 1 Limited Cala Group (Holdings) Limited Cofunds Limited Legal & General Group PLC Legal & General International (Holdings) Limited Legal & General International Limited Legal & General Overseas Holdings Limited Legal and General Assurance Society Limited Legal and General Partnership Holdings Limited
Belinda Richards..........	Avast plc Monks Investment Trust Public Limited Company Schroder Japan Growth Fund plc WM Morrison Supermarkets PLC	Aviva Administration Limited Aviva Annuity UK Limited Aviva Life & Pensions UK Limited Aviva Life Holdings UK Limited Aviva Life Services UK Limited Friends Life and Pensions Limited Friends Life Group Limited Friends Life Holdings PLC Friends Life Limited

Name	Current directorship/partnership	Previous directorship/partnership
		Grainger PLC Undershaft FAL Limited
Nicholas Shott.............	28 Smith Street Limited Home Office Lazard & Co. Holdings Limited Lazard & Co. Services Limited Lazard & Co. Limited	Old Bailey 2005 LLP(3)
Kory Sorenson	Bank Gutmann AG Chateau Troplong Mondot Pernod Ricard SA SCOR SE SCOR Global Life Americas Reinsurance Company SCOR Global Life USA Reinsurance Company SCOR Reinsurance Company SGS SA	Aviva Insurance Limited Institut Pasteur ProMetic Life Sciences Inc. UNIQA Insurance Group AG
Michael Tumilty...........	Aberdeen Asset Managers Limited Aberdeen Asset Investments Limited Aberdeen Standard Investments Charitable Foundation Aberdeen Investment Solutions Limited Edinburgh Children's Hospital Charity Standard Life Investments Limited	Standard Life Portfolio Investments Limited

Notes:

(1) James McConville is an independent non-executive director of Tesco Personal Finance plc. On 1 October 2018, the FCA announced that it had fined Tesco Personal Finance plc £16,400,000 for failing to exercise due skill, care and diligence in protecting its personal current account holders against a cyber-attack which took place in November 2016. The fine was made against Tesco Personal Finance plc itself, and not against James McConville.

(2) An application for strike-off of The Gael Syndicate LLP was submitted to Companies House on 16 June 2018 and the LLP was dissolved on 4 September 2018.

(3) Old Bailey 2005 LLP was liquidated by way of Members voluntary liquidation. Commencement of winding up occurred on 29 March 2018 and the LLP was dissolved on 16 January 2020.

5.2 Conflicts of interest and other matters

The Company is not aware of any conflicts of interest between any duties owed by the Directors to the Company and their private interests or other duties, except that Campbell Fleming and Michael Tumilty have been nominated to the Board by Standard Life Aberdeen under the terms of a relationship agreement which regulates the Group' and Standard Life Aberdeen's relationship following completion of the SLA Acquisition. Both of these Directors will continue in their roles with Standard Life Aberdeen.

During the five years immediately prior to the date of this document, except as disclosed under paragraph 5.1.2 ("*Other directorships/partnerships of the Board*") of this Part XV ("*Additional Information*"), none of the Directors has:

- been convicted in relation to a fraudulent offence;
- been associated with any bankruptcies, receiverships or liquidations whilst acting in his capacity as member of an administrative, management or supervisory body of a company, a partner with unlimited liability, a founder or a member of senior management of a company;
- received an official public incrimination and/or sanction by a statutory or regulatory authority (including designated professional bodies) or has been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer; or
- been appointed as (i) a member of the administrative, management or supervisory bodies of the Company, or (ii) a member of senior management of the Company, pursuant to an arrangement or understanding with major shareholders, customers, suppliers or others.

There are no family relationships between any of the Directors, or between any of the Directors and the Senior Managers.

5.3 **Senior Managers**

Executive management of the Group is led by the Group Chief Executive Officer, Clive Bannister, who is supported by the Executive Committee. The Executive Committee oversees matters relating to the implementation of the Group's strategy.

Clive Bannister will retire from his role as Chief Executive Officer from 10 March 2020, at which point Andy Briggs will be appointed the new Group Chief Executive Officer.

Clive Bannister (61)

Group Chief Executive Officer

- Leads the development of the Group's strategy for agreement by the Board;
- leads and directs the Group's businesses in delivery of the Group strategy and business plan;
- leads the Group to safeguard returns for policyholders and grow shareholder value;
- embeds a risk-conscious Group culture which recognises policyholder obligations in terms of service and security; and
- manages the Group's key external stakeholders.

Andy Briggs (53)

Chief Executive Officer Designate

- As above (Group Chief Executive Officer) from 10 March 2020; and
- undertaking induction and preparatory activity for Group Chief Executive Officer role prior to 10 March 2020.

James McConville (63)

Group Finance Director and Group Director, Scotland

- Develops and delivers the Group's financial business plan in line with strategy;
- ensures that the Group's finances and capital are managed and controlled;
- develops and delivers the Group's debt capital strategy and other treasury matters;
- ensures that the Group has effective processes in place to enable all reporting obligations to be met;
- supports the Group Chief Executive Officer in managing the Group's key external stakeholders; and
- enhances shareholder value through clear, rigorous assessment of business opportunities.

Andy Moss (55)

Chief Executive, Phoenix Life and Group Director, Heritage Business

- Leads development and delivery of the Phoenix Life business strategy, including the continued integration of life businesses;
- leads the Phoenix Life business to optimise outcomes for customers in terms of both value and security; and
- ensures that Phoenix Life deploys capital efficiently and effectively, with due regard to regulatory requirements, the risk universe and strategy.

Stephen Jefford (56)

Group Human Resources Director

- Leads the implementation of the Group's employee strategy in order to recruit, retain, motivate and develop high quality employees;
- provides guidance and support on all HR matters to the Group Chief Executive Officer, the Executive Committee, the Board and Remuneration Committee; and
- delivers HR services to the Group.

Antonios Kassimiotis (52)

Group Chief Operating Officer

- Leads development and delivery of the Group's operating platforms in line with regulatory requirements, the risk universe and strategy;
- ensures the delivery of the Group's information technology strategy;
- leads the management of the Group's long-term outsourcing arrangements; and
- ensures that the Group's procurement activities and shares services are efficient and effective.

John McGuigan (59)

Group Customer Director

- Leads the Group's customer function to drive operational and experience delivery for the Group's customer base;
- sets standards and policies for customer management and interaction; and
- provides customer oversight, complaint handling and remediation activity.

Jonathan Pears (51)

Group Chief Risk Officer

- Leads the Group's Risk Function, promoting informed decision making and controlled risk-taking;
- Oversees and manages the Group's relationship with the FCA and PRA; and
- Supports the Group Board Risk Committee in the oversight of the Group's risk framework, in line with risk strategy and appetite.

Susan McInnes (57)

Chief Executive, Standard Life and Group Director, Open Business

- Leads development and delivery of the Standard Life business strategy including ensuring customer proposition is evolved to ensure it continues to meet the market need;
- focusses on a business model which ensures good outcomes for customers, shareholders and all other stakeholders;
- ensures that Standard Life deploys capital efficiently and effectively, with due regard to regulatory requirements, the risk universe and strategy.

Rakesh Thakrar (44)

Deputy Group Finance Director

- Leads on the Group's Annual Report and Accounts, ORSA and Pillar 3 reporting;
- manages the Group's financial plans and management information in line with strategy;
- contributes to the effective management of the Group's balance sheet and financial plan (including M&A); and
- leads on all financial aspects of any M&A.

Simon True (51)

Group Corporate Development Director and Group Chief Actuary

- Supports the Group Chief Executive Officer in the formulation of the strategy for the Group;
- leads implementation of the Group's strategy as regards any potential acquisition or disposal;
- ensures that capital is managed efficiently across the Group;
- manages the Group's solvency position;
- leads the development of the Group's investment strategy; and
- identifies and delivers opportunities to enhance shareholder value across the Group.

Quentin Zentner (53)

General Counsel

- Leads provision of legal advice to the Board, other Group company boards, the Executive Committee and senior management;
- oversees and coordinates maintenance of, and adherence to, appropriate corporate governance procedures across the Group;
- designs and implements a framework to manage legal risk within the Group, including compliance by Group companies and staff with relevant legal obligations; and
- designs and implements a whistleblowing framework within the Group.

Senior Managers' biographies

Clive Bannister

Group Chief Executive Officer

See paragraph 5.1.1 ("*Directors' biographies*") of this Part XV ("*Additional Information*"), for Mr Bannister's biography.

Andy Briggs

Chief Executive Officer Designate

See paragraph 5.1.1 ("*Directors' biographies*") of this Part XV ("*Additional Information*"), for Mr Brigg's biography.

James McConville

Group Finance Director and Group Director, Scotland

James McConville was appointed to the Board of Directors as Group Finance Director on 28 June 2012. See paragraph 5.1.1 ("*Directors' biographies*") of this Part XV ("*Additional Information*"), for Mr McConville's biography.

Andy Moss

Chief Executive, Phoenix Life and Group Director, Heritage Business

Andy Moss was appointed as Group Director, Heritage Business on 1 April 2019, alongside his existing role as Chief Executive of Phoenix Life to which he was appointed on 19 May 2014. In his role as Group Director, Heritage Business, Mr Moss is responsible for setting and executing the strategy of the Heritage Business for all Phoenix Life Companies. Previously Mr Moss has been Phoenix Life Finance Director responsible for planning and target setting, statutory and regulatory reporting and financial control for all of the Phoenix Life Companies and Deputy Finance Director of the Resolution Life business having started in the Group as Head of Finance at Britannic in 2004. Before joining the Group, Mr Moss held a variety of roles across Nationwide Life Ltd, KPMG and Eagle Star Group.

Stephen Jefford

Group Human Resources Director

Stephen Jefford was appointed Group Human Resources Director in October 2016. Mr Jefford had previously worked within the Group as Head of HR at Ignis Asset Management, leaving in 2013. Prior to this role Mr Jefford has held a number of senior roles in HR across financial services, predominantly at HSBC where he was Head of HR for Europe and the Middle East between 2007 and 2010. Mr Jefford is a member of the CIPD and has an MBA from CASS Business School and undergraduate degrees from Bristol University and the Open University.

Antonios Kassimiotis

Group Chief Operating Officer

Tony Kassimiotis was appointed to the role of Group Chief Operating Officer on 21 March 2018, having previously been Managing Director of Operations for Phoenix Life. As Managing Director of Operations for Phoenix Life, Mr Kassimiotis' responsibilities included the management of the Group's long-term business process and outsourcing contracts, the development of the Group's IT, strategic and operating platforms, along with the delivery of the business transformation agenda. Prior to that, Mr Kassimiotis was COO for Pearl, having started with Pearl Group as its Director of IT. Before joining the Group, Mr Kassimiotis held a variety of senior operational and IT management roles across retail, life & pensions and banking sectors, having worked for Coles Myer Ltd, Colonial Mutual, Commonwealth Bank of Australia and the AMP Group.

John McGuigan

Group Customer Director

John McGuigan joined the Group following the SLA Acquisition in 2018, and holds the role of Group Customer Director. In this role, John has responsibility for the service and experience delivery for the combined customer base for the newly enlarged Group. Prior to joining Standard Life Assurance, John held a senior role at Telefonica in Munich, Germany. In addition to his executive role, John is Vice Chair of Scottish Financial Enterprise and Non-Executive Director at Castle Rock Edinvar Housing Association Limited which is an Edinburgh based housing association.

Susan McInnes

Chief Executive, Standard Life and Group Director, Open Business

Susan McInnes was appointed to the role of Chief Executive of Standard Life on 3 September 2018. She joined the Group following the acquisition of the Life Business of Abbey National in 2007 and was appointed Chief Risk Officer in March 2018. She became Customer Director in 2008 having responsibility for the service and product delivery to over 6 million customers including the on-boarding of the Abbey Life and AXA Wealth customers. Prior to joining the Group, Ms McInnes held a number of operational roles in insurance and retail banking.

Jonathan Pears

Group Chief Risk Officer

Jonathan Pears was appointed to the role of Group Chief Risk Officer of Phoenix Group on 31 August 2018. He previously served as Chief Risk Officer for Standard Life. Prior to joining Risk, Jonathan was Chief Actuary with responsibility for the Actuarial function including the management of Standard Life's with profits funds, investment strategy and capital management. Over his 22 years at Standard Life, Jonathan has held a variety of roles in Finance, Actuarial, Marketing and Operations.

Rakesh Thakrar

Deputy Group Finance Director

Rakesh Thakrar has over 20 years' experience in the life assurance industry and financial services. He joined the Group in 2001, since when he has held a number of positions including senior finance and strategy-related roles and has been responsible for the Group's financial performance, internal and external reporting obligations and supporting the delivery of the Group's strategy. Before joining the Group, Mr Thakrar worked for Canada Life, gaining experience in a variety of financial-related areas.

Simon True

Group Chief Actuary and Group Corporate Development Director

Simon True joined the Group on 1 May 2013 as Group Chief Actuary. Before joining the Group, Mr True ran the M&A team within Resolution Limited, having joined in 2008, and was actively involved in its creation through to it inclusion in the FTSE 100 following the acquisitions of Friends Provident, AXA UK (Life), and Bupa Health. Prior to Resolution Limited, Mr True was the Group Actuary at Resolution plc until the acquisition by Pearl Group Limited in 2008. Mr True had initially joined the Resolution Life Group in February 2005: his responsibilities included running the Corporate Development team responsible for merger & acquisition activity – including the merger with Britannic, and the acquisition of the Abbey National life companies. Preceding his involvement with the various incarnations of Resolution, Mr True spent 7 years at Commercial Union (now part of Aviva), latterly in the International Division, followed by a further 7 years as a senior consultant at Tillinghast-Towers Perrin.

Quentin Zentner

General Counsel

Quentin Zentner was appointed as General Counsel in December 2014, having previously held the role of Director, Life Legal since August 2010. Mr Zentner was previously General Counsel at Nikko Principal Investments Ltd, a Japanese private equity company and before that was a Corporate Partner at Pinsents Curtis. Quentin is a qualified solicitor.

5.3.1 ***Other directorships/partnerships of the Executive Committee***

In respect of each Senior Manager, details are set out below of the companies and partnerships (not including any member of the Group) of which such Senior Manager has been a member of the administrative, management or supervisory bodies or partner at any time in the five years before the date of this document:

Name	Current	Previous
Clive Bannister[(1)]	See above	See above
Andy Briggs[(2)]	See above	See above
James McConville[(3)]	See above	See above
Stephen Jefford	None	None
Antonios Kassimiotis	None	Sculptura UK Limited TK PARM Distribution Limited TK PARM Limited
John McGuigan	Scottish Financial Enterprise Castle Rock Edinvar Housing Association Limited	None
Susan McInnes	None	None
Andy Moss	None	None
Jonathan Pears	None	None
Rakesh Thakrar	Mythili Megha Limited	None
Simon True	None	None
Quentin Zentner	P.A.T. (Pensions) Limited P.A.T. (Pensions) Nominee Company No.1 Limited P.A.T. (Pensions) Nominee Company No.2 Limited	None

Notes:

(1) For Clive Bannister's other directorships/partnerships, please see paragraph 5.1.2 ("*Other directorships/partnerships of the Board*") of this Part XV ("*Additional Information*").

(2) For Andy Brigg's other directorships/partnerships, please see paragraph 5.1.2 ("*Other directorships/partnerships of the Board*") of this Part XV ("*Additional Information*").

(3) For James McConville's other directorships/partnerships, please see paragraph 5.1.2 ("*Other directorships/partnerships of the Board*") of this Part XV ("*Additional Information*").

5.3.2 ***Conflicts of interest and other matters***

The Company is not aware of any conflicts of interest between any duties owed by Senior Managers to the Company and their private interests or other duties. The Company has procedures in place to identify and manage conflicts that may arise.

During the five years immediately prior to the date of this document, except as disclosed under paragraph 5.3.1 ("*Other directorships/partnerships of the Executive Committee*") of this Part XV ("*Additional Information*"), none of the Senior Managers has:

- been convicted in relation to a fraudulent offence;
- been associated with any bankruptcies, receiverships or liquidations whilst acting in his capacity as member of an administrative, management or supervisory body of a company, a partner with unlimited liability, a founder or a member of senior management of a company;
- received an official public incrimination and/or sanction by a statutory or regulatory authority (including designated professional bodies) or has been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer; or
- been appointed as (i) a member of the administrative, management or supervisory bodies of the Company, or (ii) a member of senior management of the Company, pursuant to an arrangement or understanding with major shareholders, customers, suppliers or others.

There are no family relationships between any of the Senior Managers, or between any of the Senior Managers and the Directors.

Share dealing code

The Company has adopted a share dealing code which is based on the Market Abuse Regulation.

5.4 Corporate Governance Code

The Company recognises the importance of, and is committed to, high standards of corporate governance. The Company's compliance with the UK Corporate Governance Code issued by the Financial Reporting Council, as amended from time to time (the "**Corporate Governance Code**") is described on pages 65 to 75 of the Group's Annual Report and Accounts for the year ended 31 December 2018, which are incorporated by reference into this document as set out in Part XVI ("*Documents Incorporated by Reference*").

5.5 Board and management of the Group

The Company is a member of the FTSE 100 Index, with PGH Cayman having achieved a premium listing on the LSE in July 2010 and Phoenix having achieved a premium listing in December 2018 after the Onshoring. The Board is committed to high standards of corporate governance and supports the Corporate Governance Code which sets standards of good practice for UK listed companies.

5.6 The Board

The Board comprises the non-executive Chairman, the Group Chief Executive Officer, the Group Chief Executive Officer Designate, the Group Finance Director and eight other independent non-executive Directors (the "**Non-Executive Directors**"). Summary biographical details of each of the Directors are described at paragraph 5.1.1 ("*Directors' biographies*") of this Part XV ("*Additional Information*"). The Board considers that the following Directors are independent as they do not have any interest or business and other relationship which could, or could be perceived to, interfere materially with their ability to act in the best interests of the Company: Alastair Barbour, Karen Green, Wendy Mayall, John Pollock, Belinda Richards, Nicholas Shott and Kory Sorenson. The Board has considered the criteria proposed by the Corporate Governance Code in assessing the independence of the Directors.

Non-Executive Directors are appointed for a term of three years (subject to annual re-election at the AGM), and any subsequent terms are considered by the Nomination Committee and the Board. All Directors are subject to a vote for re-election at the AGM and all current Directors were elected or re-elected at the 2019 AGM, aside from Mike Tumilty, who was appointed to the Board subsequent to the 2019 AGM and Andy Briggs, who will be appointed to the Board on receipt of regulatory approval.

The Board is responsible to the Shareholders for the overall governance and performance of the Group. The Board's role is to provide entrepreneurial leadership within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board has a schedule of matters reserved for its consideration and approval. These matters include:

- Group strategy and business plans;
- major acquisitions, investments and capital expenditure;
- financial reporting and controls;
- dividend policy;
- capital structure;
- the constitution of Board committees;
- appointments to the Board and Board committees;
- senior executive appointments; and
- key Group policies.

Matters which are not reserved for the Board or its committees under their terms of reference, or for Shareholders in general meetings, are delegated to the Executive Committee under a schedule of delegated authorities approved by the Board.

The Company is, and is to remain, tax resident in the UK and the Directors will operate governance in a manner consistent with that objective.

5.7 **The Chairman, Group Chief Executive Officer and Senior Independent Non-Executive Director**

There is a division of responsibility, approved by the Board, between the Chairman, Nicholas Lyons, who is responsible for the leadership and effective operation of the Board, and the Group Chief Executive Officer, Clive Bannister, who is responsible to the Board for the overall management and operation of the Group. The Chairman's other significant commitments are set out in his biographical details which appear at paragraph 5.1.1 ("*Directors' biographies*") of this Part XV ("*Additional Information*").

The Senior Independent Non-Executive Director, appointed by the Board, is Alastair Barbour. His role is to be available to Shareholders whose concerns are not resolved through the normal channels or when such channels are inappropriate. He is also responsible for leading the appraisal of the Chairman's performance by the Non-Executive Directors.

5.8 **Effectiveness of the Board**

In accordance with the Corporate Governance Code, an evaluation of the performance of the Board and that of its committees and individual Directors was undertaken during the latter part of 2019.

The process involved completion by the Directors of a questionnaire covering various aspects of board, committee and director effectiveness, followed by individual meetings with each Director, concluding in a Board report which was discussed by the Board in November 2019. The following areas were covered:

- Board performance;
- Board structure and composition, including diversity;
- Board dynamics and relationship;
- Board processes;
- Board committees;
- individual Director performances; and
- Director induction and training.

All Directors receive a tailored induction on joining the Board and benefit from an ongoing training programme.

5.9 **Operation of the Board**

The terms of appointment for the Directors state that they are expected to attend in person regular (at least six per year) and extraordinary Board meetings of the Company and to devote appropriate preparation time ahead of each meeting. The Non-Executive Directors hold meetings with the Chairman without the Executive Directors being present.

5.10 **Board's committees**

The Board has delegated specific responsibilities to four standing committees of the Board.

Audit Committee

Alastair Barbour is the chairman of the Audit Committee. The other members are Nicholas Shott, John Pollock and Karen Green.

The composition of the Audit Committee is in accordance with the requirements of the Corporate Governance Code that the Audit Committee should consist of at least three independent non-executive directors of whom at least one has recent and relevant financial experience. The Audit Committee met 7 times during 2019.

The Audit Committee is responsible for making recommendations to the Board on such matters as the appointment of the external auditors and their terms of engagement and for reviewing the performance, objectivity and independence of the external auditors. The Audit Committee is also responsible for assessing the effectiveness of the internal audit function. The Audit Committee receives and reviews the Annual Report and Accounts and other related financial disclosures, the ultimate responsibility for these matters remaining with the Board. It monitors the overall integrity of the financial reporting by the Company and its subsidiaries and reviews compliance with legal and regulatory requirements and the effectiveness of the Group's internal controls. The terms of reference of the Audit Committee state that it shall meet the external auditor at least once a year without management being present.

The Company has adopted a Charter of Statutory Auditor Independence, which requires both the Company and the external auditors to take measures to safeguard the objectivity and independence of the external auditors. These measures include a prohibition regarding non-audit services in respect of specific areas, such as secondments to management positions, or which could create a conflict or perceived conflict. It also includes details of the procedures for the rotation of the external audit engagement partner.

Nomination Committee

Nicholas Lyons is the chairman of the nomination committee of the Board (the "**Nomination Committee**"). The other members are Alastair Barbour, Nicholas Shott and Kory Sorenson. The composition of the Nomination Committee is in accordance with the requirement of the Corporate Governance Code that a majority of its members should be independent non-executive directors. The Nomination Committee is responsible for considering: (i) the size, composition and balance of the Board, the retirement and appointment of Directors; and (ii) succession planning for the Board and senior management and making recommendations to the Board on these matters. The Nomination Committee met 3 times in 2019.

The standard process used by the Nomination Committee for Board appointments involves the use of an external search consultancy to source candidates external to the Company (and may in the case of executive appointments also consider internal candidates). Detailed assessments of short-listed candidates are undertaken by the search consultancy, followed by interviews with Nomination Committee members and other Directors and the sourcing of references before the Nomination Committee recommends the appointments to the Board.

Remuneration Committee

Kory Sorenson is the chairman of the Remuneration Committee. The other members are Karen Green, Belinda Richards and Nicholas Shott. The composition of the Remuneration Committee is in accordance with the requirements of the Corporate Governance Code that the Remuneration Committee should consist of at least three independent non-executive directors. The Remuneration Committee met 6 times in 2019.

The Remuneration Committee is responsible for making recommendations to the Board on the Company's remuneration and compensation plans, policies and practices and for determining, within agreed terms of reference, specific remuneration packages for the executive directors. These include pension rights and executive incentive schemes to encourage superior performance.

Risk Committee

John Pollock is the chairman of the Risk Committee. The other members are Alastair Barbour, Belinda Richards, Kory Sorenson and Wendy Mayall. The establishment of a Risk Committee is not a requirement of the Corporate Governance Code. However, the Board believes such a committee is important to ensure the robust oversight of the management of risk within the Group. The composition of the Risk Committee, with a majority of independent non-executive directors, is in accordance with the final recommendations of the report by Sir David Walker, 'A review of corporate governance in UK banks and other financial industry entities'. The Risk Committee met 7 times in 2019.

The Risk Committee advises the Board on risk appetite and tolerance in setting the future strategy, taking account of the Board's overall degree of risk aversion, the current financial situation of the Company and, drawing on assessment by the Audit Committee, the Company's capacity to manage and control risks within the agreed strategy. It advises the Board on all high-level risk matters. Details of the Risk Management Framework, for which the Risk Committee has oversight, are set out under the section entitled "*Risk management—The Group's Risk Management Framework*" in Part II ("*Business Overview of the Group*") of this document.

6. DIRECTORS' AND SENIOR MANAGERS' INTERESTS

The interests of the Directors and the Senior Managers, and their immediate families, in the share capital of the Company (all of which, unless otherwise stated, are beneficial): (i) on the date of this document; and (ii) as they are expected to be immediately following Completion including as a percentage of the Enlarged Share Capital (assuming the issuance of 277,277,138 Acquisition Shares and that no additional shares are issued by the Company or options granted under the Employee Share Schemes are exercised between the Latest Practicable Date and Completion), are as follows:

	Latest Practicable Date		Immediately following Admission	
Name	**Number of Shares**	**Percentage of Share Capital**	**Number of Shares**	**Percentage of Enlarged Share Capital**
Directors				
Clive Bannister	854,810	0.12%	854,810	0.09%
Alastair Barbour	9,716	0.00%	9,716	0.00%
Andy Briggs (Proposed Director)	147,300	0.02%	147,300	0.01%
Campbell Fleming	—	—	—	—
Karen Green	—	—	—	—
Nicholas Lyons	20,000	0.00%	20,000	0.00%
Wendy Mayall	30,000	0.00%	30,000	0.00%
James McConville	253,227	0.04%	253,227	0.03%
John Pollock	14,666	0.00%	14,666	0.00%
Belinda Richards	—	—	—	—
Nicholas Shott	7,333	0.00%	7,333	0.00%
Kory Sorenson	20,704	0.00%	20,704	0.00%
Michael Tumilty	—	—	—	—
Senior Managers				
Stephen Jefford	23,480	0.00%	23,480	0.00%
Antonios Kassimiotis	49,885	0.01%	49,885	0.00%
John McGuigan	196	0.00%	196	0.00%
Susan McInnes	25,119	0.00%	25,119	0.00%
Andy Moss	71,037	0.01%	71,037	0.01%
Jonathan Pears	1,212	0.00%	1,212	0.00%
Rakesh Thakrar	58,616	0.01%	58,616	0.01%
Simon True	109,990	0.02%	109,990	0.01%
Quentin Zentner	51,560	0.01%	51,560	0.01%

The Directors and the Senior Managers have the same voting rights as all other Shareholders.

Details of the Directors' and the Senior Managers' non-beneficial interests in the Shares subject to options and awards under the Employee Share Schemes are set out in paragraph 10 ("*Employee Incentive Plans*") of this Part XV ("*Additional Information*").

Other than as disclosed in paragraph 10 ("*Employee Incentive Plans*") of this Part XV ("*Additional Information*"), there are no other persons to whom any capital of any member of the Group is under option, or agreed conditionally or unconditionally to be put under option.

No Director has or has had any interest in any transactions which are or were unusual in their nature or conditions or are or were significant to the business of the Group or any of its subsidiary undertakings and which were effected by the Group or any of its subsidiaries during the current or immediately preceding financial year or during an earlier financial year and which remain in any respect outstanding or unperformed.

There are no outstanding loans or guarantees granted or provided by any member of the Group to or for the benefit of any of the Directors.

Save as set out in this Part XV ("*Additional Information*"), as at the date of this document, there is no person to whom any capital of any member of the Group is under option or agreed unconditionally to be put under option.

7. INTERESTS OF MAJOR SHAREHOLDERS

Information provided to the Company pursuant to the Disclosure Guidance and Transparency Rules regarding its substantial Shareholders is published on a Regulatory Information Service and on the Company's website.

As at the Latest Practicable Date, insofar as the Company has been notified: (i) the following persons are interested, directly or indirectly, in 3 per cent. or more (or 5 per cent. in the case of investment managers) of the Company's issued share capital and (ii) immediately following Completion, the following persons will be interested, directly or indirectly, in 3 per cent. or more of the Company's issued share capital based on prior notifications (assuming the issuance of 277,277,138 Acquisition Shares and that no additional shares are issued by the Company or options granted under the Employee Share Schemes are exercised between the Latest Practicable Date and Completion).

	Latest Practicable Date		Immediately following Completion
Name	**Number of voting rights**	**Percentage of Share Capital**	**Percentage of Enlarged Share Capital**
Standard Life Aberdeen plc[1]	185,430,325	25.7%	18.6%
Ameriprise Financial Inc. and its group	42,847,290	5.9%	4.3%
BlackRock, Inc.	38,875,162	5.4%	3.9%
Artemis Investment Management LLP.	36,520,986	5.1%	3.7%
Prudential plc and its group	30,265,032	4.2%	3.0%
Swiss Re[1][2]	—	—	13.0 – 17.0%
MS&AD[1][2]	—	—	11.0 – 15.0%

Notes:

(1) Including Shares held: (i) for investment purposes in the ordinary course of business in the context of managing investments (as defined in the FCA Handbook) for, or advising, clients; and (ii) as bare nominee, custodian or trustee on behalf of a customer.

(2) Pursuant the Share Purchase Agreement, Swiss Re (or a nominated member of the Swiss Re Group) will receive a total shareholding of the Company equal to approximately 28 per cent. of the Enlarged Group. Swiss Re has agreed pursuant to the Swiss Re MS&AD SPA to transfer between approximately 40 and 52 per cent. of the Acquisition Shares it (or a nominated member of the Swiss Re Group) receives at Completion under the Share Purchase Agreement to MS&AD, in consideration for the transfer to Swiss Re of MS&AD's entire shareholding in ReAssure prior to Completion.

Insofar as is known to the Company, the Company is not directly or indirectly owned or controlled by another corporation, any foreign government, or any other natural or legal person, severally or jointly, nor is it aware of any arrangements the operation of which may at a subsequent date result in a change of control of the Company.

None of the major Shareholders referred to above has different voting rights from other Shareholders.

8. DIRECTORS' SERVICE AGREEMENTS AND LETTERS OF APPOINTMENT

Each of the executive Directors as at the date of this document ("**Executive Directors**") are appointed to the Board for an unlimited term subject to a 12-month notice period. Certain Executive Directors have service agreements with PGMS under which they are appointed to the Board. Details of the service agreements are summarised below. The Non-Executive Directors, including the Chairman, entered into letters of appointment with the Company relating to their appointment to the Board, which are summarised below.

8.1 **Service Agreements of the Executive Directors and the Proposed Director**

Certain Executive Directors have entered into service agreements with PGMS. Details of these service agreements are set out below:

Name	Date of service agreement	Commencement date of appointment to the Board	Commencement date of employment	Expiry/Notice terms	Basic Annual Salary (2019)
Clive Bannister (*Group Chief Executive Officer*)	7 February 2011	28 March 2011	7 February 2011	12 months	£700,000
Andy Briggs (*Chief Executive Officer Designate and Proposed Director*)	7 November 2019	—(2)	1 January 2020	12 months	N/A(1)
James McConville (*Group Finance Director*)	28 May 2012	28 June 2012	6 June 2012	12 months	£440,000

Notes:

(1) Andy Briggs' basic annual salary for 2020 will be £800,000.

(2) Andy Briggs will be appointed to the Board on receipt of regulatory approval.

Details of the share options and awards held by Mr Bannister, Mr Briggs and Mr McConville are set out in the section entitled "*Executive Directors*" in paragraph 10 ("*Employee Incentive Plans*") of this Part XV ("*Additional Information*").

Clive Bannister's Service Agreement

Following the announcement of Mr Bannister's retirement in November 2019, notice has been given that his service agreement will terminate on 9 March 2020.

Mr Bannister will receive payment of a cash sum in lieu of notice to reflect his 12 months' notice period ending 8 November 2020. The sum will be equal to his basic salary (at the rate applicable on the date on which notice to terminate was first given by either party), plus the cost of the provision of private medical and health insurance, life insurance, and pension contributions payable for any unexpired portion of the notice period, less any required deductions (the "payment in lieu").

The payment in lieu will be made in instalments (with 50 per cent. being paid on the termination date, 25 per cent. being paid six months following the termination date, with the remaining 25 per cent. being paid approximately eight months following the termination date). If Mr Bannister finds alternative employment or engagement during the relevant periods, PGMS has a contractual entitlement to reduce the outstanding instalments by the amount of any basic salary or fees he receives from such employment or engagement. Payment of any such instalments would be subject to Mr Bannister using all reasonable endeavours to find suitable alternative employment and/or engagement.

There will be no payment made under the Group's severance policy. Mr Bannister remains entitled to be considered for an annual discretionary bonus for 2019 and 2020. The amount of any bonus (which is payable by PGMS) will be determined by the Remuneration Committee. For 2019, Mr Bannister's bonus potential was 75 per cent. of salary for on target corporate and personal performance and 150 per cent. of salary for maximum performance. Any bonus payment will be subject to clawback if bonuses have been calculated on the basis of misstated or incorrect financial information. For the 2019 annual discretionary bonus, 40 per cent. of any bonus declared will be deferred under the DBSS into an award of Shares for a period of three years. For 2020, Mr Bannister will be eligible for a pro-rated bonus from 1 January 2020 to his termination date, payable at the same time as for other executives participating in the same scheme. The bonus potential will again be 75 per cent. of salary for on target corporate and personal performance and 150 per cent. of salary for maximum performance. Any bonus payment will be subject to clawback if bonuses have been calculated on the basis of misstated or incorrect financial information. For the 2020 annual discretionary bonus, 50 per cent. of any bonus declared will be deferred under the DBSS into an award of Shares for a period of three years.

Until his termination date, Mr Bannister is entitled to receive a car allowance of £15,000 per annum (which is payable monthly, less any required deductions), and to be provided with private medical and health insurance and life insurance cover.

Mr Bannister is subject to a confidentiality undertaking without limitation in time and to non-competition, non-dealing, and non-solicitation restrictive covenants for a period of six months following termination of employment.

Mr Bannister is not a member of the standard life pension scheme operated for certain of the Group's London-based senior executives and management (the "**Group Personal Pension**") or any other pension funded by the Group. In lieu of any contribution by the Group to a pension, Mr Bannister receives a non-contractual monthly allowance of £10,252 which is not counted towards Mr Bannister's total remuneration for the purposes of calculating any bonus payments.

Andy Briggs' Service Agreement

Mr Briggs' service agreement will continue until terminated by either party giving 12 months' notice, subject to earlier termination for cause.

Mr Briggs' service agreement provides that PGMS may terminate his employment by making a payment of a cash sum in lieu of notice equal to Mr Briggs' basic salary (at the rate applicable on the date on which notice to terminate was first given by either party), plus the cost of the provision of private medical and health insurance, life insurance, and pension contributions payable for any unexpired portion of the notice period, less any required deductions (the "payment in lieu").

As an alternative to the payment in lieu being paid as a lump sum, the Remuneration Committee may require the payment in lieu to be made in 12 equal monthly instalments. If Mr Briggs finds alternative employment or engagement during the relevant periods, the amount of any outstanding instalments will be reduced by the amount of any basic salary or fees he receives from such employment or engagement. Payment of any such instalments would be subject to Mr Briggs using all reasonable endeavours to find suitable alternative employment and/or engagement.

Mr Briggs is entitled to be considered for an annual discretionary bonus. For 2020, Mr Briggs' bonus potential is 75 per cent. of salary for on target corporate and personal performance and 150 per cent. of salary for maximum performance. The amount of any bonus (which is payable by PGMS) will be determined by the Remuneration Committee. For the 2020 annual discretionary bonus, 50% per cent. of any bonus declared will be deferred under the DBSS into an award of Shares for a period of three years, subject to Mr Briggs' continued employment. Any bonus payment will be subject to clawback if bonuses have been calculated on the basis of misstated or incorrect financial information. If Briggs' employment is terminated (other than by way of summary termination, in which case no bonus is payable on termination), the Remuneration Committee has the discretion to pay Mr Briggs a *pro rata* bonus for the year in which the employment ends, payable at the same time as for other executives participating in the same scheme.

Mr Briggs is entitled to receive a car allowance of £10,000 per annum (which is payable monthly, less any required deductions), and to be provided with private medical and health insurance and life insurance cover.

Mr Briggs is not a member of the Company's Group Personal Pension or any other pension funded by the Group. In lieu of any contribution by the Group to a pension, Mr Briggs receives a non contractual monthly allowance of £7,030 which is not counted towards Mr Briggs' total remuneration for the purposes of calculating any bonus payments.

Mr Briggs is subject to a confidentiality undertaking without limitation in time and to non-competition, non-dealing, and non-solicitation restrictive covenants for a period of six months following termination of employment.

James McConville's Service Agreement

Mr McConville's service agreement will continue until terminated by either party giving 12 months' notice to the other, subject to earlier termination for cause.

Mr McConville's service agreement provides that PGMS may terminate his employment by making a payment of a cash sum in lieu of notice equal to Mr McConville's basic salary (at the rate applicable on the date on which notice to terminate was first given by either party), plus the cost of the provision of private medical and health insurance, life insurance, and pension contributions payable for any unexpired portion of the notice period, less any required deductions (the "payment in lieu").

As an alternative to the payment in lieu being paid as a lump sum, the Remuneration Committee may require the payment in lieu to be made in instalments (with 50 per cent. being paid on the termination date, 25 per cent. being paid six months following the termination date, with the remaining 25 per cent. being paid nine months following the termination date). If Mr McConville finds alternative employment or engagement during the relevant periods, the amount of any outstanding instalments will be reduced by the amount of any basic salary or fees he receives from such employment or engagement. Payment of any such instalments would be subject to Mr McConville using all reasonable endeavours to find suitable alternative employment and/or engagement.

On termination, Mr McConville may be eligible for a payment under the Group's severance policy, the amount of which would be dependent on his length of service at the time of termination.

Mr McConville is entitled to be considered for an annual discretionary bonus. The amount of any bonus (which is payable by PGMS) will be determined by the Remuneration Committee. For 2019, Mr McConville's bonus potential was 75 per cent. of salary for on target corporate and personal performance and 150 per cent. of salary for maximum performance. Any bonus payment will be subject to clawback if bonuses have been calculated on the basis of misstated or incorrect financial information. For the 2019 annual discretionary bonus, 40 per cent. of any bonus declared was deferred under the DBSS into an award of Shares for a period of three years, subject to Mr McConville's continued employment. If Mr McConville's employment is terminated (other than by way of summary termination, in which case no bonus is payable on termination), the Remuneration Committee has the discretion to pay Mr McConville a *pro rata* bonus for the year in which the employment ends, payable at the same time as for other executives participating in the same scheme.

Mr McConville is entitled to receive a car allowance of £15,000 per annum (which is payable monthly, less any required deductions), and to be provided with private medical and health insurance and life insurance cover.

Mr McConville is not a member of the Company's Group Personal Pension or any other pension funded by the Group. In lieu of any contribution by the Group to a pension, Mr McConville receives a non-contractual monthly allowance of £6,444 which is not counted towards Mr McConville's total remuneration for the purposes of calculating any bonus payments.

Mr McConville is subject to a confidentiality undertaking without limitation in time and to non-competition, non-dealing, and non-solicitation restrictive covenants for a period of six months following termination of employment.

8.2 Letters of appointment of the Chairman and Non-Executive Directors

The Chairman and the Non-Executive Directors have each entered into letters of appointment with the Company. Details of these letters of appointment are set out below:

Non-Executive Director	Date of letter of appointment	Date of joining the Board(1)	Appointment end date	Annual fees 2019 (£)
Alastair Barbour	1 November 2018	1 October 2013	15 May 2020	145,000
Campbell Fleming	1 November 2018	31 August 2018	31 August 2021	—
Karen Green	1 November 2018	1 July 2017	1 July 2020	117,000
Nicholas Lyons	1 November 2018	31 October 2018	31 October 2021	325,000
Wendy Mayall	1 November 2018	1 September 2016	15 May 2020	105,000
John Pollock	1 November 2018	1 September 2016	15 May 2020	134,000
Belinda Richards	1 November 2018	1 October 2017	1 October 2020	105,000
Nicholas Shott	1 November 2018	1 September 2016	15 May 2020	105,000
Kory Sorenson	1 November 2018	1 July 2014	15 May 2020	105,000
Michael Tumilty(2)	14 August 2019	1 September 2019	1 September 2022	—

Notes:

(1) Directors with a joining date prior to 15 October 2018 initially joined the PGH Cayman board. As a result of the Onshoring, on 15 October 2018, the existing directors of the PGH Cayman board were appointed to the Phoenix Board.

(2) Michael Tumilty joined the Board on 1 September 2019.

The per annum fee levels for 2019 were £325,000 for the Chairman, £105,000 for the role of Non-Executive Director, £10,000 for the role of Senior Independent Director, £20,000 for the role of Chairman of the Audit, Risk and Remuneration Committee and £20,000 for the role of designated director to engage with the workforce. In addition, £20,000 is payable where a Non-Executive Director also serves on the board of a subsidiary company and £10,000 payable for service on the Solvency II Model Governance Committee.

The appointment of the Chairman and each Non-Executive Director is for an initial term of three years (and is renewable for a further three year term), unless terminated earlier by either party with notice, or by the Company for cause. The appointment of the Chairman and each Non-Executive Director is also subject to re-election by the Company in general meeting, the Articles, and continued satisfactory performance. If the Chairman or a Non-Executive Director is not re-elected by the Shareholders, their appointment terminates automatically not later than the end of the general meeting provided that the number of directors at the end of this meeting exceeds the minimum number of directors required by the Articles. If this is not the case then all the retiring directors who stood for re-appointment at the general meeting shall be deemed to have been re-appointed as directors and shall remain in office, but they may only act for the purpose of filling vacancies and convening further general meetings of the Company and performing such duties as are appropriate to maintain the Company as a going concern and to comply with the Company's legal and regulatory obligations.

The Chairman and Non-Executive Directors are not entitled to receive any compensation on termination of their appointment and no fees will be payable in respect of any unserved portion of the term of their appointment. Further, Non-Executive Directors are not entitled to participate in the Group's share, bonus or pension schemes.

The Chairman and each Non-Executive Director is entitled to reimbursement from the Company of reasonable expenses incurred in the performance of their duties. The Chairman and each Non-Executive Director is subject to a confidentiality undertaking without limitation in time. The Chairman and Non-Executive Directors may, in certain circumstances, obtain independent professional advice in the furtherance of their duties as Directors at the Company's expense.

8.3 Other service agreements or letters of appointment

Save as set out in paragraphs 8.1 and 8.2 above, there are no existing or proposed service agreements or letters of appointment between the Directors and any member of the Group.

9. DIRECTORS' AND SENIOR MANAGERS' REMUNERATION

9.1 Directors' Remuneration

The aggregate amount of remuneration paid by the Company to the Directors in the year ended 31 December 2019 is set out below. For more information, see paragraph 8 ("*Directors' Service Agreements and Letters of Appointment*") above.

Director	Fees/salary	Benefits(1)	Annual incentive(2)	2019 Total
		(£)		
Clive Bannister(3)	700,000	16,000	898,000	1,614,000
Alastair Barbour	145,000	14,000	—	159,000
Andy Briggs (Proposed Director)(4)	—	—	—	—
Campbell Fleming	—	—	—	—
Karen Green	117,000	3,000	—	120,000
Nicholas Lyons	325,000	6,000	—	331,000
Wendy Mayall	105,000	1,000	—	106,000
James McConville	440,000	16,000	581,000	1,037,000
John Pollock	134,000	1,000	—	135,000
Belinda Richards	105,000	4,000	—	109,000
Nicholas Shott	105,000	4,000	—	109,000
Kory Sorenson	125,000	—	—	125,000
Michael Tumilty(5)	—	—	—	—

Notes:

(1) Benefits include car allowance, private medical insurance, life insurance and reimbursements of expenses for travel and accommodation costs as applicable.

(2) Annual incentive figures shown are for payments made in 2019 and refer to the 2018 Annual Incentive Plan. Annual incentive amounts are presented inclusive of any amounts which must be deferred in shares for three years (i.e., one-third of the 2019 incentive award). Of the amounts presented above, £359,350 of Clive Bannister's incentive payment is subject to 3-year deferral delivered in shares, and £232,519 of James McConville's incentive payment is subject to similar deferral.

(3) Clive Bannister will retire from the Board from 10 March 2020.

(4) Andy Briggs will be appointed to the Board on receipt of regulatory approval.

(5) Michael Tumilty joined the Board on 1 September 2019.

9.2 **Senior Managers' Remuneration**

The aggregate amount of remuneration paid by the Company or its subsidiaries to the Senior Managers in the year ended 31 December 2019 was approximately £5.6 million. This amount comprises salary, annual bonus, car allowance, pension contributions and private medical insurance. In addition to the amount above, each Senior Manager is entitled to death in service benefit of four times base salary.

10. EMPLOYEE INCENTIVE PLANS

The Group's Employee Share Schemes have been introduced for the purpose of incentivising and motivating the Company's employees by reference to the Company's Shares. The Sharesave Scheme and the SIP are intended to give participants favourable tax treatment on the acquisition of the Company's shares under those plans. The DBSS has been introduced to facilitate the bonus deferral of all or part of any annual bonuses earned by members of the Executive Committee and those Senior Managers who receive a conditional share award (which entitles a participant to acquire or receive shares for no or only a nominal payment), a share option to acquire shares at a nil or nominal exercise price, an allocation of shares which may be forfeited in certain circumstances, or any combination of them under the LTIP (each an "**LTIP Award**") as part of their remuneration.

Options have been granted annually since 2010 to employees under the Sharesave Scheme. The SIP was launched in 2012 to all eligible employees with the first purchase of shares in May 2012. Details of the options and awards granted to Executive Directors and Senior Managers under the Employee Share Schemes are set out in the sections entitled "*Executive Directors*" and "*Senior Managers*" in paragraph 10 ("*Employee Incentive Plans*") of this Part XV ("*Additional Information*").

The Group's Employee Share Schemes, other than the International Plan, the Irish SIP and the Irish Sharesave Scheme, were originally introduced by PGH Cayman and subsequently approved by the Company to govern the terms of any awards granted following the Onshoring Scheme Effective Date. The terms of the Group's current Employee Share Schemes are the same as those introduced by PGH Cayman, except for minor differences that reflect changes in regulatory, governance and market practices as reflected below.

The Long-Term Incentive Plan

Overview

The LTIP was originally adopted on 2 July 2009 by the PGH Cayman board, approved by PGH Cayman's shareholders with effect from 2 September 2009 and subsequently amended by the PGH Cayman Remuneration Committee on 30 January 2013 and 21 January 2015. As a result of Onshoring, the Company adopted a new LTIP on 31 October 2018, which was approved by Shareholders on 28 November 2018. The new LTIP rules were subsequently updated by the Company's Remuneration Committee on 5 August 2019. An eligible employee may be granted an LTIP Award.

Eligibility

All of the Company's employees, including its Executive Directors and those of its subsidiaries are eligible to participate in the LTIP at the discretion of the Remuneration Committee.

Grant of LTIP Awards

Subject to any applicable dealing restrictions, the Remuneration Committee may grant LTIP Awards under the LTIP at any time while the Company is listed on the Official List and admitted to trading on the LSE's main market for listed securities. Awards (if any) will be granted on the fourth Dealing Day after the date on which the Company announces its results for the full financial year, notwithstanding that a dealing restriction may then apply.

Buy-out awards may be granted to individuals (including Executive Directors) to replace elements of remuneration forfeited on leaving a previous employment in order to take up employment with the Group, without such award being subject to performance conditions or a holding period.

No payment is required for the grant of an LTIP Award.

Individual limits

The Remuneration Committee determines the appropriate level of grant for participants. However, the maximum number of shares under LTIP Awards granted to a participant in any financial year will generally not have an aggregate market value, as measured at the date of grant, exceeding 300 per cent. of the participant's base salary. In exceptional circumstances, such as recruitment or retention, a limit of up to

400 per cent. of annual base salary will apply. Market value is based on the average of the lower of the two prices shown in the Daily Official List as the closing price of the shares on the day plus one half of the difference between those two figures for the three Dealing Days prior to the date of grant. When determining the size of any individual grant, the Remuneration Committee, as far as possible, takes into account the likely impact of dividend enhancement, as described below. Where a participant is required to bear the costs of his employer's national insurance contributions on his LTIP Award, the number of shares under his award may, at the discretion of the Remuneration Committee, be increased to reflect this, subject to the maximum limit referred to above.

Where the Remuneration Committee cannot grant or considers it inappropriate to grant an award to a particular employee during any financial year as a result of any dealing restrictions, the maximum total value of shares over which awards may be granted to that employee may be carried forward and be available for the next grants that the Remuneration Committee decides to make to that employee.

Dividend enhancement

The number of shares which vest under an LTIP Award is increased to reflect the value of dividends paid on shares during the vesting period.

Performance conditions

LTIP Awards are subject to performance conditions imposed by the Remuneration Committee at the date of grant. Performance conditions are generally measured over a period of three years. The extent to which the performance conditions are satisfied will determine how many (if any) of the shares under an LTIP Award a participant is entitled to acquire or in the case of an allocation of forfeitable shares, to retain. Performance conditions are not capable of being retested, so that any proportion of an LTIP Award which does not vest on the normal vesting date will lapse or be forfeited (as applicable).

The specific performance conditions applicable to a grant of an LTIP Award are determined by the Remuneration Committee at the date of grant. However, as a general matter, performance conditions will be demanding and stretching and, where appropriate, performance may be measured against a defined comparator group. Vesting levels are determined on a sliding scale by reference to achievement of the performance conditions. The Remuneration Committee may determine that an LTIP Award should be subject to multiple conditions or that an LTIP Award should be sub divided and that each part be subject to a different condition. The Remuneration Committee is required to give due regard to best practice and any applicable codes published by regulators when setting performance conditions.

The Remuneration Committee may set different performance conditions for LTIP Awards granted in different years provided that, in the reasonable opinion of the Remuneration Committee, the targets are not materially less challenging in any year.

The Remuneration Committee may vary the performance conditions applying to existing LTIP Awards if an event occurs which results in the conditions no longer being a fair measure of performance provided that, in the reasonable opinion of the Remuneration Committee, the new conditions are not materially less challenging than the original conditions would have been but for the event in question.

Release or exercise of LTIP Awards

Subject to satisfaction of the applicable performance conditions the vesting period for LTIP Awards is three years after the date of their grant. For LTIP Awards made to executive directors from 2015 onwards, a holding period applies so that any LTIP Awards for which the performance vesting requirements are satisfied will not be released for a further two years from the third anniversary of the original award date. Vested share options are exercisable up until the tenth anniversary of the date of grant, after which they lapse. Awards granted to Irish tax-resident participants are exercisable for seven years after the date of grant. Vested forfeitable shares will cease to be subject to the risk of forfeiture on vesting.

LTIP Awards normally only vest if the participant remains in employment with the Company or any of its subsidiaries. If a participant leaves employment during the vesting period, vested and unvested parts of the LTIP Awards will normally lapse or be forfeited. However, if the reason for leaving is death, injury, disability, ill health, redundancy or any other reason at the Remuneration Committee's discretion, LTIP Awards will not lapse but will vest on the normal vesting date, to the extent that the Remuneration Committee determines that the performance conditions have been satisfied over the full vesting period but subject to a time pro rating reduction (based on the period from the date of grant to the cessation of employment relative to a period of 3 years). Alternatively, the Remuneration Committee may, in its absolute discretion, determine that LTIP Awards should vest on the date of cessation of employment, subject to the satisfaction of the performance conditions at that date and to a time pro rating reduction. In either circumstance, the Remuneration Committee may determine that the pro rating reduction should not apply at all or should apply to a lesser extent. In the event of a participant's death, an LTIP Award will vest and the shares may be released or acquired by his or her personal representatives within twelve months of such event.

Corporate events

In the event of a change of control, scheme of arrangement or voluntary winding up, unvested LTIP Awards will vest to the extent that the performance conditions have been satisfied at the time of the relevant event but subject to a time pro rating reduction (based on the period from the date of grant to the date of the relevant event relative to a period of 3 years). The Remuneration Committee may in its discretion disapply the application of time pro rating or determine that pro rating should apply to a lesser extent. The Remuneration Committee may also allow or require LTIP Awards to be exchanged for equivalent awards over shares in the acquiring company. In the event of an internal reorganisation which involves the creation of a new holding company, LTIP Awards will not vest and will be replaced by equivalent awards over shares in the new holding company.

If a demerger, special dividend or other similar event or transaction occurs which would affect the market value of a share to a material extent, then the Remuneration Committee may determine that LTIP Awards will vest as on a change of control.

Variation of share capital

In the event of any variation of share capital or reserves of the Company (including, without limitation, by way of capitalisation issue, rights issue, sub division, consolidation or reduction) or the implementation by the Company of a demerger or payment of a super dividend which would otherwise materially affect the value of a LTIP Award) the Remuneration Committee may adjust the number of Shares subject to LTIP Awards (including vested shares in respect of which any LTIP Award has been realised but Shares have not been transferred to the participant) to such extent and in such manner as it thinks fit.

The Deferred Bonus Share Scheme

Overview

The DBSS was adopted by the PGH Cayman Remuneration Committee on 1 February 2010 and subsequently amended by the Remuneration Committee on 12 January 2015, 13 March 2015, 18 August 2015 and 23 August 2016. As a result of the Onshoring, the Company adopted a new DBSS on 31 October 2018, which was approved by Shareholders on 28 November 2018. The new DBSS rules were subsequently updated by the Company's Remuneration Committee on 5 August 2019. The DBSS allows all or part of an employee's annual bonus to be awarded on a gross of tax basis in the form of a deferred share award, which will vest subject to the employee remaining in employment during a fixed vesting period. The Company may not issue new shares to satisfy deferred share awards. Instead, it may provide monies to an employee benefit trust to enable the trust to purchase existing shares in the market to be used to satisfy the awards.

Grant and vesting of deferred share awards

Participants will be granted an award of shares having a market value equal to the gross of tax element of the annual bonus that is to be deferred. The deferred award will normally vest and become exercisable at the end of a vesting period specified by the Remuneration Committee at the date of grant (which may not be less than three years or longer than five years) and is generally anticipated to be three years subject to the participant's continued employment. The participant may exercise the deferred award during the six months after the end of the vesting period.

Awards (if any) will be granted on the fourth Dealing Day after the date on which the Company announces its results for the full financial year, notwithstanding that a dealing restriction may then apply.

For the purpose of determining the aggregate market value of the shares under awards, market value is based on the average of the lower of the two prices shown in the Daily Official List as the closing price of the shares on the day plus one half of the difference between those two figures for the three Dealing Days prior to the date of grant.

Clawback

If it is determined that a bonus to which a deferred award relates was calculated on the basis of misstated or incorrect financial information, that deferred award, to the extent that it is unvested, will lapse (unless the Remuneration Committee decides otherwise) in respect of such number of shares as have a value equal to the difference between the excess bonus and the bonus that would have been calculated on the basis of the restated financial information.

Cessation of employment

If a participant resigns or gives notice of his resignation or is dismissed summarily before the vesting date, his entitlement to the deferred share award will automatically lapse unless the Remuneration Committee, in its discretion, determines otherwise. If the Remuneration Committee exercises its discretion in favour of such a leaver, or if a participant's employment ceases for any other reason, the participant's deferred award will be capable of exercise during the six months following his cessation of employment (or 12 months in the event of his death). If a participant ceases employment by reason of retirement with the consent of the Company, he may exercise a deferred award during the six months following the original vesting date.

Corporate events

In the event of a takeover, scheme of arrangement or winding-up of the Company (not being an internal reorganisation) deferred share awards will vest and be exercisable for a limited period after the change of control. An internal reorganisation to create a new holding company will not result in the accelerated vesting of deferred share awards; they will be exchanged for equivalent awards over shares in the holding company and vest at the normal vesting date.

Variation of share capital

In the event of any variation of the share capital of the Company, a demerger involving the Company or a subsidiary of the Company, or the payment of a capital or other dividend or distribution which is of an unusual nature (and which, in the opinion of the Remuneration Committee, has a material impact on the value of an Share), the Remuneration Committee may adjust, as it considers appropriate: (i) the number of Shares that may be acquired on the exercise of a deferred share award; (ii) the price payable for the Shares; and (iii) the number of Shares which may be allotted or transferred pursuant to an award (where an award has been exercised or released but no Shares have been allotted or transferred pursuant to that exercise).

The Sharesave Scheme

Overview

The Sharesave Scheme was adopted on 2 July 2009 by the PGH Cayman board, approved by PGH Cayman's shareholders with effect from 2 September 2009 and subsequently amended by the PGH Cayman Remuneration Committee on 21 January 2015. The Sharesave Scheme enables tax-favoured options to be granted over shares to UK resident employees. The Sharesave Scheme was approved by HMRC on 24 December 2009. As a result of the Onshoring, the Company adopted a new Sharesave Scheme on 31 October 2018, which was approved by Shareholders on 28 November 2018. As at the Latest Practicable Date, there were 1,654 employees currently participating in the Sharesave Scheme who have options over a total of 2,416,340 Shares.

Eligibility

All of the Company's employees and full-time Directors who are UK resident taxpayers are eligible to participate provided that the Remuneration Committee may require any such person to have completed a qualifying period of employment of up to five years. The Remuneration Committee may allow other employees to participate.

Grant of options

Options can only be granted to employees who enter into an approved savings contract with a designated bank or building society, under which monthly savings are made as deductions from pay. The participant must select the date on which his or her savings will be repaid to him (the maturity date) which may be three or five years after the start of the contract provided that the Board may choose to offer only one of those repayment dates.

Invitations to participate in the Sharesave Scheme may be issued only during the period of 42 days commencing on any of the following: (i) the day following the announcement of the Company's results for any financial period; (ii) any changes to the legislation affecting savings-related share option schemes being announced, made or coming into effect; or (iii) a resolution by the Directors that exceptional circumstances have arisen which justify the grant of options.

Individual limits

A participant's aggregate monthly savings under all savings contracts linked to options granted under any share save scheme must not exceed the statutory maximum (currently £500). The Remuneration Committee can set a lower limit in relation to any particular grant.

The number of shares over which an option is granted is such that the total exercise price payable will correspond to the proceeds on maturity of the related savings contract (i.e., the total savings plus accrued interest).

Exercise price

The price per share payable upon the exercise of an option must not be less than 80 per cent. of the market value of a share on a date which is determined by the Board (but which may be earlier than 30 days prior to the date of grant or 42 days if applications for options are scaled down where this is an oversubscription for options). If the option is granted over Shares which are admitted to trading on the LSE, market value will be the average of the lower of the two prices shown in the Daily Official List as the closing price of the shares on the day plus one half of the difference between those two figures for the three Dealing Days prior to the date of grant.

Exercise of options

Options are normally only exercisable during the six month period following the maturity date of the relevant savings contract. Earlier exercise is permitted if the participant leaves employment in certain specified circumstances, otherwise options will lapse on the cessation of employment.

Leaving employment

Options lapse on cessation of employment with the Company or any subsidiary of the Company which has been nominated by the Board as a participating company for the purposes of the Sharesave Scheme unless the participant ceases employment for a specified reason. The participant may exercise options within six months of ceasing employment by reason of injury or disability, redundancy, retirement, the sale of the business or subsidiary company in which the participant is employed or, if the option has been held for at least three years, ceasing employment for any other reason. In respect of options granted prior to 17 July 2013, a participant may exercise his or her options within six months of reaching age 60 even though he or she does not leave employment. The personal representatives of a participant who dies may exercise his or her options within 12 months of the date of his or her death or if he or she dies within six months after the maturity of the relevant savings contract, 12 months from that maturity.

Corporate events

In the event of a change of control of the Company as a result of a general offer, or if a court approves a compromise or scheme of arrangement of the Company, or if there is a winding-up, options will become exercisable within limited specified periods of such events to the extent that they are exercisable with accrued savings. The Company will notify participants of the relevant corporate event so as to enable them to exercise their options or take other action. Alternatively, participants may be offered equivalent new options over shares in a new holding company in exchange for their existing options.

Variation of share capital

In the event of any variation of share capital or reserves of the Company (including, without limitation, by way of capitalisation issue, rights issue, sub-division, consolidation or reduction), the number of Shares under option and/or the exercise price may be adjusted as the Board (or a duly authorised committee thereof) may determine, provided that: (i) HMRC gives prior approval; (ii) in respect of options under which Shares are to be transferred, the person holding the Shares to which the options relate has been given prior notification and gives their prior approval; (iii) the adjustment does not result in an increase to the aggregate exercise price of any option; and (iv) the adjustment does not have the effect of reducing the exercise price to less than the nominal value of a Share.

The Share Incentive Plan

Overview

The SIP was adopted on 2 July 2009 by the PGH Cayman board, approved by PGH Cayman's shareholders with effect from 2 September 2009 and subsequently amended with effect from 17 July 2013. The SIP received HMRC approval on 11 January 2012. As a result of the Onshoring, the Company adopted new SIP rules on 31 October 2018, which were approved by Shareholders on 28 November 2018. The acquisition of Shares under the SIP may attract tax-favoured treatment for UK resident employees.

Eligibility

All of the Company's employees who are UK resident taxpayers would be eligible to participate in the SIP provided they satisfy any minimum service requirement that is imposed. The Company may set a minimum service requirement but that requirement cannot exceed 18 months' service. All eligible employees must be invited to participate on similar terms.

Awards

In summary, the SIP allows participants to acquire shares under the terms of three types of awards: (i) an award of free shares ("**Free Shares**"); (ii) the opportunity for employees to purchase shares with deductions from their pre-tax salary ("**Partnership Shares**"); and (iii) an award of free shares ("**Matching Shares**") to those employees who have purchased Partnership Shares.

These elements may be operated individually or in conjunction with each other except that Matching Shares may only be awarded in conjunction with Partnership Shares. In addition, employees can be required or allowed to reinvest dividends paid on their Free Shares, Partnership Shares and Matching Shares in further shares ("**Dividend Shares**"). Any shares acquired under the SIP must be held in a special trust on participants' behalf for a minimum period of time.

Free Shares

The Company may provide Free Shares to eligible employees up to a maximum value set from time to time by HMRC. The current maximum value is £3,600 per employee per annum. If the Company wishes, the award of Free Shares can be based on the achievement of personal, team, divisional or corporate performance targets which must be notified to all relevant employees. Otherwise, Free Shares must be awarded to eligible employees on the same terms subject only to variation according to an employee's remuneration, length of service or hours worked.

Partnership Shares

The Company may provide eligible employees with the opportunity to acquire Partnership Shares from their pre-tax salary up to a maximum value set from time to time by HMRC, currently the lesser of £1,800 per annum or 10 per cent. of salary. Salary for these purposes includes base salary and any bonus. The Company may set a minimum monthly deduction that may not be greater than £10. Shares are acquired on behalf of employees within 30 days after each deduction at a price equal to the market value of such shares on the date they are acquired. Alternatively, deductions can be accumulated for up to 12 months. In this case, shares are acquired on behalf of employees within 30 days of the end of the accumulation period, by reference to the market value of the shares on either the date the accumulation period commenced or the date the shares are acquired.

For the purpose of determining the number of shares appropriated by an employee, market value will be the average of the lower of the two prices shown in the Daily Official List as the closing price of the shares on the day plus one half of the difference between those two figures for the three Dealing Days prior to the date of grant.

Matching Shares

The Company may award Matching Shares to those eligible employees who have purchased Partnership Shares. The Matching Shares must be offered on the same basis to all employees in such ratio as the Company may determine, but that ratio may not exceed two Matching Shares for every one Partnership Share purchased.

Dividend Shares

The Company may either give eligible employees the opportunity, or may require them, to re-invest dividends paid on their Free Shares, Partnership Shares and Matching Shares in further shares.

Holding period

Free Shares and Matching Shares must generally be held in the SIP trust for a minimum period set by the Company, which may not be less than three years nor more than five years from the date on which such shares are allocated to employees. Partnership Shares are not subject to any specific holding period. Dividend Shares must generally be held in the SIP trust for a minimum period of not less than three years.

Leavers

The Company can provide for Free Shares and Matching Shares to be forfeited if employees cease employment with the Group within a period of up to three years from the date on which the shares were allocated other than in specified circumstances including death, redundancy, disability, injury, retirement, or the sale of the business or subsidiary in which the participant is employed.

Employees may withdraw their Partnership Shares from the SIP trust at any time. However, the Company may stipulate that Matching Shares will be subject to forfeiture if the corresponding Partnership Shares are withdrawn within a specified period (not exceeding three years) of their purchase. The Company may also stipulate that Free Shares and Matching Shares may be forfeited if an employee withdraws them from the SIP trust within a specified period (not exceeding three years) from the date they were allocated. Forfeiture will not apply if the shares are withdrawn from the SIP as a result of a change of control of the Group.

Corporate events

In the event of any reconstruction or takeover of the Company, employees may direct the trustee of the SIP how to act in respect of any shares held on their behalf.

Capital raisings

Whenever rights to acquire shares or other rights of any nature are granted by the Company in respect of its Shares held in the SIP on behalf of participants, participants may instruct the trustee to take up all or part of the rights, to sell the rights and/or to allow all or part of the rights to lapse.

The International Plan

Overview

In connection with the Onshoring, the rules of the International Plan were adopted on 31 October 2018, which were approved by Shareholders on 28 November 2018. The International Plan is designed to allow employees of the Group who are not UK resident tax payers to participate in a plan equivalent to the SIP.

Terms of the plan

Rules of the SIP apply to the International Plan with certain modifications as set out below to account for legal, regulatory or tax differences applicable to the non-UK resident tax payers:

- Where the Company invites employees to participate in the International Plan, they may be invited to acquire partnership shares with deductions from their post-tax salary, with those shares being held on their behalf by a trustee or a nominee on terms comparable with the SIP. The maximum deduction that may be made in respect of partnership shares may not be greater than the foreign currency equivalent of the maximum prescribed with respect to the SIP.
- When an employee is invited to acquire partnership shares, the individual may be granted a free and/or matching award, in the form of a conditional share award, which would entitle them to receive shares following a vesting period which is normally three years. The Company may determine the ratio of matching awards to partnership shares having regard to such factors as it considers appropriate, including the maximum ratios under the SIP and the respective taxation treatment of participants under the SIP and the International Plan.
- Matching awards will lapse on the date on which the participant transfers, charges or otherwise disposes of the beneficial interest in the partnership shares to which the matching award relates to. Free and matching awards will lapse upon the participant ceasing to be in employment with the Group during the vesting period other than in specified circumstances including death, redundancy, disability, injury, retirement, or the sale of the business or subsidiary in which the participant is employed.

In the event of a change of control, scheme of arrangement or voluntary winding up, unvested free and matching awards will vest at the time of the relevant event. In the event of an internal reorganisation which involves the creation of a new holding company, the awards will not vest and will be replaced by equivalent awards over shares in the new holding company.

The Irish Share Incentive Plan

Overview

The Phoenix Irish Share Incentive Plan ("**Irish SIP**") enables Irish resident employees to acquire shares in a tax-efficient manner. It is subject to approval by the Irish Revenue Commissioners.

Eligibility

All of the Company's employees who are Irish resident taxpayers will be eligible to participate in the Irish SIP provided they satisfy any minimum service requirement that is imposed. The Company may set a minimum service requirement but that requirement cannot exceed three years' service. All eligible employees must be invited to participate on similar terms.

Awards

In summary, the Irish SIP allows participants to acquire shares under the terms of four types of awards: (i) an award of Free Shares; (ii) if Free Shares are awarded, the Company may, but is not required to, offer employees the opportunity to purchase additional shares with deductions from their pre-tax salary ("**Salary Forgone Shares**"); (iii) the opportunity for employees to purchase shares with deductions from their post-tax earnings ("**Partnership Shares**"); and (iv) an automatic award of free shares ("**Matching Shares**") to those employees who have purchased Partnership Shares.

Any shares acquired under the Irish SIP must be held in a special trust on participants' behalf for a minimum period of time.

Free Shares

An award of Free Shares can be based on objective appraisal of individual performance under an employee-wide performance appraisal scheme or on the achievement of, team, divisional or corporate performance targets which must be notified to all relevant employees. Otherwise, Free Shares must be awarded to eligible employees on the same terms subject only to variation according to an employee's remuneration or length of service.

Salary Forgone Shares

In tandem with an award of Free Shares, the Company may provide eligible employees with the opportunity to acquire Salary Forgone Shares from their pre-tax salary. Salary for these purposes is base salary (excluding any bonus). Salary deductions may not exceed 7.5 per cent. of salary, and in all events may not exceed the value of the Free Shares awarded. The Company may set a minimum monthly deduction that may not exceed the lesser of €127 or 1 per cent. of salary. Shares are acquired on behalf of employees at the same time or after the related Free Share have been allocated. Deductions may be accumulated for up to 12 months. In this case, shares are acquired on behalf of employees at the end of the accumulation period. Shares are acquired by reference to the market value of the shares at the time they are acquired.

Partnership Shares

The Company may provide eligible employees with the opportunity to acquire Partnership Shares from their post-tax earnings. Deductions may not exceed 7.5 per cent. of base salary (excluding any bonus). The Company may set a minimum monthly deduction that may not exceed the lesser of €127 or 1 per cent. of salary. Shares are acquired on behalf of employees within 30 days after each deduction. Alternatively, deductions can be accumulated for up to 12 months. In this case, shares are acquired on behalf of employees within 30 days of the end of the accumulation period. Shares are acquired by reference to the market value of the shares at the time they are acquired.

Matching Shares

The Company must award Matching Shares to employees who have purchased Partnership Shares. The Matching Shares must be offered on the same basis to all employees in such ratio as the Company may determine, but that ratio must be at least one Matching Share for each Partnership Share purchased.

Annual Individual Limit

The aggregate value, at the time of award, of all Free Shares, Salary Forgone Shares and Matching Shares allocated to an employee in a tax year may not exceed €12,700.

Holding periods

Free Shares, Salary Forgone Shares and Matching Shares generally must held in the Irish SIP trust for a minimum period of three years in order to benefit from the favourable tax treatment offered by the Irish SIP. Partnership Shares must be held in the Irish SIP trust for two years.

Leavers

Employees who are awarded shares under the Irish SIP will retain them if they cease employment with the Group.

Corporate events

In the event of any reconstruction or takeover of the Company, employees may direct the trustee of the Irish SIP how to act in respect of any shares held on their behalf.

Capital raisings

Whenever rights to acquire shares or other rights of any nature are granted by the Company in respect of its Shares held in the Irish SIP on behalf of participants, participants may instruct the trustee to take up all or part of the rights, to sell the rights and/or to allow all or part of the rights to lapse.

The Irish Sharesave Scheme

Overview

The Phoenix Irish Sharesave Scheme enables tax-favoured options over shares to be granted to Irish resident employees. The plan is subject to approval of the Irish Revenue Commissioners. As at the Latest Practicable Date, there were 99 employees currently participating in the Irish Sharesave Scheme who have options over a total of 80,549 Shares.

Eligibility

All of the Company's employees and full-time Directors who are Irish resident taxpayers are eligible to participate provided that the Remuneration Committee may require any such person to have completed a qualifying period of employment of up to three years, but may allow other employees to participate.

Grant of options

Options can only be granted to employees who enter into a certified contractual savings scheme with a qualifying savings institution under which monthly savings are made as deductions from pay. The participant must select the date on which his or her savings will be repaid to him (the maturity date) which may be three or five years after the start of the contract provided that the Board may choose to offer only one of those repayment dates.

Invitations to participate in the Irish Sharesave Scheme may be issued only during the period of 42 days commencing on any of the following: (i) Admission, (ii) the day following the announcement of the Company's results for any financial period; (iii) any changes to the legislation affecting savings-related share option schemes being announced, made or coming into effect; or (iv) a resolution by the Directors that exceptional circumstances have arisen which justify the grant of options.

Individual limits

A participant's aggregate monthly savings under all savings contracts linked to options granted under any approved share save scheme must not exceed the statutory maximum (currently €500). The Remuneration Committee can set a lower limit in relation to any particular grant.

The number of shares over which an option is granted is such that the total exercise price payable will correspond to the proceeds on maturity of the related savings contract (i.e., the total savings plus accrued interest).

Exercise price

Under the relevant legislation, the price per share payable upon the exercise of an option must not be less than 75 per cent. of the market value of a share on a date which is determined by the Board. For the purpose of determining the exercise price, market value will be the average of the two prices shown in the Daily Official List as the closing price of the shares on the day plus one half of the difference between those two prices, for the three Dealing Days prior to the date of grant. If the option relates to new issue shares, the exercise price must not be less than the nominal value of a share.

Exercise of options

Options are normally only exercisable during the six month period following the maturity date of the relevant savings contract. Earlier exercise is permitted if the participant leaves employment in certain specified circumstances, otherwise options will lapse on the cessation of employment.

Leaving employment

Options lapse on cessation of employment with the Company or any subsidiary of the Company which has been nominated by the Board as a participating company for the purposes of the Irish Sharesave Scheme unless the participant ceases employment for a specified reason. The participant may exercise options within six months of ceasing employment by reason of injury or disability, redundancy, retirement, the sale of the business or subsidiary company in which the participant is employed or, if the option has been held for at least three years, ceasing employment for any other reason. The personal representatives of a participant who dies may exercise his or her options within 12 months of the date of his or her death or if he or she dies within six months after the maturity of the relevant savings contract, 12 months from that maturity.

Corporate events

In the event of a change of control of the Company as a result of a general offer, or if a court approves a compromise or scheme of arrangement of the Company, or if there is a winding-up, options will become exercisable within limited specified periods of such events to the extent that they are exercisable with accrued savings. The Company will notify participants of the relevant corporate event so as to enable them to exercise their options or take other action. Alternatively, participants may be offered equivalent new options over shares in a new holding company in exchange for their existing options.

Variation of share capital

In the event of any variation of share capital or reserves of the Company (including, without limitation, by way of capitalisation issue, rights issue, sub-division, consolidation or reduction), the number of Shares under option and/or the exercise price may be adjusted as the Board (or a duly authorised committee thereof) may determine, provided that: (i) the adjustment does not result in the requirements of the legislation under which the Irish Sharesave Scheme is approved ceasing to be satisfied; (ii) after the adjustment, the aggregate market value of the shares comprised in any option and the aggregate exercise price of any option are substantially the same as they were immediately before the adjustment; (iii) the adjustment does not have the effect of reducing the exercise price to less than the nominal value of a share; and (iv) where an option subsists over unissued and issued shares, any adjustment must only be made if it can be made to both unissued and issued shares to the same extent.

Terms Applicable to all of the Employee Share Schemes

The terms below apply to all the Employee Share Schemes.

Time limit for grants of options and awards

Options and awards may not be granted more than ten years after the date the Employee Share Schemes were adopted by the Shareholders.

Satisfaction of options and awards

Options and awards (other than deferred awards granted under the PGH Cayman DBSS) may be satisfied by the issue of new shares or the transfer of existing shares.

Overall plan limits

The Company may not grant options or awards under any of the Employee Share Schemes or any other share plans adopted by the Company or any other company under its control if such grant would cause the aggregate number of shares issued or issuable pursuant to options or awards granted in the preceding ten years under those plans to exceed 10 per cent. of the Company's issued ordinary share capital at the proposed date of grant.

In addition, the Company may not grant options or awards under the LTIP, DBSS or any other discretionary share plan adopted by the Company or any other company under its control if such grant would cause the aggregate number of shares issued or issuable pursuant to options or awards granted in the preceding ten years under those plans to exceed 5 per cent. of the Company's issued ordinary share capital at the proposed date of grant.

If options and awards are to be satisfied by a transfer of existing shares, the percentage limits stated above will not apply.

For the purpose of calculating the limits, shares in PGH Cayman issued pursuant to PGH Cayman Employee Share Schemes prior to the Onshoring Scheme Effective Date are taken into account; however, any options or awards granted, or shares allocated through trust arrangements, under the PGH Cayman Employee Share Schemes before the premium listing which occurred on 5 July 2010, are not taken into account for the purposes of calculating the above limits.

Other features of options and awards

Options and awards are not transferable, except on death. Options and awards are not pensionable. Unless the Remuneration Committee determines otherwise, awards and options will lapse if a participant is declared bankrupt.

Rights attaching to shares

Any shares allotted when an option is exercised or an award vests will rank *pari passu* with shares then in issue (except for rights arising by reference to a record date prior to their allotment). At any time when the shares are admitted to listing on a recognised stock exchange, application will be made for any newly issued shares to be admitted to such listing and admitted to trading on the relevant exchange.

Alterations to the Employee Share Schemes

The Remuneration Committee may amend the Employee Share Schemes in any respect, provided that (save for the PGH Cayman DBSS) the prior approval of shareholders is obtained for any amendment to the advantage of participants to the following provisions: (i) the individuals who may participate in the plan; (ii) the limits on the number of shares available under the plan; (iii) the maximum entitlement of participants; and (iv) the basis for determining a participant's entitlement and the adjustment of options or awards on a variation of the Company's share capital.

The requirement to obtain the prior approval of shareholders does not apply to any amendment to the PGH Cayman DBSS nor to any minor amendment of the Employee Share Schemes made: (i) to benefit the administration of the Employee Share Schemes; (ii) to take account of a change in legislation; (iii) or to obtain or maintain favourable tax, exchange control or regulatory treatment for eligible employees, participants or for any company in the Group. Shareholder approval is also not required for any amendment to any performance conditions, provided that any such amendment is made on the basis referred to above under the section entitled "*The Long-Term Incentive Plan—Performance conditions*" above.

Amendments that would adversely affect subsisting rights are subject to specified limitations.

The Company may modify or extend any of the Employee Share Schemes to apply in different jurisdictions, having regard to securities, exchange control and tax laws in such jurisdictions. Any such amendment must conform to the basic principles of the relevant plan and cannot enlarge the individual or overall limits applicable to that share plan.

New CEO Buy-Out Award

Overview

Andy Briggs was appointed as Chief Executive Officer Designate on 1 January 2020 (the "**Joining Date**"). In connection with the recruitment of Andy Briggs, on 7 November 2019, the Company agreed to grant a nil-cost option to Mr Briggs as a one-off award under Listing Rule 9.4.2 (the "**Buy-Out Award**"). The Buy-Out Award is designed to become exercisable if the awards which they replace are lapsed by Aviva, Mr Brigg's former employer, by reason of his employment with the Company, with the Buy-Out Award intended to provide Mr Briggs with appropriate compensation for such forfeiture.

Applicable rules

The Buy-Out Award is subject to and in accordance with the rules of the LTIP. However, the award is not pursuant to the LTIP, and is not subject to normal annual individual limits or additional performance conditions imposed under the LTIP.

Maximum entitlement

The Buy-Out Award replaces awards granted by Aviva to Mr Briggs on 27 March 2017 over 302,532 ordinary shares of Aviva and 26 March 2018 over 325,892 ordinary shares of Aviva, as subsequently increased through shares representing dividend equivalent payments, scheduled to vest on 27 March 2020 and 26 March 2021, respectively (the "**Aviva Awards**"). The Aviva Awards are subject to the relative total shareholder return of Aviva (50 per cent. weighting), and the return on equity of Aviva in respect of the 2017 Aviva Award and the earnings per share of Aviva in respect of the 2018 Aviva Award (50 per cent. weighting).

In connection with his departure from Aviva, the Aviva Awards were reduced on a time pro-rated basis to 23 October 2019. The number of Shares comprised in the Buy-Out Award will be calculated on the basis of such reduced portion of Aviva Awards, including any dividend equivalents up to the Joining Date, to the extent that Aviva exercises its discretion to lapse the pro-rated amount to Mr Briggs by reason of his decision to join the Company, by reference to the three day average closing price of the ordinary shares in Aviva ending on the day prior to the Joining Date and the three day average closing price of the Company's Shares on the day prior to the Joining Date.

Vesting of award

The Buy-Out Award will vest on or following verification of the level of vesting applicable to other participants in the relevant incentive plans operated by Aviva to the extent that the relevant Aviva Award meets its performance conditions and is stated to vest.

The Buy-Out Award will become exercisable when the relevant Aviva Award would have become vested but for lapse by reason of Mr Brigg's employment with the Company.

Cessation of employment

If Mr Briggs voluntarily resigns from the Group in circumstances not constituting constructive dismissal or is dismissed for cause within 12 months of the original vesting date of the relevant Aviva Award, any vested or unvested portion of the Buy-Out Award will immediately lapse and Mr Briggs will be required to repay the value of any shares issued to him in respect of the Buy-Out Award.

Holding period

The Buy-Out Award will be subject to a two-year holding period ending on the second anniversary of the original vesting date of the applicable Aviva Award.

Corporate events

In the event of a change of control, scheme of arrangement or voluntary winding up, any unvested portion of the Buy-Out Award will vest on the relevant event in accordance with the LTIP, subject to performance conditions and a time pro rating reduction which may be disapplied or applied to a lesser extent at the Remuneration Committee's discretion. The Remuneration Committee may also allow or require the award to be exchanged for equivalent awards over shares in the acquiring company. In the event of an internal reorganisation which involves the creation of a new holding company, the award will not vest and will be replaced by equivalent awards over shares in the new holding company.

If a demerger, special dividend or other similar event or transaction occurs which would affect the market value of a share to a material extent, then the Remuneration Committee may determine that the award will vest as on a change of control.

Variation of share capital

In the event of any variation of share capital or reserves of the Company (including, without limitation, by way of capitalisation issue, rights issue, sub division, consolidation or reduction) or the implementation of the Company of a demerger or payment of a super dividend which would otherwise materially affect the value of the Buy-Out Award) the Remuneration Committee may adjust the number of Shares subject to the award (including vested shares in respect of which the award has been realised but Shares have not been transferred to Mr Briggs) to such extent and in such manner as it thinks fit.

Amendments to the Buy-Out Award

The provisions of the Buy-Out Award relating to the limits on the number of shares under the award, Mr Brigg's maximum entitlement, the basis for determining Mr Brigg's entitlement, the adjustment on a capitalisation, rights issue, open offer, sub-division, consolidation, reduction of capital or any other variation of capital cannot be altered without prior approval of the company in general meeting unless it is a minor amendment to benefit the administration of the Buy-Out Award, take account of a change in legislation, to obtain or maintain favour tax, exchange control or regulatory treatment for Mr Briggs or the company.

Other features of the award

The Buy-Out Award is not transferable, except on death, and is not pensionable. Unless the Remuneration Committee determines otherwise, the award will lapse if Mr Briggs is declared bankrupt.

Satisfaction of the award

The Buy-Out Award may be satisfied by the transfer of existing shares. No shares will be issued or transferred from treasury to satisfy the Buy-Out Award.

Executive Directors

As at the date of this document, the interests of Clive Bannister and James McConville under the long-term share-based arrangements were as follows:

2015 LTIP Awards

Details of the nil cost options granted in 2015 under the PGH Cayman LTIP to Mr Bannister and Mr McConville are set out in the table below.

	Number of Shares under 2015 LTIP Award	2015 LTIP Awards Normal Vesting Date
Clive Bannister	169,669	28 September 2018
James McConville	106,646	28 September 2018

The 2015 PGH Cayman LTIP Awards, which vested on 28 September 2018, were subject to three performance conditions. The performance condition attaching to the 40 per cent. of the shares comprised in the PGH Cayman LTIP Award were based on Embedded Value Growth targets measured over the three financial years of PGH Cayman starting 1 January 2015. 100 per cent. of the shares comprised in this tranche of the award vested as a result of an Embedded Value growth of 7.9 per cent. in excess of the risk-free rate (3 per cent. per annum).

The performance condition attaching to the 40 per cent. of the shares comprised in the PGH Cayman LTIP Award were based on cash generation targets measured over the three financial years of PGH Cayman starting 1 January 2015. 25 per cent. of the shares comprised in this tranche of an award vested if cash of £1,032 million was generated over the period, rising on a straight line basis to full vesting of this tranche of an LTIP Award if cash of £1,182 million was generated. With £1.067 billion of cash generated over the 3 year performance period, 17.02 per cent. of this performance condition was met.

The performance condition attaching to the remaining 20 per cent. of the shares in the PGH Cayman LTIP Award was based on TSR based on the median performance against the constituents of the FTSE 250 (excluding investment trusts) rising on a *pro rata* basis until full vesting for upper quartile performance. In addition, the Remuneration Committee considered whether the TSR performance was reflective of the underlying financial performance. TSR performance position measured over the 3 year period was 54^{th}, resulting in a 7.26 per cent. outturn for this measure.

The performance conditions outturn for the 2015 LTIP was 64.28 per cent. and the award numbers shown above take into account the performance outturns as detailed above and also dividend roll ups have been applied for the 3 year performance period. Both 2015 LTIP Awards remain subject to a further two year holding period for both Executive Directors.

2016 LTIP Awards

Details of the nil cost options granted in 2016 under the PGH Cayman LTIP to Mr Bannister and Mr McConville are set out in the table below.

	Number of Shares under 2016 LTIP Award	2016 LTIP Awards Normal Vesting Date
Clive Bannister	123,740	2 June 2019
James McConville	77,777	2 June 2019

The 2016 PGH Cayman LTIP Awards, which vested on 2 June 2019, were subject to two performance conditions. The performance condition attaching to the 50 per cent. of the shares comprised in the PGH Cayman LTIP Award was based on cash generation targets measured over the three financial years of PGH Cayman starting 1 January 2016. 25 per cent. of the shares comprised in this tranche of an award vested if cash of £1.311 billion was generated over the period, rising on a straight line basis to full vesting of this tranche of an LTIP Award if cash of £1.511 billion was generated. With £1.507 billion cash generated over the 3 year performance period, 99 per cent. of this performance condition was met.

The performance condition attaching to the remaining 50 per cent. of the shares in the PGH Cayman LTIP Award was based on TSR based on the median performance against the constituents of the FTSE 250 (excluding investment trusts) rising on a *pro rata* basis until full vesting for upper quartile performance. In addition, the Remuneration Committee considered whether the TSR performance was reflective of the underlying financial performance. TSR performance position measured over the 3 year period was 46th, resulting in a 0.00 per cent. outturn for this measure.

The performance conditions outturn for the 2016 LTIP was 49.5 per cent. and the award numbers shown above take into account the performance outturns as detailed above and also dividend roll ups have been applied for the 3 year performance period. Both 2016 LTIP Awards remain subject to a further two year holding period from the Normal Vesting Date for both Executive Directors.

2017 LTIP Awards

Details of the nil cost options granted in 2017 under the PGH Cayman LTIP to Mr Bannister and Mr McConville are set out in the table below.

	Number of Shares under 2017 LTIP Award	**2017 LTIP Awards Normal Vesting Date**
Clive Bannister	197,526	24 March 2020
James McConville	124,159	24 March 2020

The 2017 PGH Cayman LTIP Awards were subject to two performance conditions. The performance condition attaching to the 50 per cent. of the shares comprised in the PGH Cayman LTIP Award will be based on cash generation targets measured over the three financial years of PGH Cayman starting 1 January 2017. 25 per cent. of the shares comprised in this tranche of an award will vest if cash of £1,372 million is generated over the period, rising on a straight line basis to full vesting of this tranche of a PGH Cayman LTIP Award if cash of £1,572 million is generated.

The performance condition attaching to the remaining 50 per cent. of the shares in the LTIP Award will be based on TSR based on the median performance against the constituents of the FTSE 250 (excluding investment trusts) rising on a *pro rata* basis until full vesting for upper quartile performance. In addition, the Remuneration Committee must consider whether the TSR performance is reflective of the underlying financial performance.

2018 LTIP Awards

Details of the nil cost options granted in 2018 under the PGH Cayman LTIP to Mr Bannister and Mr McConville are set out in the table below.

	Number of Shares under 2018 LTIP Award	**2018 LTIP Awards Normal Vesting Date**
Clive Bannister	198,956	21 March 2021
James McConville	125,058	21 March 2021

The 2018 PGH Cayman LTIP Awards are subject to three performance conditions. The performance condition attaching to the 40 per cent. of the shares comprised in the PGH Cayman LTIP Award is based on cash generation targets measured over the three financial years of PGH Cayman or the Company, as applicable, starting 1 January 2018. 25 per cent. of the shares comprised in this tranche of an award will vest if cash of £1,474 million is generated over the period (with none vesting if below £1,474 million), rising on a straight line basis to full vesting of this tranche of a PGH Cayman LTIP Award if cash of

£1,674 million is generated. 35 per cent. of the shares comprised in the LTIP is based on return on adjusted shareholder Solvency II Own Funds, whereby a return of 4 per cent. above the risk free rate will start to vest on a straight line basis to full vesting of this tranche of a PGH Cayman LTIP Award if a risk free rate of 6 per cent. is reached.

The performance condition attaching to the remaining 25 per cent. of the shares in the LTIP Award will be based on TSR with zero vesting at the median performance against the constituents of the FTSE 250 (excluding investment trusts) rising on a *pro rata* basis until full vesting for upper quartile performance. In addition, the Remuneration Committee must consider whether the TSR performance is reflective of the underlying financial performance.

2019 LTIP Awards

Details of the nil cost options granted in 2019 under the Phoenix LTIP to Mr Bannister and Mr McConville are set out in the table below.

	Number of Shares under 2019 LTIP Award	**2019 LTIP Awards Normal Vesting Date**
Clive Bannister	199,865	11 March 2022
James McConville	125,629	11 March 2022

The 2019 LTIP Awards are subject to three performance conditions. The performance condition attaching to the 40 per cent. of the shares comprised in the LTIP Award is based on cash generation targets measured over the three financial years of the Company starting 1 January 2019. 25 per cent. of the shares comprised in this tranche of an award will vest if cash of £2,097 million is generated over the period (with none vesting if below £2,097 million), rising on a straight line basis to full vesting of this tranche of an LTIP Award if cash of £2,297 million is generated. 35 per cent. of the shares comprised in the LTIP is based on return on adjusted shareholder Solvency II Own Funds, whereby a return of 4.5 per cent. above the risk free rate will start to vest on a straight line basis to full vesting of this tranche of an LTIP Award if a risk free rate of 6.5 per cent. is reached.

The performance condition attaching to the remaining 25 per cent. of the shares in the LTIP Award will be based on TSR with zero vesting at the median performance against the constituents of the FTSE 250 (excluding investment trusts) rising on a *pro rata* basis until full vesting for upper quartile performance. In addition, the Remuneration Committee must consider whether the TSR performance is reflective of the underlying financial performance.

Once the performance conditions have been measured, the 2017 and 2018 PGH Cayman LTIP Awards and 2019 LTIP Awards will only vest if the Remuneration Committee is also satisfied that the levels of bank debt and associated interest costs have remained within parameters acceptable to the Remuneration Committee over the vesting period and that the Company has made progress considered to be reasonable by it in executing any strategy agreed by the Board on debt management and capital restructuring.

PGH Cayman LTIP Awards and LTIP Awards made to Executive Committee members from 2015 are subject to a holding period so that any PGH Cayman LTIP Awards and LTIP Awards for which the performance vesting requirements are satisfied will not be released for a further two years from the third anniversary of the original award.

Deferred Bonus Share Scheme

Details of the nil cost options granted on 2 June 2016, 24 March 2017 and 21 March 2018 under the PGH Cayman DBSS to Mr Bannister and Mr McConville are set out in the table below.

	Number of Shares under 2017 DBSS Award	2017 DBSS Awards Normal Vesting Date	Number of Shares under 2018 DBSS Award	2018 DBSS Awards Normal Vesting Date
Clive Bannister	41,548	20 March 2020	51,277	15 March 2021
James McConville	26,116	20 March 2020	32,232	15 March 2021

The PGH Cayman DBSS awards are subject to no performance conditions other than remaining in employment within the Group up to the date of vesting.

Details of the nil cost options granted on 11 March 2019 under the DBSS to Mr Bannister and Mr McConville are set out in the table below.

	Number of Shares under 2019 DBSS Award	2019 DBSS Awards Normal Vesting Date
Clive Bannister	51,265	11 March 2022
James McConville	33,166	11 March 2022

Sharesave Scheme

The Company invites on an annual basis all employees to participate in the Group's Sharesave Scheme. Details of the share options granted under the PGH Cayman or Phoenix as applicable, Sharesave Scheme to the Executive Directors are set out in the table below:

	Number of Shares under the 2017 Sharesave Grant	Normal Exercise Date
James McConville	3,171	1 June 2020

Senior Managers

2015 LTIP Awards

Details of the nil cost options granted in 2015 under the PGH Cayman LTIP to the following Senior Managers are set out in the table below.

	Number of Shares under 2015 LTIP Award	2015 LTIP Awards Normal Vesting Date
Andrew Moss	57,261	28 September 2018
Simon True	58,692	28 September 2018
Quentin Zentner	39,989	28 September 2018

The 2015 PGH Cayman LTIP Awards, which vested on 28 September 2018, were subject to three performance conditions. The performance condition attaching to the 40 per cent. of the shares comprised in the PGH Cayman LTIP Award were based on Embedded Value Growth targets measured over the three financial years of PGH Cayman starting 1 January 2015. 100 per cent. of the shares comprised in this tranche of the award vested as a result of an Embedded Value growth of 7.9 per cent. in excess of the risk-free rate (3 per cent. per annum).

The performance condition attaching to the 40 per cent. of the shares comprised in the PGH Cayman LTIP Award were based on cash generation targets measured over the three financial years of PGH Cayman starting 1 January 2015. 25 per cent. of the shares comprised in this tranche of an award vest if cash of £1,032 million is generated over the period, rising on a straight line basis to full vesting of this tranche of an LTIP Award if cash of £1,182 million is generated. With £1.067 billion cash generated over the 3 year performance period, 17.02 per cent. of this performance condition was met.

The performance condition attaching to the remaining 20 per cent. of the shares in the PGH Cayman LTIP Award was based on TSR based on the median performance against the constituents of the FTSE 250 (excluding investment trusts) rising on a *pro rata* basis until full vesting for upper quartile performance. In addition, the Remuneration Committee must consider whether the TSR performance is reflective of the underlying financial performance. TSR performance position measured over the 3 year period was 54th, resulting in a 7.26 per cent. outturn for this measure.

The performance conditions outturn for the 2015 LTIP was 64.28 per cent. and the award numbers shown above take into account the performance outturns as detailed above and also dividend roll ups have been applied for the 3 year performance period. The 2015 LTIP Awards for those Senior Managers shown above have a two year holding period from the Normal Vesting Date.

2016 LTIP Awards

Details of the nil cost options granted in 2016 under the PGH Cayman LTIP to the following Senior Managers are set out in the table below.

	Number of Shares under 2016 LTIP Awards	**2016 LTIP Awards Normal Vesting Date**
Stephen Jefford	18,663	25 October 2019
Antonios Kassimiotis	—	—
John McGuigan	—	—
Susan McInnes	—	—
Andrew Moss	45,737	2 June 2019
Jonathan Pears	—	—
Rakesh Thakrar	—	—
Simon True	42,804	2 June 2019
Quentin Zentner	30,491	2 June 2019

The 2016 PGH Cayman LTIP Awards were subject to two performance conditions. The performance condition attaching to the 50 per cent. of the shares comprised in the PGH Cayman LTIP Award were based on cash generation targets measured over the three financial years of PGH Cayman starting 1 January 2016. 25 per cent. of the shares comprised in this tranche of an award vested if cash of £1.311 billion was generated over the period, rising on a straight line basis to full vesting of this tranche of a PGH Cayman LTIP Award if cash of £1.5 billion was generated. With £1.507 billion cash generated over the 3 year performance period, 99 per cent of this performance condition was met.

The performance condition attaching to the remaining 50 per cent. of the shares in the PGH Cayman LTIP Award was based on TSR based on the median performance against the constituents of the FTSE 250 (excluding investment trusts) rising on a *pro rata* basis until full vesting for upper quartile performance. In addition, the Remuneration Committee must consider whether the TSR performance is reflective of the underlying financial performance.

The performance conditions outturn for the 2016 LTIP was 49.5 per cent and the award numbers shown above take into account the performance outturns as detailed above and also dividend roll ups have been applied for the 3 year performance period. The 2016 LTIP Awards for those Senior Managers shown above have a further two year holding period from the Normal Vesting Date.

2017 LTIP Awards

Details of the nil cost options granted in 2017 under the PGH Cayman LTIP to the following Senior Managers are set out in the table below.

	Number of Shares under 2017 LTIP Awards	2017 LTIP Awards Normal Vesting Date
Stephen Jefford	29,628	24 March 2020
Antonios Kassimiotis	63,490	24 March 2020
John McGuigan	—	—
Susan McInnes	17,988	24 March 2020
Andrew Moss	79,363	24 March 2020
Jonathan Pears	—	—
Rakesh Thakrar	22,720	24 March 2020
Simon True	69,868	24 March 2020
Quentin Zentner	50,791	24 March 2020

The 2017 PGH Cayman LTIP Awards were subject to two performance conditions. The performance condition attaching to the 50 per cent. of the shares comprised in the PGH Cayman LTIP Award will be based on cash generation targets measured over the three financial years of PGH Cayman starting 1 January 2017. 25 per cent. of the shares comprised in this tranche of an award will vest if cash of £1,372 million is generated over the period, rising on a straight line basis to full vesting of this tranche of a PGH Cayman LTIP Award if cash of £1,572 million is generated.

The performance condition attaching to the remaining 50 per cent. of the shares in the PGH Cayman LTIP Award will be based on TSR based on the median performance against the constituents of the FTSE 250 (excluding investment trusts) rising on a *pro rata* basis until full vesting for upper quartile performance. In addition, the Remuneration Committee must consider whether the TSR performance is reflective of the underlying financial performance.

2018 LTIP Awards

Details of the nil cost options granted in 2018 under the PGH Cayman LTIP to the following Senior Managers are set out in the table below.

	Number of Shares under 2018 LTIP Awards	2018 LTIP Awards Normal Vesting Date
Stephen Jefford	32,684	21 March 2021
Antonios Kassimiotis	63,949	21 March 2021
John McGuigan	—	—
Susan McInnes	31,264	21 March 2021
Andrew Moss	79,937	21 March 2021
Jonathan Pears	—	—
Rakesh Thakrar	35,527	21 March 2021
Simon True	74,608	21 March 2021
Quentin Zentner	55,423	21 March 2021

The 2018 PGH Cayman LTIP Awards are subject to three performance conditions. The performance condition attaching to the 40 per cent. of the shares comprised in the PGH Cayman LTIP Award is based on cash generation targets measured over the three financial years of PGH Cayman or the Company, as applicable, starting 1 January 2018. 25 per cent. of the shares comprised in this tranche of an award will vest if cash of £1,474 million is generated over the period (with none vesting if below £1,474 million), rising on a straight line basis to full vesting of this tranche of a PGH Cayman LTIP Award if cash of £1,674 million is generated. 35 per cent. of the shares comprised in the LTIP is based on Return on Adjusted Shareholder Solvency II Own Funds, whereby a return of 4 per cent. above the risk free rate will start to vest on a straight line basis to full vesting of this tranche of a PGH Cayman LTIP Award if a risk free rate of 6 per cent. is reached.

The performance condition attaching to the remaining 25 per cent. of the shares in the PGH Cayman LTIP Award will be based on TSR with zero vesting at the median performance against the constituents of the FTSE 250 (excluding investment trusts) rising on a *pro rata* basis until full vesting for upper quartile performance. In addition, the Remuneration Committee must consider whether the TSR performance is reflective of the underlying financial performance.

Once the performance conditions have been measured, the 2017 and 2018 PGH Cayman LTIP Awards and 2019 LTIP Awards will only vest if the Remuneration Committee is also satisfied that the levels of bank debt and associated interest costs have remained within parameters acceptable to the Remuneration Committee over the vesting period and that the Company has made progress considered to be reasonable by it in executing any strategy agreed by the Board on debt management and capital restructuring.

PGH Cayman LTIP Awards and LTIP Awards made to Executive Committee members from 2015 are subject to a holding period so that any PGH Cayman LTIP Awards and LTIP Awards for which the performance vesting requirements are satisfied will not be released for a further two years from the third anniversary of the original award.

2018 Buy-Out LTIP Awards

Buy-out awards were granted under the LTIP to a number of senior managers within SLAL who transferred across to Phoenix and as a result forfeited a proportion of their long-term incentive awards that they held with Standard Life Aberdeen. These awards were made on 21 December 2018 and the Normal Vesting Dates shown in the below table aligns with each Standard Life Aberdeen award forfeited.

Details of the nil cost options granted in 2018 under the LTIP to the following Senior Managers are set out in the table below.

	Number of Shares under 2018 LTIP Buy-Out Awards	**2018 LTIP Buy-Out Awards Normal Vesting Date**
John McGuigan	2,002	24 March 2019
Jonathan Pears	—	—

	Number of Shares under 2018 LTIP Buy-Out Awards	**2018 LTIP Buy-Out Awards Normal Vesting Date**
John McGuigan	8,685	27 March 2020
Jonathan Pears	3,875	27 March 2020

	Number of Shares under 2018 LTIP Buy-Out Awards	**2018 LTIP Buy-Out Awards Normal Vesting Date**
John McGuigan	11,716	28 March 2021
Jonathan Pears	8,574	28 March 2021

The buy-out LTIP Awards have no performance conditions aside from the requirement that the employee remains in employment during the vesting period and maintains satisfactory performance levels.

2019 LTIP Awards

Details of the nil cost options granted in 2019 under the Phoenix LTIP to the following Senior Managers are set out in the table below.

	Number of Shares under 2019 LTIP Awards	2019 LTIP Awards Normal Vesting Date
Stephen Jefford	35,690	11 March 2022
Antonios Kassimiotis	67,454	11 March 2022
John McGuigan	46,397	11 March 2022
Susan McInnes	44,969	11 March 2022
Andrew Moss	80,303	11 March 2022
Jonathan Pears	31,407	11 March 2022
Rakesh Thakrar	39,259	11 March 2022
Simon True	80,303	11 March 2022
Quentin Zentner	55,676	11 March 2022

The 2019 LTIP Awards are subject to three performance conditions. The performance condition attaching to the 40 per cent. of the shares comprised in the LTIP Award is based on cash generation targets measured over the three financial years of the Company starting 1 January 2019. 25 per cent. of the shares comprised in this tranche of an award will vest if cash of £2,097 million is generated over the period (with none vesting if below £2,097 million), rising on a straight line basis to full vesting of this tranche of an LTIP Award if cash of £2,297 million is generated. 35 per cent. of the shares comprised in the LTIP is based on return on adjusted shareholder Solvency II Own Funds, whereby a return of 4.5 per cent. above the risk free rate will start to vest on a straight line basis to full vesting of this tranche of an LTIP Award if a risk free rate of 6.5 per cent. is reached.

The performance condition attaching to the remaining 25 per cent. of the shares in the LTIP Award will be based on TSR with zero vesting at the median performance against the constituents of the FTSE 250 (excluding investment trusts) rising on a *pro rata* basis until full vesting for upper quartile performance. In addition, the Remuneration Committee must consider whether the TSR performance is reflective of the underlying financial performance.

Once the performance conditions have been measured, the 2017 and 2018 PGH Cayman LTIP Awards and 2019 LTIP Awards will only vest if the Remuneration Committee is also satisfied that the levels of bank debt and associated interest costs have remained within parameters acceptable to the Remuneration Committee over the vesting period and that the Company has made progress considered to be reasonable by it in executing any strategy agreed by the Board on debt management and capital restructuring.

PGH Cayman LTIP Awards and LTIP Awards made to Executive Committee members from 2015 are subject to a holding period so that any PGH Cayman LTIP Awards and LTIP Awards for which the performance vesting requirements are satisfied will not be released for a further two years from the third anniversary of the original award.

Deferred Bonus Share Scheme

Details of the nil cost options granted in 2017 and 2018 under the PGH Cayman DBSS to the following Senior Managers are set out in the table below.

	Number of Shares under 2017 DBSS Award	2017 DBSS Awards Normal Vesting Date	Number of Shares under 2018 DBSS Award	2018 DBSS Awards Normal Vesting Date
Stephen Jefford	2,473	20 March 2020	9,555	15 March 2021
Antonios Kassimiotis	11,938	20 March 2020	12,698	15 March 2021
John McGuigan	—		—	
Susan McInnes	5,394	20 March 2020	5,753	15 March 2021
Andrew Moss	20,564	20 March 2020	28,595	15 March 2021
Jonathan Pears	—		—	
Rakesh Thakrar	7,080	20 March 2020	6,863	15 March 2021
Simon True	15,184	20 March 2020	21,111	15 March 2021
Quentin Zentner	8,632	20 March 2020	11,560	15 March 2021

Details of the nil cost options granted in 2019 under the DBSS to the following Senior Managers are set out in the table below.

	Number of Shares under 2019 DBSS Award	2019 DBSS Awards Normal Vesting Date
Stephen Jefford	11,295	11 March 2022
Antonios Kassimiotis	15,589	11 March 2022
John McGuigan	4,701	11 March 2022
Susan McInnes	11,101	11 March 2022
Andrew Moss	26,018	11 March 2022
Jonathan Pears	2,997	11 March 2022
Rakesh Thakrar	11,740	11 March 2022
Simon True	26,856	11 March 2022
Quentin Zentner	12,768	11 March 2022

The vesting of DBSS awards are subject to no performance conditions other than remaining in employment within the Group up to the date of vesting.

Sharesave Scheme

The Company invites on an annual basis all employees to participate in the Group's Sharesave Scheme. Details of the share options granted under the PGH Cayman or Phoenix as applicable, Sharesave Scheme to Senior Managers are set out in the table below:

	Number of Shares under the 2017 Sharesave Grant	**Normal Exercise Date**	**Number of Shares under the 2019 Sharesave Grant**	**Normal Exercise Date**
Stephen Jefford	3,171	1 June 2020	—	—
Antonios Kassimiotis	—	—	—	—
John McGuigan	—	—	3,208	1 June 2022
Susan McInnes	1,585	1 June 2020	1,604	1 June 2022
Andrew Moss	1,585	1 June 2020	1,604	1 June 2022
Jonathan Pears	—	—	—	—
Rakesh Thakrar	1,585	1 June 2020	1,604	1 June 2022
Simon True	3,171	1 June 2020	—	—
Quentin Zentner	—	—	5,347	1 June 2024

Share Incentive Plan

The PGH Cayman SIP was launched on 14 March 2012, with shares being acquired on a monthly basis. A new SIP was introduced by Phoenix in July 2019 and shares were acquired under this SIP from such date. Details of the share awards held in trust under the PGH Cayman SIP and the SIP on behalf of Senior Managers as at 31 October 2018 are set out in the table below and cover the awards purchased or acquired (as applicable) on a monthly basis between May 2012 and May 2018:

	Total number of Shares held in the SIP
Stephen Jefford	1,040
Antonios Kassimiotis	—
John McGuigan	196
Susan McInnes	2,612
Andrew Moss	3,202
Jonathan Pears	319
Rakesh Thakrar	3,518
Simon True	—
Quentin Zentner	—

11. SUBSIDIARIES AND CORPORATE STRUCTURE

11.1 Corporate structure

The Company was incorporated in 2018 and is the ultimate parent company of the Group, which comprises the Company and its subsidiary undertakings.

11.2 **Significant subsidiary and associated undertakings of the Company**

The following is a list of the Company's significant subsidiaries as at the date of this document:

Wholly-owned subsidiaries

Name	Country of incorporation	Percentage of ownership interest and voting power
Abbey Life Assurance Company Limited	United Kingdom	100 per cent.
Impala Holdings Limited	United Kingdom	100 per cent.
PA (GI) Limited	United Kingdom	100 per cent.
Pearl Group Holdings (No. 1) Limited	United Kingdom	100 per cent.
Pearl Group Holdings (No. 2) Limited	United Kingdom	100 per cent.
Pearl Group Management Services Limited	United Kingdom	100 per cent.
Pearl Group Services Limited	United Kingdom	100 per cent.
Pearl Life Holdings Limited	United Kingdom	100 per cent.
Phoenix Group Holdings	Cayman Islands	100 per cent.
Phoenix Life Assurance Limited	United Kingdom	100 per cent.
Phoenix Life Holdings Limited	United Kingdom	100 per cent.
Phoenix Life Limited	United Kingdom	100 per cent.
Phoenix Unit Trust Managers Limited	United Kingdom	100 per cent.
Phoenix Wealth Holdings Limited	United Kingdom	100 per cent.
Phoenix Wealth Services Limited	United Kingdom	100 per cent.
Standard Life Assets and Employee Services Limited	United Kingdom	100 per cent.
Standard Life Assurance Limited	United Kingdom	100 per cent.
Standard Life International d.a.c.	Ireland	100 per cent.
Standard Life Lifetime Mortgages Limited	United Kingdom	100 per cent.
Standard Life Master Trust Co. Ltd	United Kingdom	100 per cent.
Standard Life Pension Funds Limited	United Kingdom	100 per cent.
SunLife Limited	United Kingdom	100 per cent.
Vebnet Limited	United Kingdom	100 per cent.

Investment

Name	Country of incorporation	Class and percentage of ownership interest and voting power
UK Commercial Property REIT	Guernsey	44.76 per cent.

For a full list of the Company's interests in subsidiaries and joint ventures please see Note H5 at pages 199 to 207 in the notes to the consolidated financial statements in the Group's Annual Report and Accounts for the year ended 31 December 2018, which are incorporated by reference into this document as set out in Part XVI ("*Documents Incorporated by Reference*").

11.3 **Significant subsidiary and associated undertakings of ReAssure**

The following is a list of ReAssure's subsidiaries as expected at the date of Completion:

Name	Country of incorporation	Percentage of ownership interest and voting power
ReAssure Midco Limited	United Kingdom	100 per cent.
ReAssure Limited	United Kingdom	100 per cent.
ReAssure UK Services Limited	United Kingdom	100 per cent.
Ark Life Assurance Company dac (Ireland)	Ireland	100 per cent.
ERIP General Partner Limited	United Kingdom	80 per cent.
ERIP Limited Partnership	United Kingdom	99.5 per cent.
ReAssure FSH UK Limited	United Kingdom	100 per cent.
G Life H Limited	United Kingdom	100 per cent.
BL Telford Limited	United Kingdom	100 per cent.
ReAssure UK Life Assurance Company Limited	United Kingdom	100 per cent.
ReAssure Life Limited	United Kingdom	100 per cent.
NM Life Trustees Limited	United Kingdom	100 per cent.
NM Pensions Limited	United Kingdom	100 per cent.
ReAssure Pension Trustees Limited	United Kingdom	100 per cent.
ReAssure Companies Services Limited	United Kingdom	100 per cent.
ReAssure Companies Services Limited	Ireland	100 per cent.
G Assurance & Pension Services Limited	United Kingdom	100 per cent.
ReAssure LL Limited	United Kingdom	100 per cent.
ReAssure PM Limited	United Kingdom	100 per cent.
Namulas Pension Trustees Limited	United Kingdom	100 per cent.
Gresham Life Assurance Society Limited	United Kingdom	100 per cent.
ReAssure Trustees Limited	United Kingdom	100 per cent.
G Financial Services Limited	United Kingdom	100 per cent.
G Trustees Limited	United Kingdom	100 per cent.
ReAssure Nominees Limited	United Kingdom	100 per cent.
ReAssure FS Limited	United Kingdom	100 per cent.
Old Mutual Wealth Life Assurance Limited	United Kingdom	100 per cent.
Old Mutual Wealth Pensions Trustee Limited	United Kingdom	100 per cent.

12. MATERIAL CONTRACTS

12.1 **The Group**

The following contracts (not being contracts entered into in the ordinary course of business) (i) have been entered into by the Company or another member of the Group within the two years immediately preceding the date of this document and are or may be material or (ii) have been entered into prior to such period and contain provisions under which a member of the Group has an obligation or entitlement which is material to the Group.

12.1.1 ***Sponsor Agreement***

The Company and the Sponsor have entered into the Sponsor Agreement dated 17 January 2020, which sets out the terms on which the Company has appointed the Sponsor to act as sponsor in relation to the Acquisition and Admission and the associated applications to the FCA and to the LSE for the Acquisition Shares to be admitted to the premium listing segment of the Official List of the FCA and to trading on the LSE's main market for listed securities, respectively.

The Sponsor Agreement contains warranties and undertakings given by the Company, which are customary for an agreement of this kind. In addition, it contains indemnities from the Company in favour of the Sponsor in respect of certain liabilities connected with the Acquisition and Admission and documentation issued to Shareholders and/or investors by or on behalf of the Company in connection with the Acquisition and Admission, which, again, are customary for an agreement of this kind.

The Company shall pay (whether or not the obligations of the Sponsor Agreement become unconditional or are terminated) all properly incurred costs and expenses of, or in connection with, Admission and the arrangements contemplated by the Sponsor Agreement.

The obligations of the Sponsor under the Sponsor Agreement are subject to certain conditions being satisfied, including, amongst others:

(i) the passing of the Resolutions (without amendment, save with the Sponsor's written consent, such consent not to be unreasonably withheld or delayed) at the General Meeting to be held not later than 31 March 2020 (and not, save with the Sponsor's written consent, at any adjournment thereof);

(ii) the Company allotting and issuing, subject only to Admission, the Acquisition Shares;

(iii) the Share Purchase Agreement being in full force and effect and not having been materially amended (without the consent of the Sponsor, such consent not to be unreasonably withheld or delayed) or terminated or been the subject of a notice of termination at any time on or prior to Admission and there not having arisen or become known at or before Admission any material fact or circumstances that would prevent or would be reasonably likely to prevent Completion (including, without limitation, any condition having been breached or having become impossible to fulfil);

(iv) the agreed form of the Relationship Agreements having not been amended at any time on or prior to Admission in a manner that would or could reasonably be expected to be material in the context of the Acquisition or Admission (without the consent of the Sponsor, such consent not to be unreasonably withheld or delayed);

(v) the Revolving Credit Agreement (or such other debt facility or debt facilities which, together with the Group's own cash resources, is sufficient to enable the Company to satisfy its payment obligations under the Share Purchase Agreement) being in full force and effect and not having been terminated or been the subject of a notice of termination at any time on or prior to Admission and there not having arisen or become known at or before Admission any material fact or circumstance that would prevent or would be reasonably likely to prevent drawdown of funds under the Revolving Credit Agreement (or such other debt facility or debt facilities) at Completion, to the extent necessary to enable the Company to satisfy its payment obligations under the Share Purchase Agreement; and

(vi) Admission becoming effective by not later than 8.00 a.m. on the Business Day following Completion (or such later time and/or date (not later than 8.00 a.m. on 4 January 2021) as the Company may agree with the Sponsor).

If any of the conditions are not satisfied prior to Admission (or waived by the Sponsor), then the Sponsor Agreement shall terminate, without prejudice to any liability for any prior breach of the agreement or pursuant to certain surviving provisions. Pursuant to the Sponsor Agreement, the Sponsor may terminate the Sponsor Agreement in certain limited circumstances prior to Admission. For the avoidance of doubt, Admission will not proceed in the event the conditions are not satisfied (or, in certain cases, waived) or the Sponsor Agreement is terminated.

12.1.2 ***SLA Share Purchase Agreement***

On 23 February 2018, PGH Cayman (as buyer) and Standard Life Aberdeen (as seller) entered into a share purchase agreement, which was amended and restated on 28 May 2018 and on 31 August 2018 (the "**SLA Share Purchase Agreement**"). Under its terms the entire share capital of SLAL was transferred to PGH Cayman on 31 August 2018 and Standard Life Aberdeen gave certain indemnities to PGH Cayman.

The indemnities are subject to specific and overall caps on liability and Standard Life Aberdeen's total liability in respect of all claims relating to the SLA Acquisition is not to exceed £2.93 billion. This includes claims pursuant to the core warranties (e.g., related to Standard Life Aberdeen's title to the shares) in the SLA Share Purchase Agreement but excludes claims pursuant to the SLA Transitional Services Agreement, the SLA Client Service and Proposition Agreement, the SLA Investment Management Agreement and the SLA Trade Mark Licence Agreement. A sub-cap of £730 million applies to other claims in relation to the SLA Acquisition, including pursuant to non-core warranty claims, the SLA Tax Deed and the SLA Deed of Indemnity.

In addition, under the SLA Share Purchase Agreement, there may be an adjustment to the price paid by PGH Cayman in respect of the SLA Acquisition. The purchase price adjustment provides that certain types of withdrawals of assets can trigger increases in the consideration paid by PGH Cayman for Standard Life Assurance under the SLA Share Purchase Agreement. The adjustment will be commensurate to the projected value of fees lost by Standard Life Aberdeen as a result of the withdrawal, taking into account the likely run-off profile of the withdrawn assets. Each year the aggregate value of these adjustments shall be paid by PGH Cayman to Standard Life Aberdeen.

12.1.3 ***SLA Tax Deed***

On completion of the SLA Acquisition on 31 August 2018, PGH Cayman and Standard Life Aberdeen entered into a deed of tax covenant (the "**SLA Tax Deed**"). Under the SLA Tax Deed, Standard Life Aberdeen provides PGH Cayman with customary protections in relation to certain tax liabilities of SLAL and SLAL's subsidiaries, including certain tax risks in connection with the restructuring of Standard Life Assurance and the Brexit contingency planning. Claims under the SLA Tax Deed are subject to certain exclusions and limitations, including certain financial limitations as described at paragraph "*SLA Share Purchase Agreement*" above.

12.1.4 ***SLA Transitional Services Agreement***

On completion of the SLA Acquisition on 31 August 2018, Standard Life Employee Services Limited ("**SLESL**") and Standard Life Assets and Employee Services Limited ("**SLAESL**") entered into a transitional services agreement (the "**SLA Transitional Services Agreement**"). The SLA Transitional Services Agreement is effective for an initial period of three years from completion of the SLA Acquisition. Either party can request extensions to the provision of a service for a further term (the parties to discuss and agree such extension in good faith).

Under the SLA Transitional Services Agreement, SLESL has agreed to continue to provide certain services or procure that certain services are provided to SLAESL and certain third-party beneficiaries for a specified period. In addition, certain transitional services are being provided by SLAESL to SLESL and certain other companies within Standard Life Aberdeen's retained group on a reverse basis for a specified period. The majority of services are being provided by SLAESL back to SLESL and certain other companies within the retained Standard Life Aberdeen group.

12.1.5 ***SLA Client Service and Proposition Agreement***

On completion of the SLA Acquisition on 31 August 2018, SLAL, SLIDAC, and SLAESL entered into the client service and proposition agreement with certain subsidiaries of Standard Life Aberdeen (the "**SLA Client Service and Proposition Agreement**"). The SLA Client Service and Proposition Agreement can be terminated on customarily limited terms. Absent such termination, it has a rolling term.

SLAL continues to manufacture certain workplace products, drawdown products, individual pension products and onshore bond products, and SLIDAC continues to manufacture certain offshore bond products. These products continue to be made available by members of the Standard Life Aberdeen group, including via its retained platform businesses where applicable. Standard Life Aberdeen group also markets and distributes these in-scope products in the UK. The Standard Life Aberdeen group is the exclusive distributor of SLAL's and SLIDAC's in-scope products. Under the SLA Client Service and Proposition Agreement, the parties have rights of first refusal in relation to, in the case of SLAL and SLIDAC, insured products (and certain new products) and, in the case of the Standard Life Aberdeen group, non-insured long-term savings products, advisory services, products sold as part of the Workplace proposition and the provision of marketing services.

12.1.6 ***SLA Trade Mark Licence Agreement***

On completion of the SLA Acquisition on 31 August 2018, SLESL (as licensor) and SLAL (as licensee) entered into a trade mark licence agreement (the "**SLA Trade Mark Licence Agreement**"). The licence granted relates to a variety of "Standard Life" trademarks and other related marks. The licensed marks include word marks, stylised marks and logos and includes registrations in the UK, Germany, Ireland and the EU. The licence is granted on a non-exclusive basis in relation to the business of Standard Life Assurance, save that the license is granted on an exclusive basis with respect to the specific products listed in the SLA Client Service and Proposition Agreement. The licence is granted in relation to the UK, Germany, Austria and Ireland.

SLAL has indemnified Standard Life Aberdeen and its subsidiaries from and against losses arising due to SLAL's or its permitted sub-licensees' use of the licensed marks. The licence is perpetual subject to termination rights arising in favour of SLESL upon (i) SLAL's material breach, (ii) SLAL's insolvency, (iii) where the licence relates to the activities under the SLA Client Service and Proposition Agreement, the termination or expiry of the SLA Client Service and Proposition Agreement and (iv) SLAL challenging the validity of the licensed marks.

12.1.7 ***SLA Investment Management Agreement***

Standard Life Investments Limited ("**SLI**") was appointed in July 2006 to manage substantially all of Standard Life Assurance's investment portfolio. On completion of the SLA Acquisition on 31 August 2018, an amended and restated investment management agreement was entered into between SLAL and SLI (the "**SLA Investment Management Agreement**") on substantially the same terms as the investment management agreement in agreed form at the time of signing of the SLA Share Purchase Agreement. Pursuant to the SLA Investment Management Agreement, SLI continues to serve as the investment manager of Standard Life Assurance's investment portfolio.

The terms on which SLI originally served as investment manager of Standard Life Assurance's portfolio were of an intra-group nature. The SLA Investment Management Agreement amends and restates the commercial terms so that they are substantially the same as the existing investment management arrangements that are in place between certain members of the Group and certain investment management entities within the Standard Life Aberdeen group.

12.1.8 ***SLA Relationship Agreement***

On completion of the SLA Acquisition on 31 August 2018, Standard Life Aberdeen and PGH Cayman entered into a relationship agreement to govern Standard Life Aberdeen's holding of PGH Cayman shares and the continuing relationship between the parties following completion of the SLA Acquisition. On 11 December 2018, a new relationship on substantially the same terms was entered into by Standard Life Aberdeen and Phoenix (the "**SLA Relationship Agreement**").

The SLA Relationship Agreement provides, among other things, that subject to compliance with applicable law or regulations, for so long as the aggregate holding of Shares by all Standard Life Aberdeen group members (excluding certain shares) is (i) at least 15 per cent. of the shares, Standard Life Aberdeen shall be entitled to appoint (and remove and reappoint) two non-executive directors to the Board and (ii) at least 10 per cent. of the shares (but less than 15 per cent.), Standard Life Aberdeen shall be entitled to appoint (and remove and reappoint) one non-executive director to the Board. The SLA Relationship Agreement also addresses transactions and relationships between members of the Group and the Standard Life Aberdeen group and includes certain provisions in relation to the acquisition and disposal of Shares.

12.1.9 ***Abbey Life Sale and Purchase Agreement***

On 28 September 2016, Phoenix Life Holdings Limited ("**PLHL**") and the PGH Cayman entered into a sale and purchase agreement (the "**Abbey Life SPA**") with, among others, Deutsche Bank for the acquisition of Abbey Life (the "**Abbey Life Acquisition**").

PLHL has undertaken in the Abbey Life SPA to indemnify Deutsche Holdings and its group against any losses arising after completion of the Abbey Life Acquisition under the defined benefits pension scheme sponsored by ALAC, including losses resulting from the use of the statutory moral hazard powers of the Pensions Regulator against Deutsche Bank's group to order money to be paid into that scheme. The indemnity is capped at £150 million and the potential powers of the Pensions Regulator are time limited by the periods set out in the Pensions Act 2004.

Deutsche Holdings has given an indemnity in favour of PLHL in respect of losses, liabilities or costs that ALAC or other target companies may incur relating to ALAC or another target company being treated as making unauthorised payments to certain members in respect of whom ALAC or another target company has a contractually vested annuity and was unable to trace at the time of the contractual vesting date, subject to certain limitations outlined.

Deutsche Holdings' total liability in respect of all claims relating to the Abbey Life Acquisition by PLHL is not to exceed the consideration of £935 million paid to Deutsche Holdings net of any adjustments. This includes claims pursuant to the tax covenant, core warranties (e.g., related to Deutsche Holdings' title to the shares) and core covenants (e.g., related to transfer of the shares, Deutsche Holdings' parental guarantee and pre-completion conduct) in the Abbey Life SPA. A sub-cap of £320 million applies to other claims in relation to the Abbey Life Acquisition, including pursuant to non-core warranty claims and the Abbey Life Deed of Indemnity.

The Company has guaranteed PLHL's obligations under the Abbey Life SPA so that if PLHL does not, or cannot, meet those obligations, then the Company has to meet them. Furthermore, Deutsche Holdings can bring a claim against the Company for failing to comply with its obligations under the guarantee.

Deutsche Bank has guaranteed Deutsche Holdings' obligations under the Abbey Life SPA so that if Deutsche Holdings does not, or cannot, meet those obligations, then Deutsche Bank has to meet them.

Furthermore, PLHL can bring a claim against Deutsche Bank for failing to comply with its obligations under the guarantee.

12.1.10 ***Revolving Credit Agreement***

On 27 June 2019, Phoenix entered into a credit agreement between, among others, Phoenix and NatWest Markets Plc (as agent) (the "**Revolving Credit Agreement**"). Under the Revolving Credit Agreement, the lenders have made available a multicurrency revolving loan facility in an aggregate principal amount equal to £1.25 billion, which bears a floating rate of interest.

The final maturity date of the facility under the Revolving Credit Agreement is 27 June 2024. The Revolving Credit Agreement permits Phoenix to request two one year extensions to the maturity of the facility, each of which requires the consent of the lenders whose commitments are being extended. If both extension options are requested and are agreed by the lenders, the final maturity date of the facility would be 27 June 2026. There are no mandatory or target amortisation payments associated with the facility (but the facility is subject to customary event-driven mandatory prepayment obligations).

As at the date of this document, the Revolving Credit Agreement is undrawn.

12.1.11 ***The Pearl Pension Scheme Agreements***

On 27 November 2012, PGH2 entered into an agreement with the trustee of the Pearl Pension Scheme setting out a contractual framework for contributions to the Pearl Pension Scheme (the "**2012 Pensions Agreement**").

The remaining contribution payments under the 2012 Pensions Agreement are £40 million to the scheme each year from 2017 until 2021 (inclusive) and the 2012 Pensions Agreement was amended and restated on 29 June 2017 when it was agreed, among other things, that future contributions will be paid on a monthly basis. These contributions can be increased and further contributions may become payable after 2021 in certain circumstances, if the scheme is not anticipated to meet two agreed funding targets. The funding targets are to reach full funding on the technical provisions basis by 30 June 2022 and to reach full funding on a gilts flat basis by 30 June 2031.

There is a sharing mechanism that, in certain circumstances, allows for an acceleration of the contributions to be paid to the Pearl Pension Scheme. This mechanism shall cease to apply if the trustees cease to follow an agreed investment strategy.

For the purposes of the 2012 Pensions Agreement, the "**Gilts Based Deficit**" is the scheme deficit calculation on a basis linked to UK government securities.

Charges over the shares of PLAL, Pearl Group Services Limited ("**PGS**") and PGS2 Limited that were granted to the trustee of the Pearl Pension Scheme under the predecessor of the 2012 Pensions Agreement remain in place. The value of the security claim guaranteed under the share charges is the lower of the £600 million and 100 per cent. of the Gilts Based Deficit revalued every three years. The trustee will be entitled to enforce its security under these share charges if PGH2 fails to comply with certain provisions under the 2012 Pensions Agreement including, without limitation to pay amounts when due, if the ratio of the embedded value of PGH2 to the value of the security claim falls below 1.05:1 for two months and is not cured, and customary events in connection with such security documents. Enforcement action by the trustee of the Pearl Pension Scheme would be an event of default under the Revolving Credit Agreement. The security charges also include certain restrictions on transfer, including to other parts of the Group.

PGH2 has agreed to maintain two covenant tests. If these tests are not met, restrictions on dividend payments by PGH2 will apply. These covenant tests require that PGH2's embedded value will be maintained at the greater of:

(a) 1.3 times the lower of £600 million and 60 per cent. of the Gilts Based Deficit; and

(b) the Gilts Based Deficit less 50 per cent. of the projected investment outperformance over gilts to 2031.

PGH2 is restricted from paying dividends if its embedded value falls below the Gilts Based Deficit.

The agreement reached in the 2012 Pensions Agreement is subject to the statutory funding regime in the Pensions Act 2004.

For further information on the Pearl Pension Scheme, see "*The Pearl Pension Scheme*" in Part II ("*Business Overview of the Group*") of this document.

12.1.12 ***The PGL Pension Scheme Guarantees***

Pearl Life Holdings Limited has guaranteed to the trustees of the PGL Pension Scheme the obligations and liabilities of the participating employers to make payments to the PGL Pension Scheme. As at 30 June 2019, no further contributions are due to be paid into the defined benefit section of the scheme. The performance of Pearl Life Holdings Limited under the guarantee has been guaranteed by PGH1.

12.1.13 ***Abbey Life Pension Scheme***

Prior to the Abbey Life Acquisition, Abbey Life set up the 2013 Charged Account and the 2016 Charged Account into which payments were made under a funding agreement with the trustees. In June 2017, PeLHL acceded to the Abbey Life Pension Scheme and replaced ALAC as the sole principal employer of the scheme and agreed a new funding agreement with the trustees for deficit reduction payments. This funding agreement provides for certain payment triggers pursuant to which monies in the 2013 Charged Account and the 2016 Charged Account are released to the trustees. This funding agreement provides for certain payment triggers pursuant to which monies in the 2013 Charged Account and the 2016 Charge Account are released to the trustees. The triggers include: (i) the insolvency of PeLHL; and (ii) a debt becoming due from PeLHL to the trustees under Section 75 of the Pensions Act 1995 (broadly, on the winding up of the Abbey Life Pension Scheme). On either payment trigger, PeLHL must pay to the trustees the lower of the Section 75 debt and the value of the assets in the 2013 Charged Account and 2016 Charged Account.

The 2013 Charged Account is available to meet any deficit in the Abbey Life Pension Scheme on a specifically defined basis as at 31 March 2021. The 2016 Charged Account is available to meet any deficit in the Abbey Life Pension Scheme on a specifically defined basis as at 31 March 2027.

The 2013 Charged Account and the 2016 Charged Account contained a combined £50.9 million as at 30 June 2019.

12.1.14 ***Outstanding debt***

As at the date of this document, the Group has the following outstanding capital markets debt instruments:

Title	**Issuer**	**Date Issued**	**Listing**
£500,000,000 5.75 per cent. fixed rate reset perpetual restricted tier 1 write down notes	Phoenix	26 April 2018	LSE
€500,000,000 4.375 per cent. Tier 2 Notes due 2029	Phoenix	24 September 2018	LSE
U.S.$500,000,000 5.375 per cent. Tier 2 Notes due 2027	Phoenix	6 July 2017	LSE
£450,000,000 4.125 per cent. Tier 3 Notes due 2022	Phoenix	20 January 2017 and 5 May 2017	LSE
£428,113,000 6.625 per cent. Subordinated Notes due 2025	Phoenix	23 January 2015	LSE
£300 million senior unsecured 5.75 per cent. Bonds due 2021 (of which £122 million remains outstanding)	Phoenix	7 July 2014	LSE
£200 million 7.25 per cent. undated, unsecured Tier 2 notes (earliest redemption date is 25 March 2021 and each fifth anniversary thereafter)	Phoenix Life Limited	23 July 2001	Luxembourg Stock Exchange
£120 million 7.5873 per cent. Class A2 limited recourse bonds due 2022	Mutual Securitisation plc[(1)]	1998	Irish Stock Exchange LSE

Note:

(1) The proceeds of the issue of these bonds were lent to National Provident Institution pursuant to a loan agreement between, amongst others, National Provident Institution and Mutual Securitisation plc dated 16 April 1998. Following the demutualisation of National Provident

Institution and two subsequent insurance business transfer schemes in 1999 and in 2015, the obligations in relation to the loan agreement have been assumed by PLAL.

For further information on the Group's outstanding debt instruments, see "*Description of certain other indebtedness*" in Part VI ("*Operating and Financial Review of the Group*") of this document.

12.2 The ReAssure Group

The following contracts (not being contracts entered into in the ordinary course of business) (i) have been entered into by the ReAssure Group within the two years immediately preceding the date of this document and are or may be material or (ii) have been entered into prior to such period and contain provisions under which a member of the ReAssure Group has an obligation or entitlement which is material to the ReAssure Group.

12.2.1 *L&G Acquisition Agreements*

On 6 December 2017, ReAssure Limited entered into an agreement to acquire the L&G Business. The L&G Business consists of approximately 1.0 million policies as at 31 December 2018, which are comprised of traditional insurance-based pensions, savings and investment products that are sold primarily to the retail market. The L&G Business includes both unit-linked and with-profit products that have largely been closed to new business and have been in run-off since 2015. The L&G Business will be transferred to the ReAssure Group pursuant to a Part VII Transfer, which is expected to occur in the first half of 2020.

In connection with the L&G Transaction, the following legal agreements were signed by L&G Group entities and ReAssure Limited on 6 December 2017:

- the Risk Transfer Agreement (as amended, the "**RTA**");
- the Business Transfer Agreement (as amended, the "**BTA**");
- the L&G Investment Management Agreements (the "**LGIMAs**"); and
- the Annuity Introducer Agreement (the "**AIA**").

The LGIMAs and the AIA will only come into force upon the occurrence of the proposed Part VII Transfer of the L&G Business.

The RTA, BTA, LGIMAs and AIA are subject to amendment up until the date of the Part VII Transfer of the L&G Business, but the ReAssure Group does not expect that the amendments (if any) will be material. Further legal agreements, such as a Flexible Mortgage Individual Savings Account co-administration agreement among others, may be entered into in connection with the proposed Part VII Transfer of the L&G Business.

12.2.2 *Risk Transfer Agreement*

The RTA transfers most of the economic interest and the associated risks of the L&G Business to ReAssure Limited from 1 January 2018 (the "**Economic Transfer Date**"). The RTA contains provisions that apply to the purchase price and other payments should the Part VII Transfer of the L&G Business to the ReAssure Group not occur. These payment provisions depend on the nature of the termination, such as whether it is due to the occurrence of a particular date or an event, such as a party's insolvency, and a formula is provided, which takes into account various defined amounts, in order to calculate the amount of the relevant payment.

Under the RTA:

- ReAssure Limited was obligated to pay an advance claim amount of £650 million to L&G Assurance Society Limited ("**LGAS**") on 4 January 2018 equal to the agreed purchase price of the L&G Business and on this date, ReAssure Limited took on economic exposure to the L&G Business before taking on full legal ownership at a later stage, subject to various controls in the interim period;
- if the Part VII Transfer of the L&G Business does not occur, the advance claim amount of £650 million is not refundable;
- the mortality and morbidity risks under the unit-linked policies within the transferring non-profit business ("**reinsured liabilities**") are reinsured to ReAssure Limited;
- the profits (losses) on the L&G Business calculated according to agreed terms and net of claims in respect of the reinsured liabilities, are transferred to ReAssure Limited on prescribed settlement dates;

- expense risk relating to the non-profit products within the L&G Business remains with LGAS such that any deviation in per-policy expenses from those assumed in relation to the calculation of best estimate liabilities is paid by LGAS, as well as any additional exceptional items that ReAssure Limited has not agreed to pay; and
- operational risk associated with managing the L&G Business is retained by LGAS.

The non-profit annuities that are currently administered in conjunction with the with-profits annuities in the LGAS with-profit fund are not within the scope of the RTA. See "*Business Transfer Agreement—Transfer of non-profit annuities*" below for more information.

Termination

The RTA will automatically terminate on the earlier of:

- the date that the Part VII Transfer takes effect (the "**Part VII Effective Date**");
- the date that a notice to terminate the BTA takes effect; or
- the date on which the last of the policies of the L&G Business has run-off or lapsed.

In addition, LGAS will be entitled to terminate the RTA if: ReAssure Limited suffers an insolvency or analogous event; neither the Part VII Effective Date or the Outsourcing Date (as defined below) has occurred by 31 December 2022; or it becomes unlawful in certain jurisdictions for any party to give effect to a material obligation in the RTA. ReAssure Limited will be entitled to terminate the RTA if: LGAS fails to pay certain sums of money; LGAS suffers an insolvency or analogous event; or it becomes unlawful in certain jurisdictions for any party to give effect to a material obligation in the RTA.

In the event of termination, there will be a final calculation of the sums owing between LGAS and ReAssure Limited.

12.2.3 ***Business Transfer Agreement***

The BTA obligates LGAS and ReAssure Limited to implement the RTA and for both parties to undertake the Part VII Transfer of the L&G Business, which is expected to occur in the first half of 2020. The BTA also includes provisions relating to interim arrangements before the Part VII Transfer takes place and provisions should the Part VII Transfer not occur.

Under the BTA:

- the assets and liabilities associated with the L&G Business will be transferred to ReAssure Limited as follows:
  - certain liabilities, excluding BTA Excluded Liabilities (as defined below) will be assumed by ReAssure Limited as of the Part VII Effective Date;
  - certain capped indemnities are provided by LGAS for liabilities in relation to systemic mis-selling or mal-administration prior to the Economic Transfer Date, excluding liabilities associated with certain reviews (such as pensions review), which will be shared between LGAS and ReAssure Limited according to a defined formula for a period following the Part VII Effective Date or the Outsourcing Date, with LGAS's total liability under these indemnities capped at £97 million; and
  - LGAS has agreed to retain any liabilities ("**BTA Excluded Liabilities**") in relation to regulatory fines or penalties arising from actions or omissions of LGAS and taxes attributable to LGAS in respect of the L&G Business prior to the Part VII Effective Date, and mis-selling prior to the Part VII Effective Date of any annuity sold by LGAS on the maturity of any policy that is included within the L&G Business;
- there are certain restrictions on LGAS's operation of the L&G Business during the period between the Economic Transfer Date and the Part VII Effective Date (the "**Interim Period**");
- ReAssure Limited will take over the administration of the majority of the L&G Business following the Part VII Effective Date and will use its reasonable endeavours to administer the L&G Business in the same manner it was administered in the year prior to the effective date of the BTA for the first year following the Part VII Effective Date, and to a standard at least equivalent to the level provided by ReAssure Limited in relation to its other business thereafter; and

- LGAS and ReAssure Limited will adhere to certain principles and provisions with regards to the separation of the L&G Group's mature savings business from LGAS's non-transferring business and its migration to ReAssure Limited, including an in-depth discovery phase, the migration of data from LGAS's IT systems to ReAssure Limited's IT systems, testing arrangements and minimum acceptance criteria, migration targets to ascertain the operational readiness of LGAS and ReAssure Limited (for example, complaints volume and handling metrics), any product changes, splitting of certain assets and insurance contracts between the L&G Business and LGAS's non-transferring business, and the apportionment of costs between LGAS and ReAssure Limited.

The BTA also includes governance arrangements for the Part VII Transfer of the L&G Business and arrangements if the Part VII Transfer of the L&G Business to ReAssure Limited incurs any delays or is not approved by the High Court of Justice. In the event that the Part VII Transfer of the L&G Business is not effected by 30 June 2020, both parties will take all reasonable steps to transfer the L&G Business. If such transfer is not completed by 1 January 2021, which is the third anniversary of the Economic Transfer Date (the "**Outsourcing Date**"), then each party will be entitled to require the outsourcing of the L&G Business from LGAS to ReAssure Limited, which will include the negotiation of an appropriate outsourcing agreement.

Transfer of non-profit annuities

In addition, on the Part VII Effective Date, LGAS's non-profit annuities that are currently administered in conjunction with the with-profit annuities in the LGAS with-profit fund will be transferred to the ReAssure Non-Profit Fund. The BTA specifies the terms for the transfer of LGAS's non-profit annuities, including the method for determining the relevant consideration payable by LGAS. If the Part VII Transfer of the L&G Business is not effected by 1 January 2021 then LGAS and ReAssure shall discuss in good faith whether the terms of the RTA should be extended to include the relevant non-profit annuities.

Termination

Neither party is entitled to terminate the BTA unless:

- the other party suffers an insolvency or analogous event;
- it becomes unlawful in certain jurisdictions for any party to give effect to a material obligation in the BTA; or
- the other party does not use its best endeavours to effect the Part VII Transfer of the L&G Business.

In addition, ReAssure Limited is also entitled to terminate the BTA in the event of breach of certain material obligations by LGAS in relation to the certain restrictions on its operation of the L&G Business in the Interim Period.

12.2.4 ***L&G Investment Management Agreements***

ReAssure Limited, L&G Investment Management Limited ("**LGIM**") and L&G Property Limited ("**LGPL**") entered into a Master IMA and an IMA (together with the Master IMA, the LGIMAs) for LGIM and LGPL to manage the assets of the L&G Business, except for assets in respect of the existing external mandates. The LGIMAs will come into effect on the Part VII Effective Date.

Master IMA

Under the Master IMA, ReAssure Limited has agreed that LGIM and LGPL will be appointed to manage portfolios on behalf of ReAssure Limited upon the terms of new IMAs as may in each case be modified by the terms of the Master IMA. Certain provisions of the Master IMA came into force on 6 December 2017 and the remaining provisions will come into force on the Part VII Effective Date. The Master IMA will terminate seven years after the Part VII Effective Date. However, ReAssure Limited will be able to withdraw assets under administration from LGIM and LGPL without a withdrawal fee prior to the expiration of the seven year term under certain circumstances.

The investment management fees paid by LGAS to LGIM and LGPL for managing the assets of the L&G Business will continue to apply following the Part VII Effective Date, which will then be paid by ReAssure Limited. The level of investment management fees will be up for review on 1 January 2023 or in the event of a "market change" as defined in the LGIMA.

IMA

The IMA between ReAssure Limited, LGIM and LGPL provides the terms upon which ReAssure Limited appoints LGIM to manage a certain portfolio of assets and appoints LGPL to manage the certain assets in a property fund. The IMA will come into force on the Part VII Effective Date.

The IMA also contains certain limitations on each party's liability, such as a monetary limitation on liability. Any of the parties may terminate the IMA as a result of certain specified termination events.

12.2.5 ***Annuity Introducer Agreement***

The AIA obligates ReAssure Limited to refer eligible policyholders from the L&G Business to LGAS, so that LGAS can provide a quotation for certain guaranteed income retirements products including standard and enhanced lifetime annuities, fixed term retirement plans and cash-out retirement plans. Several provisions of the AIA came into force on 6 December 2017 and 31 May 2018, and the rest of the AIA will come into force on the Part VII Effective Date and will be in place for at least five years and will continue indefinitely unless terminated.

Under the AIA:

- LGAS has agreed to pay ReAssure Limited referral fees for a lifetime annuity and a fixed term or cash-out retirement plan and adhere to certain pricing and customer outcome benchmarks to monitor its competitiveness, for example:
  - two benchmarks are in place in respect of the annuity rates offered by LGAS: (i) the annuity rates offered must be at least as favourable as those provided to LGAS's internal customers; and (ii) the annuity rates must be at least equal to the market average over at least five providers;
- the following safeguards are in place for policyholders whose benefit is expressed as a cash sum to protect them from accepting an annuity rate without awareness of other rates available:
  - LGAS must follow the requirements set out in PS17/12 (Implementing information prompts in the annuity market), published by the FCA; and
  - if LGAS did not offer a best in market quote, as identified by the requirements set out in PS17/12, it will provide customers with details of its "whole of market" quotation, giving the customer the option to be introduced to this service, which is to be provided by theidol.com, a fintech subsidiary of the L&G Group;
- benchmarking will also apply to policyholders in the LGAS with-profit fund whose benefit is expressed as an annuity (i.e. those with a guaranteed annuity product or a guaranteed minimum pension), but certain safeguards for policyholders whose benefit is expressed as a cash sum would not (albeit compliance with PS17/12 would still be required), and in such cases:
  - the annuity would always be referred to and fulfilled by LGAS;
  - the L&G With-Profit Fund would purchase the annuity; and
  - the costs of any applicable guaranteed annuity option uplift amount would be met by the L&G With-Profit Fund;
- ReAssure Limited has agreed in principle to appoint LGAS (or one of its group companies) as ReAssure Limited's Chosen Retirement Partner and the legal documentation formalising this appointment is currently being drafted.

The AIA also contains certain limitations on each party's liability, such as a monetary limitation on liability. In addition, each party has agreed to indemnify the other against losses arising from a breach of certain provisions under the AIA. ReAssure Limited has also agreed to indemnify LGAS in the event LGAS terminates the AIA due to ReAssure Limited's failures to provide certain information or make certain referrals to LGAS.

Both parties have the right to terminate the AIA, subject to the survival of certain clauses, as a result of certain specified termination events.

12.2.6 ***Policy Administration Agreement with Aviva***

Pursuant to an agreement dated 6 March 2007, as amended, between RUKSL and Aviva Life Services UK Limited (the "**Aviva Agreement**"), RUKSL supplies services relating to the administration of a part of

Aviva's closed book business in exchange for payments pursuant to a negotiated fee structure. The services provided by RUKSL under the Aviva Agreement include customer experience services (such as agency management, general customer services, payments, claims and complaints), finance and actuarial services, IT services and legal, technical and regulatory services, supported by certain infrastructure provided by Aviva. RUKSL also licenses the Group's ALPHA software to Aviva, which includes a right for Aviva to continue the licence after the Aviva Agreement terminates, subject to certain conditions and fee arrangements.

The Aviva Agreement will expire when there are no longer any in-force policies to manage. Before the occurrence of this event, the Aviva Agreement automatically renews in five-year additional terms, with the first renewal having occurred in April 2018, unless Aviva chooses not to renew the Aviva Agreement, whereupon certain notice periods will apply. If Aviva chooses not to renew the Aviva Agreement in April 2023, it will be obligated to make a payment to RUKSL. In addition, the Aviva Agreement may be terminated by either Aviva or RUKSL, as applicable, due to certain circumstances, such as the other party's insolvency or similar events, or a change of control of RUKSL.

12.2.7 ***ReAssure Subordinated Notes***

General

On 13 June 2019, ReAssure issued the (i) ReAssure Tier 2 Subordinated Notes; (ii) ReAssure Fixed Rate Reset Callable Tier 2 Subordinated Notes; and (iii) ReAssure Tier 3 Subordinated Notes.

The terms of the ReAssure Subordinated Notes are summarised below.

Interest

The ReAssure Tier 2 Subordinated Notes bear interest at a rate of 5.867 per cent. per annum payable (subject as provided in the terms and conditions of the ReAssure Tier 2 Subordinated Notes) semi-annually in arrear on 13 June and 13 December in each year from and including 13 December 2019 to and including 13 June 2029.

The ReAssure Fixed Rate Reset Callable Tier 2 Subordinated Notes initially bear interest at a rate of 5.766 per cent. per annum, payable (subject as provided in the terms and conditions of the ReAssure Fixed Rate Reset Callable Tier 2 Subordinated Notes) semi-annually in arrear on 13 June and 13 December in each year from and including 13 December 2019 to and including 13 June 2024. Thereafter, the ReAssure Fixed Rate Reset Callable Tier 2 Subordinated Notes bear interest at a rate equal to 5-year gilts plus 5.170 per cent., payable semi-annually in arrear on 13 June and 13 December in each year from and including 13 December 2024 to and including 13 June 2029.

The ReAssure Tier 3 Subordinated Notes bear interest at a rate of 4.016 per cent. per annum, payable (subject as provided in the terms and conditions of the ReAssure Tier 3 Subordinated Notes) semi-annually in arrear on 13 June and 13 December in each year from and including 13 December 2019 to and including 13 June 2026.

Subordination

The ReAssure Tier 2 Subordinated Notes and the ReAssure Fixed Rate Reset Callable Tier 2 Subordinated Notes constitute direct, subordinated and unsecured obligations of ReAssure. On a winding-up of ReAssure or in the event that an administrator of ReAssure is appointed and gives notice that it intends to declare and distribute a dividend or other distribution of the assets of ReAssure (a "**Winding-Up**"), the claims of the holders of the ReAssure Tier 2 Notes will rank:

(A) junior to (a) the policyholders of ReAssure (if any), beneficiaries under contracts of insurance of ReAssure (if any) and any other creditors of ReAssure who are unsubordinated creditors of ReAssure; and (b) creditors of ReAssure whose claims are, or are expressed to be, subordinated to the claims of other creditors of ReAssure but not further or otherwise (other than those whose claims otherwise rank, or are expressed to rank, *pari passu* with, or junior to, the claims of the holders of the ReAssure Tier 2 Notes);

(B) at least *pari passu* with (i) all claims of holders of subordinated obligations of ReAssure which constitute, or would but for any applicable limitation on the amount of such capital constitute, Tier 2 capital of ReAssure and (ii) all claims of holders of other subordinated obligations of ReAssure which rank, or are expressed to rank, *pari passu* with the ReAssure Tier 2 Notes; and

(C) in priority to (i) all claims of holders of subordinated obligations of ReAssure which constitute, or would but for any applicable limitation on the amount of such capital constitute, Tier 1 capital of ReAssure; (ii) the claims of holders of any subordinated obligations of ReAssure which rank, or are expressed to rank, junior to the ReAssure Tier 2 Notes; and (iii) the claims of holders of all classes of shares in ReAssure.

The ReAssure Tier 3 Subordinated Notes constitute direct, subordinated and unsecured obligations of ReAssure. On a Winding-Up of ReAssure, the claims of the holders of the ReAssure Tier 3 Subordinated Notes will rank:

(A) junior to (a) policyholders of ReAssure (if any), beneficiaries under contracts of insurance of ReAssure (if any) and any other creditors of ReAssure who are unsubordinated creditors of ReAssure; and (b) creditors of ReAssure whose claims are, or are expressed to be, subordinated to the claims of other creditors of ReAssure (other than those (A) whose claims are in respect of instruments or obligations which constitute, or would but for any applicable limitation on the amount of any such capital constitute, (i) Tier 1 capital or (ii) Tier 2 capital or (iii) Tier 3 capital or (B) whose claims otherwise rank, or are expressed to rank *pari passu* with, or junior to, the claims of the holders of the ReAssure Tier 3 Subordinated Notes);

(B) at least *pari passu* with (i) all claims of holders of subordinated obligations of ReAssure which constitute, or would but for any applicable limitation on the amount of such capital constitute, Tier 3 capital of ReAssure and (ii) all claims of holders of other subordinated obligations of ReAssure which rank, or are expressed to rank, *pari passu* with the ReAssure Tier 3 Subordinated Notes; and

(C) in priority to (i) all claims of holders of subordinated obligations of ReAssure which constitute, or would but for any applicable limitation on the amount of such capital constitute, Tier 1 capital or Tier 2 capital of ReAssure; (ii) the claims of holders of any subordinated obligations of ReAssure which rank, or are expressed to rank, junior to the ReAssure Tier 3 Subordinated Notes; and (iii) the claims of holders of all classes of shares in ReAssure.

Redemption

The ReAssure Subordinated Notes are redeemable only at the option of ReAssure. Prior to the fifth anniversary of the issue of the ReAssure Tier 2 Notes, any redemption is subject to conditions and is permitted following the occurrence of certain events (tax, regulatory and rating events) or pursuant to a clean-up call. Thereafter ReAssure may redeem the ReAssure Tier 2 Notes subject to certain conditions, including obtaining approval of the PRA (to the extent so required).

In addition, ReAssure may redeem all (but not some only) of the ReAssure Fixed Rate Reset Callable Tier 2 Subordinated Notes on 13 June 2024.

ReAssure may redeem all (but not some only) of the ReAssure Tier 3 Subordinated Notes for tax reasons, regulatory reasons or for rating reasons or pursuant to a clean-up call, subject to certain conditions, including obtaining approval of the PRA (to the extent so required).

Enforcement

The ReAssure Subordinated Notes have limited events of default and enforcement rights. The remedies available to holders of the ReAssure Subordinated Notes in the event of a payment default are limited to the institution of proceedings for the Winding-Up of ReAssure or proving and/or claiming in the winding-up of ReAssure.

Governing Law

The ReAssure Subordinated Notes are governed by English law.

12.2.8 ***OMW SPA***

ReAssure and Old Mutual Wealth UK Holding Limited entered into an agreement dated 4 August 2019 for the sale and purchase of the share capital of Old Mutual Wealth Life Assurance Limited (the "**OMW SPA**"). The total consideration amount is £446,250,000 (including interest).

Completion was subject to change of control approval from the PRA and FCA. PRA approval was received on 10 December 2019 and the OMW Acquisition was completed on 31 December 2019.

12.2.9 ***OMW Transitional Services Agreement***

Upon completion of the OMW Acquisition, Quilter and OMW entered into a transitional services agreement, pursuant to which Quilter will continue to provide certain services to OMW for a specified period. The services to be provided include, among other things, certain human resources, finance, policy administration, technology solutions and IT services that were provided to OMW by Quilter prior to the completion of the OMW Acquisition.

Quilter will provide the services to OMW for an initial term of up to two years, subject to: (i) early termination if all service terms are completed; (ii) the right of OMW to terminate early in certain circumstances; and (iii) the option for OMW to extend any service term to comply with regulatory requirements or to enable orderly winding-up of the services.

Quilter and OMW have appointed individuals from each organisation who are responsible for, among other things, agreeing consents, changes to the services and the daily management of the transitional services arrangements.

12.2.10 ***Transitional Services Agreement***

For information regarding the Transitional Services Agreement, see paragraph 2 ("*Principal Terms of the Transitional Services Agreement*") of Part XIV ("*Terms of the Acquisition*").

13. TAKEOVERS

Phoenix is subject to the provisions of the Takeover Code, including the rules regarding mandatory takeover offers set out in the Takeover Code. Under Rule 9 of the Takeover Code, when: (i) a person acquires shares which, when taken together with shares already held by him or persons acting in concert with him (as defined in the Takeover Code), carry 30 per cent. or more of the voting rights of a company subject to the Takeover Code; or (ii) any person who, together with persons acting in concert with him, holds not less than 30 per cent. but not more than 50 per cent. of the voting rights of a company subject to the Takeover Code, and such person, or any person acting in concert with him, acquires additional shares which increases his percentage of the voting rights in the company, then, in either case, that person, together with the persons acting in concert with him, is normally required to make a general offer in cash at the highest price paid by him or any person acting in concert with him for shares in the company within the preceding twelve months for all of the remaining equity share capital of the company.

If Phoenix were to be subject to a takeover offer (within the meaning of Part 28 of the Companies Act), the Shares would also be subject to the compulsory acquisition procedures set out in sections 979 to 991 of the Companies Act. Under section 979 of the Companies Act, where an offeror makes a takeover offer and has, by virtue of acceptances of the offer, acquired or unconditionally contracted to acquire not less than 90 per cent. of the shares to which the offer relates and, in a case where the shares to which the offer relates are voting shares, not less than 90 per cent. of the voting rights carried by those shares, that offeror is entitled to compulsorily acquire the shares of any holder who has not acquired the offer on the terms of the offer.

A takeover may also be effected by means of a scheme of arrangement under Part 26 of the Companies Act. A scheme must be approved by a majority in number representing 75 per cent. in value of the members or class of members voting, whether in person or by proxy, and must be sanctioned by the court. Once effective, a scheme is binding on all members or all members of the relevant class irrespective of whether or not they voted to approve the scheme.

14. PRE-EMPTION RIGHTS

The provisions of section 561(1) of the Companies Act (which confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash other than by way of allotment to employees under an employees' share scheme (as defined in section 1166 of the Companies Act)) apply to the issue of shares in the capital of the Company except to the extent that such provisions are disapplied, as referred to in paragraph 4 ("*Articles of Association"*) above.

15. RELATED PARTY TRANSACTIONS

15.1 The Group

Save as disclosed in Note 16 to the interim results of the Group for the six months ended 30 June 2019 included in the 2019 Interim Report (and associated ongoing transactions with SLAL) and Note I4 to the audited consolidated financial statements included in the Group's Annual Report and Accounts for the years ended 2018, 2017 and 2016, which are incorporated by reference into this document as set out in Part XVI ("*Documents Incorporated by Reference*"), there were no related party transactions entered into by the Company or any member of the Group during the six months ended 30 June 2019, the years ended

31 December 2018, 2017 and 2016 or during the period from 30 June 2019 up to the Latest Practicable Date.

On 31 August 2018, Standard Life Aberdeen plc took a 19.98 per cent. equity stake in the Enlarged Group, and as a result became a related party of the Group. Standard Life Aberdeen is considered to have a significant influence over the Group due to their equity stake and representation on the Board. The related party transactions with Standard Life Aberdeen are the only transactions considered to have a material effect on either the results or financial position of the Group as at 30 June 2019.

15.2 The ReAssure Group

Save as disclosed in Note 24 to the consolidated historical financial information of the ReAssure Group as at and for the six months ended 30 June 2019 and in Note 45 to the consolidated historical financial information of the ReAssure Group as at and for the years ended 31 December 2018, 2017 and 2016 set out in Part B of Part VIII ("*Financial Information of the ReAssure Group*") of this document, there were no related party transactions entered into by the ReAssure Group during the six months ended 30 June 2019, the years ended 31 December 2018, 2017 and 2016.

As a result of each of Swiss Re (or a nominated member of the Swiss Re Group) and MS&AD's direct and indirect (as a result of their investment management businesses) shareholding in the Company, following, in the case of Swiss Re, Completion, and in the case of MS&AD, the transfer to MS&AD of part of the Acquisition Shares, each of Swiss Re (or a nominated member of the Swiss Re Group) and MS&AD will be a "related party" of the Company for the purposes of Listing Rule 11.

16. LITIGATION AND ARBITRATION PROCEEDINGS

16.1 The Group

Save as disclosed below in this paragraph 16.1, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) during the 12 months preceding the date of this document which may have, or have had, a significant effect on the financial position or profitability of the Group.

On 5 June 2015, PA (GI) was subject to a judgment in the Chancery Division of the Companies Court. The judgment directed that PA (GI) is liable to the claimants for mis-selling complaints and claims relating to a book of creditor insurance business that PA (GI) underwrote until 2006. As a consequence, PA (GI) is liable for complaint handling and redress with regard to these complaints. As at 30 September 2019, PA (GI) has paid a total of £45 million in respect of such complaints and claims, including associated costs of administering the claims, and recognised an accounting provision in this regard of £29 million as at 30 September 2019. The FCA introduced a deadline for creditor insurance claims of August 2019. The FCA also commenced a publicity campaign, the purpose of which was to ensure persons with a right of claim are aware of their rights prior to the deadline. An increased number of complaints compared to previous experience were received shortly before the deadline, which PA (GI) is processing in order to confirm their validity and conclude on the extent to which redress will be required. Whilst the accounting provision has been strengthened as at 30 September 2019 in this regard, the increase in volume of complaints could result in the total additional liability of the Group in respect of these complaints and claims being in excess of the £29 million for which provision has been made as at that date.

As at 30 September 2019, a reimbursement asset of £17 million has been recognised in other receivables in connection with the Group's exposure to those complaints. This represents recoveries due from third parties under contractual arrangements. Total recoveries received prior to 30 September 2019 under these arrangements amounted to £31 million.

16.2 The ReAssure Group

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) during the 12 months preceding the date of this document which may have, or have had, a significant effect on the financial position or profitability of the ReAssure Group.

17. WORKING CAPITAL

The Company is of the opinion that, taking into account the bank and other facilities available to Group, the Group has sufficient working capital for its present requirements, that is for at least 12 months from the date of publication of this document.

The Company is of the opinion that, taking into account the bank and other facilities available to Enlarged Group, the Enlarged Group has sufficient working capital for its present requirements, that is for at least 12 months from the date of publication of this document.

18. NO SIGNIFICANT CHANGE

18.1 The Group

There has been no significant change in the financial position or the financial performance of the Group since 30 June 2019, being the date to which the latest published financial information in relation to the Group was prepared.

18.2 The ReAssure Group

Except for the OMW Acquisition as described further in the section entitled "*History*" of Part III ("*Business Overview of the ReAssure Group*"), there has been no significant change in the financial position or the financial performance of the ReAssure Group since 30 June 2019, being the date to which the latest published financial information in relation to the ReAssure Group was prepared.

19. AUDITORS

Ernst & Young LLP of 25 Churchill Place, Canary Wharf, London E14 5EY, United Kingdom, independent auditors, have audited and rendered an unqualified auditor's report for each of the Group's financial statements for the years ended 31 December 2018, 2017 and 2016. The registered accountants of Ernst & Young LLP are members of the Institute of Chartered Accountants in England and Wales (ICAEW).

20. CONSENTS

Ernst & Young LLP has given and has not withdrawn its written consent to the inclusion of its reports on the unaudited *pro forma* financial information in Part XI ("*Unaudited Pro Forma* IFRS Financial Information of the Enlarged Group") and Part XII ("*Unaudited Pro Forma* Solvency Information of the Enlarged Group") of this document, each in the form and context in which it is included, and has authorised the contents of the part of this document which comprise its reports for the purposes of Rule 5.3.2R (2)(f) of the Prospectus Regulation Rules.

PwC has given and has not withdrawn its written consent to the inclusion of its report on the consolidated financial historical information of the ReAssure Group as at and for the years ended 31 December 2018, 2017 and 2016 which is set out in Part C of Part VIII ("*Financial Information of the ReAssure Group*") of this document, in the form and context in which it is included, and has authorised the contents of the part of this document which comprise its report for the purposes of Rule 5.3.2R (2)(f) of the Prospectus Regulation Rules.

KPMG has given and not withdrawn its written consent to the inclusion of its report on the historical financial information of OMW for the years ended 31 December 2018, 2017 and 2016 set out in Part B of Part IX ("*Financial Information of Old Mutual Wealth Life Assurance Limited*") of this document, in the form and context in which it is included, and has authorised the contents of the part of this document which comprise its report for the purposes of Rule 5.3.2R (2)(f) of the Prospectus Regulation Rules.

21. MISCELLANEOUS

No proceeds will accrue to Phoenix in connection with the issuance of the Acquisition Shares to Swiss Re (or a nominated member of the Swiss Re Group) pursuant to the Acquisition.

The total costs, charges and expenses payable by the Company in connection with Admission, Acquisition and associated financing are estimated to be approximately £49 million (inclusive of VAT).

22. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at www.thephoenixgroup.com for a period of 12 months from the date of this document, and will also be available for inspection at the General Meeting for at least 15 minutes prior to and during the meeting:

(i) the Company's Articles;

(ii) the reports from Ernst & Young LLP which are set out in Part XI ("*Unaudited Pro Forma IFRS Financial Information of the Enlarged Group*") and Part XII ("*Unaudited Pro Forma Solvency Information of the Enlarged Group*") of this document;

(iii) the report from PwC which is set out in Part C of Part VIII ("*Financial Information of the ReAssure Group*") of this document;

(iv) the report from KPMG which is set out in Part B of Part IX ("*Financial Information of Old Mutual Wealth Life Assurance Limited*") of this document;

(v) the letters of consent referred to in paragraph 20 ("*Consents*") of this Part XV ("*Additional Information*");

(vi) the Form of Proxy;

(vii) the documents incorporated by reference into this document as described in Part XVI ("*Documents Incorporated by Reference*") of this document;

(viii) the Share Purchase Agreement; and

(ix) this document.

Dated: 17 January 2020

PART XVI — DOCUMENTS INCORPORATED BY REFERENCE

The tables below set out the documents (or parts thereof) that are incorporated by reference into, and form part of, this document so as to provide certain information required pursuant to the Prospectus Regulation Rules and only the parts of the documents identified in the tables below are incorporated into, and form part of, this document. The parts of these documents which are not incorporated by reference are either not relevant for investors or are covered elsewhere in this document. To the extent that any part of any information referred to below itself contains information which is incorporated by reference, such information shall not form part of this document.

Phoenix Financial Information

Reference document	Information incorporated by reference	Page number in reference document
2019 Interim Report of the Company		
	The discussion and analysis for the six months ended 30 June 2019 contained in the "*Business Review*" section	3-11
	Independent Auditor's review report	18
	Condensed consolidated income statement	19
	Condensed statement of consolidated comprehensive income	20
	Condensed statement of consolidated financial position	21-22
	Condensed statement of consolidated cash flows	23
	Condensed statements of consolidated changes in equity	24-26
	Notes to the condensed consolidated interim financial statements	27-51
2018 Annual Report of the Company		
	The discussion and analysis for the financial year ended 31 December 2018 contained in the "*Business Review*" section	28-38
	Independent Auditor's report	112-120
	Consolidated income statement	121
	Statement of comprehensive income	122
	Statement of consolidated financial position	123-124
	Statement of consolidated cash flows	125
	Statement of consolidated changes in equity	126-127
	Notes to the consolidated financial statements	128-213
2017 Annual Report of PGH Cayman		
	The discussion and analysis for the financial year ended 31 December 2017 contained in the "*Business Review*" section	26-31
	Independent Auditor's report	94-102
	Consolidated income statement	103
	Statement of comprehensive income	104
	Pro forma reconciliation of Group operating profit to result attributable to owners	104
	Statement of consolidated financial position	105-106
	Statement of consolidated cash flows	107
	Statement of consolidated changes in equity	108
	Notes to the consolidated financial statements	110-181
2016 Annual Report of PGH Cayman		
	The discussion and analysis for the financial year ended 31 December 2016 contained in the "*Business Review*" section	26-33
	Independent Auditor's report	91-98
	Consolidated income statement	99
	Statement of comprehensive income	100
	Pro forma reconciliation of Group operating profit to result attributable to owners	100
	Statement of consolidated financial position	101-102
	Statement of consolidated cash flows	103
	Statement of consolidated changes in equity	104-105
	Notes to the consolidated financial statements	106-192

Reference document	Information incorporated by reference	Page number in reference document
SLA Acquisition Prospectus		
	Historical financial information relating to Standard Life Assurance	194-301
	Accountant's Report	302-303

PART XVII — DEFINITIONS

The following definitions apply throughout this document unless the context otherwise requires:

"2012 Pensions Agreement"	the agreement dated 27 November 2012 between PGH2 and the trustees of the Pearl Pension Scheme, as amended and restated on 29 June 2017
"**2013 Charged Account**"	the charged escrow account set up by Abbey Life as part of a funding agreement entered into with the trustees of the Abbey Life Pension Scheme in June 2013
"**2014 Revolving Credit Agreement**"	the credit agreement entered into by PGH Cayman (as guarantor and, from 28 February 2017, as borrower), PGH Capital (as borrower), the Company (from 12 December 2018, as borrower and guarantor) and Commerzbank Finance & Covered Bond S.A. (formerly known as Commerzbank International S.A.) (as agent), among others, dated 23 July 2014, as amended and/or restated from time to time, including on 21 March 2016, 24 October 2016, 20 February 2017, 30 March 2017 and 2 May 2018
"**2016 Charged Account**"	the charged escrow account into which PeLHL makes payments into in connection with the Abbey Life Pension Scheme
"**2019 AGM**"	the AGM of the Company convened and held on 2 May 2019
"**2022 Notes**"	the £450,000,000 4.125 per cent. Tier 3 subordinated notes due 2022 of which £300,000,000 were issued by PGH Capital, the remainder being issued by PGH Cayman, as substituted by Phoenix
"**2025 Notes**"	the £428,113,000 6.625 per cent. subordinated notes due 2025 originally issued by PGH Capital, as substituted by PGH Cayman, as substituted by Phoenix
"**2027 Notes**"	the US$500,000,000 5.375 per cent. Tier 2 notes due 2027 issued by PGH Cayman, as substituted by Phoenix
"**2029 Notes**"	the €500,000,000 4.375 per cent. Tier 2 notes due 2029 issued by PGH Cayman, as substituted by Phoenix
"**Abbey Life**"	ALAC, Abbey Life Trustee Services Limited and Abbey Life Trust Securities Limited
"**Abbey Life Acquisition**"	the acquisition of Abbey Life by PGH Cayman pursuant to the Abbey Life SPA
"**Abbey Life Deed of Indemnity**"	the deed of indemnity entered into on 28 September 2016 between Deutsche Bank, Deutsche Holdings, ALAC and PLHL, pursuant to which Deutsche Holdings provided an indemnity to the FCA with respect to (i) the FCA's investigation into ALAC's fair treatment of long-standing customers resulting from the FCA's thematic review (TR 16/2) and (ii) issues arising from the FCA's thematic review into annuity sales practices (TR 14/20)
"**Abbey Life Pension Scheme**"	the pension scheme relating to the former employees of Abbey Life
"**Abbey Life SPA**"	the sale and purchase agreement dated 28 September 2016 between PGH Cayman, PLHL, Deutsche Bank and Deutsche Holdings No. 4 Ltd. in connection with the Abbey Life Acquisition
"**ABI**"	Association of British Insurers
"**Acquisition**"	the proposed acquisition by the Company of the entire issued share capital of ReAssure from Swiss Re for total consideration of £3.2 billion in cash and shares
"**Acquisition Shares**"	the 277,277,138 new Shares to be allotted and issued by the Company to Swiss Re (or a nominated member of the Swiss Re Group) as part consideration pursuant to the Acquisition

“**Admission**”	the admission of the Acquisition Shares to the premium listing segment of the Official List of the FCA and to trading on the LSE’s main market for listed securities
“**Aggregate Holding**”	the aggregate of the Swiss Re Group Holding and the Asset Management Shares or the MS&AD Group Holding and the Asset Management Shares, as applicable
“**AGM**”	the Company’s or PGH Cayman’s annual general meeting, as the context requires
“**AIA**”	the Annuity Introducer Agreement entered into between the L&G Group and ReAssure Limited on 6 December 2017 in connection with the L&G Transaction
“**ALAC**”	Abbey Life Assurance Company Limited
“**ALPHA**”	ReAssure’s in-house Administration of Life, Pensions, Health and Annuities system
“**AMCs**”	annual management charges
“**Ark Life**”	Ark Life Assurance Company dac
“**Ark NPF**”	Ark non-profit fund
“**Articles**”	the articles of association of the Company adopted by the Company as of 13 December 2018 and in force as at the date of this document
“**Asset Management Shares**”	Shares held by Swiss Re or MS&AD, as applicable, for the purposes of providing asset management services to a person other than Swiss Re or MS&AD, as applicable, or any of its associates (excluding any of its subsidiary undertakings from time to time)
“**AUA**”	assets under administration
“**Audit Committee**”	the audit committee of the Board
“**AVIF**”	acquired value of in-force
“**Aviva**”	Aviva plc and its subsidiaries from time to time
“**Aviva Agreement**”	an agreement dated 6 March 2007 (as amended) between RUKSL and Aviva Life Services UK Limited
“**Aviva Awards**”	awards granted by Aviva to Mr Briggs on 27 March 2017 over 302,532 ordinary shares of Aviva and 26 March 2018 over 325,892 ordinary shares of Aviva, as subsequently increased through shares representing dividend equivalent payments, scheduled to vest on 27 March 2020 and 26 March 2021, respectively
“**AXA Transaction**”	the acquisition by the Group of AXA Wealth pursuant to the sale and purchase agreement dated 27 May 2016 between PGH Cayman, PLHL and AXA UK
“**AXA UK**”	AXA UK plc
“**AXA Wealth**”	the business acquired pursuant to the AXA Transaction
“**Backstop Revolving Credit Agreement**”	the credit agreement entered into by PGH Cayman (as guarantor and as borrower) and The Royal Bank of Scotland plc (as agent), among others, dated 23 February 2018 and cancelled on 2 May 2018
“**BaFin**”	the Bundesanstalt für Finanzdienstleistungsaufsicht
“**Board**”	the board of directors of the Company as at the date of this document or, where the context so requires, the board of directors of the Company from time to time, including the Proposed Director
“**BofA Securities**”	Merrill Lynch International

"**Brexit**"	the vote by the people of the United Kingdom to leave the EU in the referendum held on 23 June 2016
"**BTA**"	the business transfer agreement entered into between the L&G Group and ReAssure Limited on 6 December 2017 in connection with the L&G Transaction
"**BTA Excluded Liabilities**"	liabilities which LGAS has agreed to retain pursuant to the BTA
"**BPA**"	bulk purchase annuities
"**Business Day**"	a day (other than a Saturday or Sunday) on which banks are open for general business in London
"**Buy-Out Award**"	the nil-cost option to granted Mr Briggs as a one-off award under Listing Rule 9.4.2 in connection with his recruitment as incoming Chief Executive Officer
"**Cayman Islands Companies Law**"	the Companies Law (2019 Revision) of the Cayman Islands, as amended, modified or re-enacted from time to time
"**CBI**"	Central Bank of Ireland
"**certificated" or "in certificated form**"	a share or other security which is not in uncertificated form (that is, not in CREST)
"**Certified Persons**"	persons certified by firms that they are fit and proper to perform their roles on at least an annual basis
"**CFM**"	C Financial Management Limited
"**CGT**"	UK capital gains tax
"**Chairman**"	the chairman of the Company
"**Citigroup**"	Citigroup Global Markets Limited
"**Commission Delegated Regulation (EU) 2019/980**"	Commission Delegated Regulation 2019/980 of 14 March 2019 supplementing the Prospectus Regulation of the European Parliament and of the Council
"**Companies Act**"	the UK Companies Act 2006, as amended, modified or re-enacted from time to time
"**Completion**"	the closing of the Acquisition pursuant to the Share Purchase Agreement
"**Conduct of Business Rules**"	the FCA Conduct of Business Rules as set out in the FCA Handbook
"**Continuous Mortality Investigation 2016**"	an investigation carried out by the Institute of Faculty and Actuaries in 2016 into mortality and morbidity experience and produces practical tools that are widely used by actuaries
"**Continuous Mortality Investigation 2017**"	an investigation carried out by the Institute of Faculty and Actuaries in 2017 into mortality and morbidity experience and produces practical tools that are widely used by actuaries
"**Corporate Governance Code**"	the UK Corporate Governance Code issued by the Financial Reporting Council, as amended from time to time
"**Court**"	the High Court in England and Wales
"**CREST**"	the relevant system (as defined in the CREST Regulations) for the paperless settlement of trades in listed securities in the United Kingdom, of which Euroclear is the operator (as defined in the CREST Regulations)
"**CREST Manual**"	the rules governing the operation of CREST, consisting of the CREST Reference Manual, CREST International Manual, CREST Central Counterparty Service Manual, CREST Rules, Registrars Service Standards, Settlement Discipline Rules, the CREST Courier and

	Sorting Service Operations Manual, Daily Timetable, CREST Application Procedure, CREST Glossary of Terms and CREST Terms and Conditions (all as defined in the CREST Glossary of Terms promulgated by Euroclear on 15 July 1996 and as amended since)
"**CREST member**"	a person who has been admitted by Euroclear as a system-member (as defined in the CREST Regulations)
"**CREST Regulations**"	the Uncertificated Securities Regulations 2001 (SI 2001/3755)
"**CREST sponsor**"	a CREST participant admitted to CREST as a CREST sponsor
"**DAC**"	deferred acquisition cost
"**Daily Official List**"	the daily record setting out the price of all trades in shares and other securities conducted on the LSE
"**DBSS**"	the Group's Deferred Bonus Share Scheme
"**Dealing Day**"	any day on which the LSE is open for business in the trading of securities admitted to the Official List
"**Deutsche Bank**"	Deutsche Bank AG
"**Deutsche Holdings**"	Deutsche Holdings No. 4 Ltd
"**Directors**"	the directors of Phoenix as at the date of this document or, where the context so requires, the directors of Phoenix from time to time, including the Proposed Director
"**Disclosure Guidance and Transparency Rules**"	the Disclosure Guidance and Transparency Rules produced by the FCA and forming part of the FCA Handbook
"**Dividend Allowance**"	the dividend allowance granted to UK residents, pursuant to which UK residents do not pay tax on dividend income of up to £2,000
"**Economic Transfer Date**"	1 January 2018, the date upon which the risk transfer agreement transfers most of the economic interest and the associated risks of the L&G Business to ReAssure Limited
"**EEA**"	the European Economic Area
"**EIOPA**"	the European Insurance and Occupational Pension Authority
"**Employee Share Schemes**"	the LTIP, the Sharesave Scheme, the SIP, the DBSS, the Irish SIP, the Irish Sharesave Scheme and the International Plan
"**Enlarged Group**"	the enlarged Group following Completion
"**Enlarged Share Capital**"	the fully diluted issued share capital of the Company immediately following Completion, as the context requires
"**EPS**"	earnings per share
"**ERIP**"	equity release income plan
"**ERM**"	equity release mortgages
"**EU**" or "**European Union**"	the European Union
"**Euro**", "**euro**" or "**€**"	the lawful currency of the member states of the EU that adopted the Euro in Stage Three of the Treaty establishing the Economic and Monetary Union on 1 January 1999
"**Euroclear**"	Euroclear & Ireland Limited
"**Excluded Territories**"	Australia, Canada, Japan, South Africa, the United States of America and any other jurisdiction where the distribution of this document (or any transaction contemplated thereby and any activities carried out in connection therewith) would breach applicable law
"**Executive Committee**"	the executive committee of PLHL that provides day-to-day direction

"**Executive Directors**"	the executive Directors as at the date of this document
"**FCA**"	Financial Conduct Authority
"**FCA Handbook**"	the book of rules and guidance maintained by the FCA
"**Financial Advisers**"	BofA Securities, Citigroup and HSBC
"**FOS**"	the Financial Ombudsman Service
"**FSCS**"	the Financial Services Compensation Scheme
"**FSMA**"	the Financial Services and Markets Act 2000, as amended
"**FTSE**"	the Financial Times Stock Exchange
"**FVTPL**"	fair value through profit or loss
"**GAL**"	Guardian Assurance Limited
"**GDPR**"	the General Data Protection Regulation (EU) 2016/679
"**General Meeting**"	the general meeting of the Company to be held at Juxon House, 100 St. Paul's Churchyard, London EC4M 8BU at 10.00 a.m. on 13 February 2020, notice of which is set out in this document
"**Gilts Based Deficit**"	for the purposes of the 2012 Pensions Agreement, the scheme deficit calculated on a basis linked to UK government securities
"**GMP**"	Guaranteed Minimum Pension
"**Group**"	Phoenix, together with its consolidated subsidiaries from time to time and, for any date occurring or period ending prior to 12 December 2018, including, where the context so requires, PGH Cayman together with its consolidated subsidiaries
"**Group Personal Pension**"	a standard life pension scheme operated for certain of the Group's London-based senior executives and management
"**Guardian Assurance With-Profit Fund**" or "**GAWPF**"	the with-profit fund of GAL
"**Guardian Group**"	Guardian Holdings Europe Limited
"**Guardian Group Acquisition**"	the acquisition by the ReAssure Group of the UK long-term insurance business of the long-term insurance business of the Guardian Group in 2016
"**HMRC**"	HM Revenue & Customs
"**Holding Companies**"	the Company, PGH Cayman, PGH Capital, PLHL, PGH2, Impala, PGH1 and PeLHL
"**HSBC**"	HSBC Bank plc
"**IASB**"	International Accounting Standards Board
"**IFRS**"	International Financial Reporting Standards
"**IMA**"	investment management agreement
"**Impala**"	Impala Holdings Limited
"**Interim Period**"	the period between the Economic Transfer Date and the Part VII Effective Date
"**Internal Model**"	an agreed methodology and model, approved by the PRA, to calculate SCR pursuant to Solvency II
"**International Plan**"	the Group's International Plan
"**Irish Sharesave Scheme**"	the Group's Irish Sharesave Scheme
"**Irish SIP**"	the Group's Irish Share Incentive Plan

"**ISIN**"	International Securities Identification Number
"**Joining Date**"	the date on which Andy Briggs jointed the Company as Chief Executive Officer Designate, being 1 January 2020
"**L&G Business**"	the mature savings business of the L&G Group
"**L&G Group**"	the L&G Assurance Society Limited group
"**L&G Transaction**"	the acquisition by ReAssure of the L&G Business, which will occur via Part VII Transfer
"**L&G With-Profit Fund**"	the L&G with-profit fund
"**Latest Practicable Date**"	16 January 2020, being the latest practicable date prior to publication of this document
"**LCR**"	liquidity coverage ratio
"**LGAS**"	L&G Assurance Society Limited
"**LGIM**"	L&G Investment Management Limited
"**LGIMAs**"	the L&G investment management agreements entered into between the L&G Group and ReAssure Limited on 6 December 2017 in connection with the L&G Transaction
"**LGPL**"	L&G Property Limited
"**Life Companies**"	the Phoenix Life Companies, Old Mutual Wealth Life Assurance Limited, Old Mutual Wealth Pensions Trustees Limited and the ReAssure Life Companies and "**Life Company**" means any one of them
"**Listing Rules**"	the listing rules issued by the FCA pursuant to Part VI of FSMA
"**Long Stop Date**"	31 December 2020, or such other date as the Company, Swiss Re and SRL may agree in writing
"**LSE**"	London Stock Exchange plc
"**LTIP**"	the Group's Long-Term Incentive Plan
"**LTIP Award**"	any of the following: a conditional share award, a share option, or an allocation of forfeitable shares or any combination of them
"**Market Abuse Regulation**"	Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014
"**Matching Adjustment**"	an adjustment the risk-free rate of certain long-term liabilities that are closely matched by an assigned matching adjustment portfolio of assets of equivalent nature, term and currency
"**MCR**"	minimum regulatory capital requirement
"**Method 1**"	the default accounting based consolidation method for calculating Group solvency under Solvency II
"**Method 2**"	a deduction and aggregation method for calculating Group solvency under Solvency II
"**MGSCR**"	the minimum group SCR of the Method 1 part of the Group
"**MiFID II**"	the EU Markets in Financial Instruments Directive (2014/65/EU), as amended
"**MS&AD**"	MS&AD Insurance Group Holdings, Inc.
"**MS&AD Group Holding**"	the aggregate holding of Shares by all MS&AD Group Members (excluding any Asset Management Shares)
"**MS&AD Group Members**"	MS&AD and its subsidiary undertakings and associates (excluding any member of the Group)

"**MSA**"	management service agreements
"**National Mutual With-Profit Fund**" or "**NMWPF**"	the with-profit fund of National Mutual Life Assurance Society
"**Nomination Committee**"	the nomination committee of the Board
"**Non-Executive Directors**"	the non-executive Directors as at the date of this document
"**Notice of General Meeting**"	the notice of General Meeting set out in this document
"**NPF**"	non-profit fund
"**OECD**"	Organisation for Economic Co-operation and Development
"**Official List**"	the Official List maintained by the FCA
"**OMW**"	Old Mutual Wealth Life Assurance Limited and its subsidiary Old Mutual Wealth Pensions Trustees Limited
"**OMW Acquisition**"	the acquisition of OMW by the ReAssure Group, which completed on 31 December 2019
"**OMW SPA**"	the share purchase agreement entered into between ReAssure and Old Mutual Wealth UK Holding Limited in connection with the OMW Acquisition, dated 4 August 2019
"**Onshoring**"	the introduction of the Company as a new UK-incorporated holding company of the Group above PGH Cayman in the organisational structure
"**Onshoring Scheme Effective Date**"	the date on which the scheme of arrangement pursuant to section 86 of the Cayman Companies Law became effective in accordance with its terms, namely 12 December 2018
"**ORSA**"	own risk solvency assessment
"**Outsourcing Date**"	the third anniversary of the Economic Transfer Date
"**Own Funds**"	assets maintained to match the estimate of likely liabilities under insurance policies written (including annuities)
"**Owners' Tax**"	a tax on profits made by the Group's life businesses
"**PA (GI)**"	PA (GI) Limited
"**Part VII Effective Date**"	the date that the Part VII Transfer of the L&G Transaction to the ReAssure Group takes effect
"**Part VII Transfer**"	an insurance business transfer pursuant to Part VII of FSMA
"**Pearl Pension Scheme**"	the pension scheme covering the past and present employees of the Group prior to the acquisition of the Resolution Group
"**PeLHL**"	Pearl Life Holdings Limited
"**Pensions Regulator**"	the Pensions Regulator, as established under section 1 of the Pensions Act 2004
"**PGH Capital**"	PGH Capital P.L.C. (formerly PGH Capital Limited)
"**PGH Cayman**"	the former ultimate parent company of the Group, Phoenix Group Holdings, incorporated in the Cayman Islands as an exempted company with limited liability with registered number 202172
"**PGH1**"	Pearl Group Holdings (No. 1) Limited (previously Resolution plc)
"**PGH2**"	Pearl Group Holdings (No. 2) Limited (previously Pearl Group Limited)
"**PGL Pension Scheme**"	the pension scheme covering the past and present employees of the subsidiaries of Impala and the employees of the former SunLife Embassy Business

"**PGMS**"	Pearl Group Management Services Limited
"**PGS**"	Pearl Group Services Limited
"**Phoenix**" or the "**Company**"	Phoenix Group Holdings plc
"**Phoenix Life**"	the Group's life insurance (including its management services operations) business segment
"**Phoenix Life Companies**"	PLL, PLAL, SLAL, SLIDAC and SLPF and "**Phoenix Life Company**" means any one of them
"**PIM**"	partial internal model approved by the PRA, which can be used to calculate a risk-sensitive SCR
"**PLAL**"	Phoenix Life Assurance Limited, which was renamed from Pearl Assurance Limited on 28 September 2012
"**PLHL**"	Phoenix Life Holdings Limited
"**PLL**"	Phoenix Life Limited
"**PLL Tier 2 Bonds**"	the £200 million 7.25 per cent. undated, unsecured subordinated notes originally issued by Scottish Mutual Assurance Limited (which was then known as Scottish Mutual Assurance plc)
"**Policyholder Tax**"	a tax paid on policyholders' investment returns on certain products at policyholder tax rates, paid by the Group's life businesses
"**Post-L&G Illustrative Basis**"	financial or operational information that has been prepared to give effect to the transfer via Part VII Transfer of the L&G Business as if it had completed on 31 December 2018, unless stated otherwise
"**PPFM**"	Principles and Practices of Financial Management
"**PRA**"	Prudential Regulation Authority
"**PRA Rulebook**"	the book of rules and guidance, including as to regulatory capital requirements, maintained by the PRA
"**Proposed Director**"	Andy Briggs, who will be appointed to the Board on receipt of regulatory approval
"**Prospectus Regulation**"	Regulation (EU) 2017/1129 of the European Parliament and Council of 14 June 2017, as amended
"**Prospectus Regulation Rules**"	the Prospectus Regulation Rules of the FCA made pursuant to Part VI of FSMA
"**PRT**"	ReAssure's Private Retirement Trust
"**PSM**"	Professional Securities Market
"**PVIF**"	present value of future shareholder cash flows from in-force covered business
"**PwC**"	PricewaterhouseCoopers LLP
"**QRTs**"	quantitative reporting templates
"**Quilter**"	Quilter plc
"**ReAssure**"	ReAssure Group plc
"**ReAssure Fixed Rate Reset Callable Tier 2 Subordinated Notes**"	the £250 million Fixed Rate Reset Callable Tier 2 Subordinated Notes due 2029 issued by ReAssure on 13 June 2019
"**ReAssure GPP**"	ReAssure's Group Personal Plan
"**ReAssure Group**"	ReAssure and its subsidiary undertakings
"**ReAssure Holding Companies**"	ReAssure and RML

"**ReAssure Investment Committees**"	ReAssure Ltd's investment committee and Ark Life's board of directors which acts as its investment committee
"**ReAssure Life Companies**"............	ReAssure Ltd and Ark Life and "**ReAssure Life Company**" means any one of them
"**ReAssure Non-Profit Fund**"...........	the ReAssure Group's non-linked and unit-linked products that are not ring-fenced
"**ReAssure Operating Subsidiaries**".	ReAssure Ltd, RUKSL, OMW and Ark Life
"**ReAssure Proposed IPO**"...............	ReAssure's proposed initial public offering and admission to listing on the premium segment of the Official List and to trading on the LSE in July 2019
"**ReAssure RCF**"...............................	the £350,000,000 multicurrency revolving facility agreement between ReAssure, as borrower, and Barclay's Bank PLC, BNP Paribas (Suisse) SA, HSBC Bank plc, Lloyds Bank plc and NatWest Markets Plc, as lenders, entered into on 6 June 2019 and as amended on 19 August 2019
"**ReAssure Reorganisation**"	a reorganisation completed by the ReAssure Group in 2019 in contemplation of the ReAssure Proposed IPO, pursuant to which ReAssure was incorporated as a new UK private limited company, converted into a public limited company and operationally set up as the parent of the ReAssure Group
"**ReAssure Subordinated Notes**"......	the ReAssure Tier 2 Notes and ReAssure Tier 3 Subordinated Notes
"**ReAssure Tier 2 Notes**"	the ReAssure Tier 2 Subordinated Notes and ReAssure Fixed Rate Reset Callable Tier 2 Subordinated Notes
"**ReAssure Tier 2 Subordinated Notes**"..	the £500 million 5.867 per cent. Tier 2 Subordinated Notes due 2029 issued by ReAssure on 13 June 2019
"**ReAssure Tier 3 Subordinated Notes**"..	the £250 million 4.016 per cent. Tier 3 Subordinated Notes due 2026 issued by ReAssure on 13 June 2019
"**Registrar**"...	Computershare Investor Services PLC
"**Regulatory Information Service**"...	one of the regulatory information services authorised by the FCA to receive, process and disseminate regulatory information in respect of listed companies
"**Relationship Agreements**"..............	the relationship agreements to be entered into upon Completion between the Company and Swiss Re, and upon the transfer to MS&AD of Acquisition Shares that represent 10 per cent. or more of the total issued share capital of Phoenix, the Company and MS&AD
"**Remuneration Committee**"	the remuneration committee of the Board
"**Resolution Group**"	PGH1 and its subsidiaries and, where the context requires, includes the on-sold assets of PGH1 until, in each case, the date of their disposal
"**Resolutions**"	the resolutions to be proposed at the General Meeting in connection with the Acquisition
"**Revolving Credit Agreement**"	the credit agreement entered into between, among others, Phoenix (as borrower) and NatWest Markets Plc (as agent) dated 27 June 2019 as described in paragraph 12.1.10 ("*Revolving Credit Agreement*") of Part XV ("*Additional Information*") of this document
"**Risk Committee**".............................	the risk committee of the Board
"**RMF**"..	the Group's Risk Management Framework
"**RML**"..	ReAssure Midco Limited
"**RSPS**"	ReAssure Staff Pension Scheme

"**RT1 Notes**"..	the £500,000,000 fixed rate reset perpetual restricted tier 1 write down notes issued by the PGH Cayman, as substituted by Phoenix
"**RTA**"...	the risk transfer agreement entered into between the L&G Group and ReAssure Limited on 6 December 2017 in connection with the L&G Transaction
"**RUKSL**"...	ReAssure UK Services Limited
"**SCR**"...	solvency capital requirement
"**SDRT**"...	UK stamp duty reserve tax
"**SEDOL**"..	Stock Exchange Daily Official List
"**Senior Bonds**"..................................	the £300 million senior unsecured 5.75 per cent. bonds issued by PGH Capital, as substituted by PGH Cayman, as substituted by Phoenix
"**Senior Managers**"...........................	the senior managers whose names are set out in paragraph 5.3 ("*Senior Managers*") of Part XV ("*Additional Information*") of this document
"**Share Purchase Agreement**"..........	the share purchase agreement entered into between Phoenix, Swiss Re and SRL in connection with the Acquisition, dated 6 December 2019
"**Shareholder Capital Coverage Ratio**"..	the Solvency II shareholder capital coverage ratio
"**Shareholders**"..................................	the holders of Shares from time to time, and "**Shareholder**" means any one of them
"**Shares**"..	shares of £0.10 each in the share capital of Phoenix
"**Sharesave Scheme**".........................	the Group's Sharesave Plan
"**SIP**"...	the Group's Share Incentive Plan
"**SIPP**"..	self-invested personal pension
"**SLA Acquisition**"............................	the acquisition by PGH Cayman of Standard Life Assurance from Standard Life Aberdeen, which completed on 31 August 2018
"**SLA Acquisition Facility Agreement**"......................................	the facility agreement entered into between the PGH Cayman (as guarantor and as borrower) and The Royal Bank of Scotland plc (as agent), among others, dated 23 February 2018, in connection with the SLA Acquisition
"**SLA Acquisition Prospectus**".........	the combined circular and prospectus in relation to the SLA Acquisition, which was published on 30 May 2018
"**SLA Client Service and Proposition Agreement**".................	the client service and proposition agreement entered into between SLAL, SLIDAC and SLAESL dated 31 August 2018
"**SLA Deed of Indemnity**"...............	the deed of indemnity entered into between Standard Life Aberdeen and SLAL on completion of the SLA Acquisition, pursuant to which Standard Life Aberdeen provided an indemnity to PGH Cayman in respect of certain liabilities arising out of the review and redress programme in respect of SLAL's historical annuity sales practices
"**SLA Enlarged Group**".....................	the Group as enlarged by the acquisition of the Standard Life Assurance businesses
"**SLA Investment Management Agreement**"......................................	the investment management agreement between SLAL and SLI dated 31 August 2018
"**SLA Relationship Agreement**".......	the relationship agreement entered into by PGH Cayman and Standard Life Aberdeen on 31 August 2018, as replaced on 11 December 2018 between the Company and Standard Life Aberdeen

"**SLA Share Purchase Agreement**" .	the share purchase agreement entered into between PGH Cayman and Standard Life Aberdeen in connection with the SLA Acquisition, dated 23 February 2018, as amended and restated on 28 May 2018 and on 31 August 2018
"**SLA Tax Deed**"	the deed of tax covenant entered into between PGH Cayman and Standard Life Aberdeen dated 31 August 2018
"**SLA Trade Mark Licence Agreement**"	the long-form trade mark licence agreement entered into by SLESL (as licensor) and SLAL (as licensee) on 31 August 2018
"**SLA Transitional Services Agreement**"	the transitional services agreement entered into between PGH Cayman, SLESL and SLAESL on 31 August 2018
"**SLAESL**"..	Standard Life Assets and Employee Services Limited
"**SLESL**"...	Standard Life Employee Services Limited
"**SLI**"...	Standard Life Investments (Holdings) Limited
"**SLIDAC**"..	Standard Life International Designated Activity Company
"**SLPF**"	Standard Life Pension Funds Limited
"**SMCR**"	senior managers & certification regime
"**SMF**"...	senior management function
"**Solvency I**".......................................	the Directive of the European Parliament and of the Council of 5 March 2002 amending Council Directive 79/267/EEC as regards the solvency margin requirements for life assurance undertakings (No. 2002/12/EC)
"**Solvency II**"	the Directive on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II) (2009/138/EC) and implementation measures in respect thereof, establishing a new regime in relation to solvency requirements and other matters affecting the financial strength of insurers and reinsurers in the EU
"**Solvency II Surplus**".......................	the excess of Solvency II Own Funds over the SCR
"**Sponsor**"...	HSBC Bank plc
"**SRFJL**"...	Swiss Re Finance (Jersey) Limited (formerly Swiss Re ReAssure Limited)
"**SRL**"	Swiss Re Ltd
"**Standard Formula**".........................	the basic standard formula for calculating SCR through using prescribed stress tests or factors, as set out in Articles 103–111 of Solvency II
"**Standard Life**".................................	Standard Life Assurance's life insurance (including its management services operations) business segment
"**Standard Life Aberdeen**"...............	Standard Life Aberdeen plc
"**Standard Life Assurance**" or "**SLAL**"...	Standard Life Assurance Limited
"**sterling**" or "**Sterling**" or "**£**" or "**pence**" or "**p**"	the lawful currency of the United Kingdom
"**SunLife**"...	AXA SunLife Direct Limited (now Phoenix SL Direct Limited)
"**SunLife Embassy Business**"...........	AXA Wealth Limited's pensions and protection businesses
"**Surplus Generation**".......................	the movement (compared to the prior reporting period) in the ReAssure Group's subsidiaries' surplus capital available for distribution in accordance with the ReAssure Group's capital management policy and regulatory requirements
"**Swiss Re**"..	Swiss Re Finance Midco (Jersey) Limited (formerly Swiss Re ReAssure Midco Limited)

"**Swiss Re Dividend**"	the dividend of £519 million paid by ReAssure to Swiss Re in connection with the issuance and settlement of the ReAssure Subordinated Notes
"**Swiss Re Group**"	SRL and its subsidiary undertakings, from time to time
"**Swiss Re Group Holding**"	the aggregate holding of Shares by all Swiss Re Group Members (excluding any Asset Management Shares)
"**Swiss Re Group Members**"	Swiss Re Group and its associates (excluding any member of the Group)
"**Swiss Re MS&AD SPA**"	the share purchase agreement between Swiss Re, MS&AD and SRL dated 6 December 2019
"**Takeover Code**"	the UK City Code on Takeovers and Mergers issued by the Panel on Takeovers and Mergers, as amended from time to time
"**TMTP**"	transitional measure on technical provisions
"**Transitional Services Agreement**"	the transitional services agreement between RUKSL, on behalf of the ReAssure Group, and Swiss Re Management Limited and Swiss Re Life Capital Management Ltd dated 13 November 2019
"**TSR**"	total shareholder return
"**TUPE**"	Transfer of Undertakings (Protection of Employment) regulation
"**UKCPT**"	UK Commercial Property REIT
"**UDS**"	unallocated divisible surplus
"**UK**" or "**United Kingdom**"	the United Kingdom of Great Britain and Northern Ireland
"**UK resident**"	a person who is resident and, in the case of an individual, resident and domiciled in (and only) in the UK for tax purposes
"**Unaudited *Pro Forma* IFRS Financial Information**"	the unaudited *pro forma* IFRS income statement and unaudited *pro forma* statement of IFRS net assets of the Enlarged Group set out in Part XI ("*Unaudited Pro Forma IFRS Financial Information*") of this document
"**Unaudited *Pro Forma* Solvency Information**"	the unaudited *pro forma* statement of Group Solvency II Surplus of the Enlarged Group set out in Part XII ("*Unaudited Pro Forma Solvency Information of the Enlarged Group*") of this document
"**uncertificated**" or "**in uncertificated form**"	recorded on the register of members as being held in uncertificated form in CREST and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST
"**US**" or "**United States**"	the United States of America, its territories and possessions, any state of the United States and the District of Columbia
"**US Securities Act**"	the United States Securities Act of 1933, as amended
"**VAT**"	value added tax chargeable under or pursuant to the Value Added Tax Act 1994 or the EU Directive 2006/112/EC on the common system of value added tax and any other sales, purchase or turnover tax of a similar notice, whether imposed in the UK or elsewhere
"**Volcker Rule**"	Section 619 of the US Dodd-Frank Act Wall Street Reform and Consumer Protection Act of 2010
"**VWAP**"	volume-weighted average price
"**Windsor Life**"	Windsor Life Assurance Company Limited
"**Windsor Life With-Profit Fund**" or "**WLWPF**"	the with-profit fund of Windsor Life Assurance Company Limited

NOTICE OF GENERAL MEETING

Phoenix Group Holdings plc

(a company incorporated under the Companies Act 2006 and registered in England and Wales with registered number 11606773)

Notice is hereby given that a general meeting of Phoenix Group Holdings plc (the "**Company**") will be held at Juxon House, 100 St Paul's Churchyard, London EC4M 8BU at 10.00 a.m. on 13 February 2020 (the "**General Meeting**") to consider and, if thought fit, to pass the following resolutions, which will be proposed as ordinary resolutions:

ORDINARY RESOLUTIONS

THAT:

1. The proposed acquisition by the Company of ReAssure Group plc as described in the combined circular and prospectus to the shareholders of the Company ("**Shareholders**") dated 17 January 2020, substantially on the terms and subject to the conditions set out in the share purchase agreement between the Company, Swiss Re Finance Midco (Jersey) Limited ("**Swiss Re**") and Swiss Re Ltd (together with its subsidiaries, the "**Swiss Re Group**"), dated 6 December 2019 (as amended, modified, restated or supplemented from time to time) (the "**Acquisition**") be and is hereby approved.

   The directors of the Company (the "**Directors**") be and are hereby authorised to take all necessary or appropriate steps and to do all necessary or appropriate things to implement, complete or to procure the implementation or completion of the Acquisition and give effect thereto with such modifications, variations, revisions, waivers or amendments (not being modifications, variations, revisions, waivers or amendments of a material nature in the context of the Acquisition taken as a whole) as the Directors may deem necessary, expedient or appropriate in connection with the Acquisition.

2. Subject to and conditional on the passing of Resolution 1 above, the Directors be generally and unconditionally authorised to allot and issue equity securities to Swiss Re (or a nominated member of the Swiss Re Group) in connection with the Acquisition, on the following terms:

   (a) such authority to allot and issue equity securities shall be for a period expiring at the conclusion of the annual general meeting of the Company to be held in 2021;

   (b) up to a nominal amount of £27,727,713.80 (representing 277,277,138 ordinary shares with a nominal value of £0.10 each in the share capital of the Company (each, an "**Ordinary Share**"));

   (c) unless previously renewed, revoked or varied by the Company, such authority to allot and issue equity securities shall extend to the making before the expiry of such authority of an offer or an agreement that would or might require equity securities to be allotted after such expiry and the Board of Directors may allot and issue equity securities in pursuance of that offer or agreement as if the authority conferred hereby had not expired; and

   (d) such authority applies in addition to the existing authority granted by ordinary resolution 19 passed by the Shareholders at the Company's annual general meeting held on 2 May 2019.

By order of the board of directors of the Company

Gerald Watson
Group Company Secretary
17 January 2020

Registered office:

Juxon House
100 St. Paul's Churchyard
London EC4M 8BU

NOTES TO THE NOTICE OF GENERAL MEETING

Entitlement to vote

Shareholders registered on the Company's register of members at 6.00 p.m. on 11 February 2020 (the "**Record Date**") are entitled to attend and vote at the General Meeting. A shareholder may vote in respect of the number of Ordinary Shares registered in the shareholders' name on the Record Date. Changes to the entries in the register of members after the Record Date shall be disregarded in determining the rights of any person to attend and vote at the meeting.

Voting in person or by proxy for shareholders

Shareholders may either vote in person or appoint a proxy to exercise their voting rights at the General Meeting. A shareholder may appoint more than one proxy provided that each proxy is appointed to exercise the rights to a different Ordinary Share or Ordinary Shares held by that shareholder. A proxy need not be a shareholder of the Company. The appointment of a proxy does not preclude a shareholder from attending the General Meeting and voting in person. A proxy form is enclosed with this document and instructions for its completion are shown on the form. Proxy appointments may be made by completing and returning the enclosed form of proxy to Computershare Investor Services PLC (the "**Registrars**") The Pavilions, Bridgwater Road, Bristol BS99 6ZY by 10.00 a.m. on the Record Date (11 February 2020), together with the power of attorney or other authority, if any, under which it is signed or a certified copy of such power of attorney or other authority.

A shareholder must inform the Registrars in writing of any termination of the authority of a proxy.

Shareholders may lodge their votes electronically by visiting the website www.investorcentre.co.uk/eproxy (the on-screen instructions will give details on how to complete the instruction process).

Electronic voting instructions via the CREST voting system

CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting services provider(s), who will be able to take the appropriate action on their behalf.

In order for instructions made using the CREST service to be valid, the appropriate CREST message (a "**CREST Voting Instruction**") must be properly authenticated in accordance with the specifications of Euroclear UK & Ireland Limited ("**EUI**") and must contain the information required for such instructions, as described in the CREST Manual.

The message, regardless of whether it relates to the voting instruction or to an amendment to the instruction must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID 3RA50) not later than 10.00 a.m. on 11 February 2020. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the CREST Voting Instruction by the CREST applications host) from which the issuer's agent is able to retrieve the CREST Voting Instruction by enquiry to CREST in the manner prescribed by CREST.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the transmission of CREST Voting Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that the CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a CREST Voting Instruction is transmitted by means of the CREST service by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Voting Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

You may not use any electronic address provided in this document to communicate with the Company for any purposes other than those expressly stated.

Corporate representatives

Any corporation which is a shareholder can appoint one or more corporate representatives who may exercise on behalf of the corporation the same powers as the corporation could exercise if it were an individual shareholder of the Company, provided that they do not do so in relation to the same shares.

Issued share capital and total voting rights

As at 16 January 2020 (being the latest practicable date prior to publication of this document), the Company's issued ordinary share capital consisted of 721,517,296 Ordinary Shares.

Shareholders are entitled to attend and vote at general meetings of the Company. On a vote by show of hands, every shareholder who is present has one vote and every proxy present who has been duly appointed by a shareholder entitled to vote has one vote. On a vote by poll every shareholder who is present in person or by proxy has one vote for every Ordinary Share held.

The total voting rights in the Company as at 16 January 2020 (being the latest practicable date prior to publication of this document) were 721,517,296.

Questions at the meeting

A shareholder attending the meeting has the right to ask questions in relation to the business of the meeting. Any such question relating to the business being dealt with at the meeting will be addressed but no such answer need be given if:

(i) to do so would interfere unduly with the proceedings of the meeting or involve the disclosure of confidential information;

(ii) the answer has already been given on a website in the form of an answer to a question; or

(iii) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

Inspection of documents

Copies of the following documents will be available for inspection at the General Meeting venue from 15 minutes before the commencement of the General Meeting until its conclusion:

1. a copy of the combined circular and prospectus of the Company dated 17 January 2020;
2. a copy of the Company's Articles of Association;
3. the Form of Proxy; and
4. the share purchase agreement in connection with the Acquisition dated 6 December 2019.

Website

A copy of the notice is available on the Company's website:

http://www.thephoenixgroup.com/investor-relations/agm-and-egm/

Contact

Computershare Investor Services PLC at The Pavilions, Bridgwater Road, Bristol BS13 8AE. Tel: +44 (0)370 702 0181. www.investorcentre.co.uk/contactus.

Map for the General Meeting venue,
Juxon House, 100 St Paul's Churchyard, London EC4M 8BU