SUPPLEMENTARY PROSPECTUS DATED 17 JANUARY 2020

Phoenix Group Holdings plc

(incorporated with limited liability in England and Wales with registered number 11606773)

PGH Capital Public Limited Company

(incorporated with limited liability in Ireland with registered number 537912)

£3,000,000,000 Euro Medium Term Note Programme guaranteed on a senior basis in respect of Notes issued by PGH Capital Public Limited Company by Phoenix Group Holdings plc

This supplement (the "**Supplement**") to the base prospectus dated 24 June 2019 as previously supplemented on 15 August 2019 (the "**Prospectus**", which definition includes the base prospectus, the previous supplement and all information incorporated by reference therein and which together comprise a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the "**Prospectus Directive**")) constitutes a supplementary prospectus for the purposes of Section 87G of the Financial Services and Markets Act 2000 ("**FSMA**") as that provision stood immediately prior to 21 July 2019, and is prepared in connection with the £3,000,000,000 Euro Medium Term Note Programme established by PGH Capital Public Limited Company (an "**Issuer**" or "**PGHC**") and Phoenix Group Holdings plc (an "**Issuer**" and together with PGHC, the "**Issuers**" or "**PGH**", or in its capacity as guarantor for the Senior Notes issued by PGHC, the "**Guarantor**").

This Supplement is supplemental to, and should be read in conjunction with, the Prospectus and the documents incorporated by reference therein. Capitalised terms used in this Supplement but not defined herein shall have the meanings ascribed to them in the Prospectus.

The purpose of this Supplement is to:

1. incorporate by reference the announcement entitled "*Proposed Acquisition of ReAssure Group plc*" (the "**Announcement**"), which was published via RNS and on the website of PGH on 6 December 2019;
2. incorporate by reference the ReAssure Group 2019 Interim Financial Information (as defined in this Supplement);
3. incorporate by reference the Information on the ReAssure Group (as defined in this Supplement);
4. update the Prospectus to include the unaudited pro forma IFRS financial information of the Enlarged Group (as defined in this Supplement) (the "**Unaudited Pro Forma IFRS Financial Information**");
5. update the Prospectus to include the unaudited pro forma solvency information of the Enlarged Group (the "**Unaudited Pro Forma Solvency Information**");
6. update the Prospectus to include (a) the consolidated historical financial information of ReAssure Midco Limited and its subsidiary undertakings for the three years ended 31 December 2018 (the "**ReAssure**

Group Historical Financial Information") and (b) the accountant's report in relation to the ReAssure Group Historical Financial Information;

7. update the Prospectus to include (a) the consolidated historical financial information of Old Mutual Wealth Life Assurance Limited for the three years ended 31 December 2018 (the "**OMW Historical Financial Information**") and (b) the accountant's report in relation to the OMW Historical Financial Information;

8. update the section of the Prospectus entitled "*Risk Factors*" as set out below;

9. update the section of the Prospectus entitled "*Information on the Group*" as set out below;

10. update the section of the Prospectus entitled "*Regulatory Overview*" as set out below;

11. update the Prospectus to include the section entitled "*Further Information on the ReAssure Acquisition*" as set out below; and

12. update the no significant change statement of PGH and its subsidiaries in the Prospectus as set out below.

This Supplement has been approved by the United Kingdom Financial Conduct Authority (the "**FCA**"), which is the United Kingdom competent authority for the purposes of the Prospectus Directive and relevant implementing measures in the United Kingdom, as a supplement to the Prospectus. The Prospectus constitutes a base prospectus prepared in compliance with the Prospectus Directive and relevant implementing measures in the United Kingdom for the purpose of giving information with regard to the issue of Notes under the Programme.

The Issuers accept responsibility for the information contained in this Supplement. To the best of the knowledge of the Issuers (which have taken all reasonable care to ensure that such is the case), the information contained in this Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

References in this Supplement to the Group include references to the enlarged Group (the "**Enlarged Group**") following the closing ("**Completion**") of the proposed acquisition by PGH 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**") for total consideration of £3.2 billion in cash and shares (the "**ReAssure Acquisition**") pursuant to the share purchase agreement entered into between PGH, Swiss Re and Swiss Re Ltd ("**SRL**") in connection with the ReAssure Acquisition, dated 6 December 2019 (the "**ReAssure Share Purchase Agreement**").

References in this Supplement to ReAssure include references to Old Mutual Wealth Life Assurance Limited and its subsidiary Old Mutual Wealth Pensions Trustees Limited (together, "**OMW**") and the mature savings business (the "**L&G Business**") of the L&G Assurance Society Limited group ("**L&G Group**").

Documents Incorporated by Reference

By virtue of this Supplement, the following documents (the "**Documents Incorporated by Reference**"), which have previously been filed with the Financial Conduct Authority, shall be deemed to be incorporated in, and form part of, the Prospectus and supplement the section entitled "*Documents Incorporated by Reference*" on pages ix and x of the Prospectus:

(a) the Announcement;

(b) the section entitled "*Part A – Unaudited Consolidated Financial Information of the ReAssure Group for the six months ended 30 June 2019*" on pages 154 to 190 (inclusive) of the combined circular and prospectus dated 17 January 2020 (the "**Circular and Prospectus**") and published by PGH in respect of the ReAssure Acquisition, which comprises the unaudited consolidated financial information of the ReAssure Group (as defined below) for the six months ended 30 June 2019 (the "**ReAssure Group 2019 Interim Financial Information**"); and

(c) the section entitled "*Part III – Business Overview of the ReAssure Group*" on pages 70 to 81 (inclusive) of the Circular and Prospectus (the "**Information on the ReAssure Group**").

Any documents themselves incorporated by reference in the Documents Incorporated by Reference shall not form part of the Prospectus. The parts of the Documents Incorporated by Reference which are not incorporated by reference are either not relevant for investors or are covered elsewhere in this Supplement.

Unaudited Pro Forma IFRS Financial Information

By virtue of this Supplement, the Prospectus is updated to include the Unaudited Pro Forma IFRS Financial Information as set out in Annex 1 of this Supplement.

Ernst & Young LLP has given, and has not withdrawn, its written consent to the inclusion in this Supplement of its report set out in Part B of Annex 1 ("*Unaudited Pro Forma IFRS Financial Information of the Enlarged Group*") in the form and context in which its report appears and has authorised the contents of its report for the purposes of Prospectus Rule 5.5.4R(2)(f).

Unaudited Pro Forma Solvency Information

By virtue of this Supplement, the Prospectus is updated to include the Unaudited Pro Forma Solvency Information as set out in Annex 2 of this Supplement.

Ernst & Young LLP has given, and has not withdrawn, its written consent to the inclusion in this Supplement of its report set out in Part B of Annex 2 ("*Unaudited Pro Forma Solvency Information of the Enlarged Group*") in the form and context in which its report appears and has authorised the contents of its report for the purposes of Prospectus Rule 5.5.4R(2)(f).

ReAssure Group Historical Financial Information

By virtue of this Supplement, the Prospectus is updated to include (a) the ReAssure Group Historical Financial Information and (b) the accountant's report in relation to the ReAssure Group Historical Financial Information, each as set out in Annex 3 of this Supplement.

PricewaterhouseCoopers LLP is a member firm of the Institute of Chartered Accountants in England and Wales and has given and has not withdrawn its consent to the inclusion in this Supplement of its report on the ReAssure Group Historical Financial Information in the form and context in which it appears and has authorised the contents of its report for the purposes of Prospectus Rule 5.5.4R(2)(f).

OMW Historical Financial Information

By virtue of this Supplement, the Prospectus is updated to include (a) the OMW Historical Financial Information and (b) the accountant's report in relation to the OMW Historical Financial Information, each as set out in Annex 4 of this Supplement.

KPMG LLP is a member firm of the Institute of Chartered Accountants in England and Wales and has given and has not withdrawn its consent to the inclusion in this Supplement of its report on the OMW Historical Financial Information in the form and context in which it appears and has authorised the contents of its report for the purposes of Prospectus Rule 5.5.4R(2)(f).

Risk Factors

The risk factors set out under the headings "*Risks Relating to Integration*" and "*Risks Relating to the Group*" in the section entitled "*Risk Factors*" on pages 10 to 36 of the Prospectus shall be deleted and replaced by the following risk factors:

RISKS RELATING TO THE REASSURE ACQUISITION

The ReAssure 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, the Central Bank of Ireland ("**CBI**") approval, the approval by the holders of ordinary shares of PGH (the "**Shareholders**") of the ReAssure Acquisition as a class 1 transaction under the Listing Rules, and the satisfaction of relevant antitrust authorities. Although PGH and each of the other parties to the ReAssure Share Purchase Agreement have agreed to use best endeavours to satisfy each condition as promptly as practicable after signing the ReAssure 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 PGH, Swiss Re and SRL may agree in writing) (the "**Long Stop Date**"), in which case the ReAssure 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 ReAssure Acquisition does not complete, PGH would nonetheless have incurred approximately £16 million of costs (primarily due diligence, advisory and financing fees) in connection with the ReAssure Acquisition. PGH may also incur losses or costs on any hedging arrangements which it seeks to implement in connection with the ReAssure Acquisition prior to Completion. Failure to complete the ReAssure Acquisition may materially adversely affect the business and financial condition of the Group and, accordingly, the Group's operating results.

There can be no assurance that regulators or antitrust authorities will approve the ReAssure 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 ReAssure Acquisition, the regulators or antitrust authorities may impose conditions to Completion, changes to the terms of the ReAssure 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 ReAssure 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, PGH has limited rights to terminate the ReAssure Acquisition. In addition, the consideration agreed to be paid at Completion is £3.2 billion (subject to any variations in the value of the 277,277,138 new Shares to be allotted and issued by PGH to Swiss Re (or a nominated member of the Swiss Re Group) as part consideration pursuant to the ReAssure Acquisition (the "**ReAssure Acquisition Shares**") between the date of the ReAssure 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 business of ReAssure and its subsidiary undertakings (the "**ReAssure Group**") 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. PGH 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 acquisition by ReAssure of the L&G Business, which will occur via an insurance business transfer pursuant to Part VII of FSMA (a "**Part VII Transfer**") (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). PGH 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;

- Information Technology ("**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 ReAssure Acquisition, the termination of an agreement dated 6 March 2007 (as amended) between ReAssure UK Services Limited and Aviva Life Services UK Limited 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 Limited ("SLAL") and ReAssure and the synergies expected from the transitions may not be fully achieved.

ReAssure and SLAL are materially larger and more complex businesses with stronger cultures and brand identities relative to the other businesses previously acquired by PGH. 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 completed the acquisition of OMW on 31 December 2019 for a total consideration of approximately £446 million (including interest) (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 PGH by reference to ReAssure and SLAL.

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.

PGH 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 SLAL. These integration activities may distract management from existing operational objectives for the Group. Furthermore, both SLAL 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 PLL, PLAL, SLAL, SLIDAC and SLPF (together the "**Phoenix Life Companies**"), Old Mutual Wealth Life Assurance Limited, Old Mutual Wealth Pensions Trustees Limited and/or ReAssure Ltd and Ark Life Assurance Company dac ("**Ark Life**") (together the "**ReAssure Life Companies**") (the Phoenix Life Companies, the ReAssure Life Companies, Old Mutual Wealth Life Assurance Limited and Old Mutual Wealth Pensions Trustees Limited together, 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 SLAL'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 SLAL 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
- PGH 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, PGH entered into a credit agreement between, among others, PGH 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 PGH 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 "*Regulatory Overview – Solvency II*". 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). 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 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 PGH pursuant to Solvency II (the "**Solvency II Internal Model**"). 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 the section entitled "*Information on the Group*" below.

- After the ReAssure 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 PGH'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. PGH 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 the Sterling Over Night Index Average (SONIA)), 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, 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 acquisition by 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 ("**PGH Cayman**"), of SLAL from Standard Life Aberdeen plc ("**Standard Life Aberdeen**"), which completed on 31 August 2018 (the "**SLA Acquisition**") has significantly increased, and the ReAssure 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 ReAssure's in-house Administration of Life, Pensions, Health and Annuities system ("**ALPHA**") 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.

PGH, PGH Cayman, PGHC, PLHL, PGH2, Impala, Pearl Group Holdings (No. 1) Limited, Pearl Assurance Group Holdings Limited and Pearl Life Holdings Limited ("PeLHL") (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.

PGH 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, PGH 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 Client Service and Proposition Agreement (as defined herein). 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 AXA Wealth Limited's ("**AWL**") pensions and protections business ("**SunLife Embassy Business**") (the "**PGL Pension Scheme**"); and the scheme relating to the former employees of Abbey Life Assurance Company Limited ("**ALAC**"), Abbey Life Trustee Services Limited and Abbey Life Trust Securities Limited (together, "**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 judgment 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 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 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 PGH'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 PGH'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, 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**"), 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 a transitional services agreement on 31 August 2018 with certain members of the Standard Life Aberdeen group (the "**SLA Transitional Services Agreement**"), 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 a client service and proposition agreement on 31 August 2018 with certain members of the Standard Life Aberdeen group (the "**SLA Client Service and Proposition Agreement**"), 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 PGH 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 PGH 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 £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) (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.

Information on the Group

The Prospectus is amended by adding the following information at the end of the section entitled "*Information on the Group*".

Board of Directors

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.

Competitive Strengths

With approximately 10 million policies and £245 billion assets under administration ("**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.

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.

PGH 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.

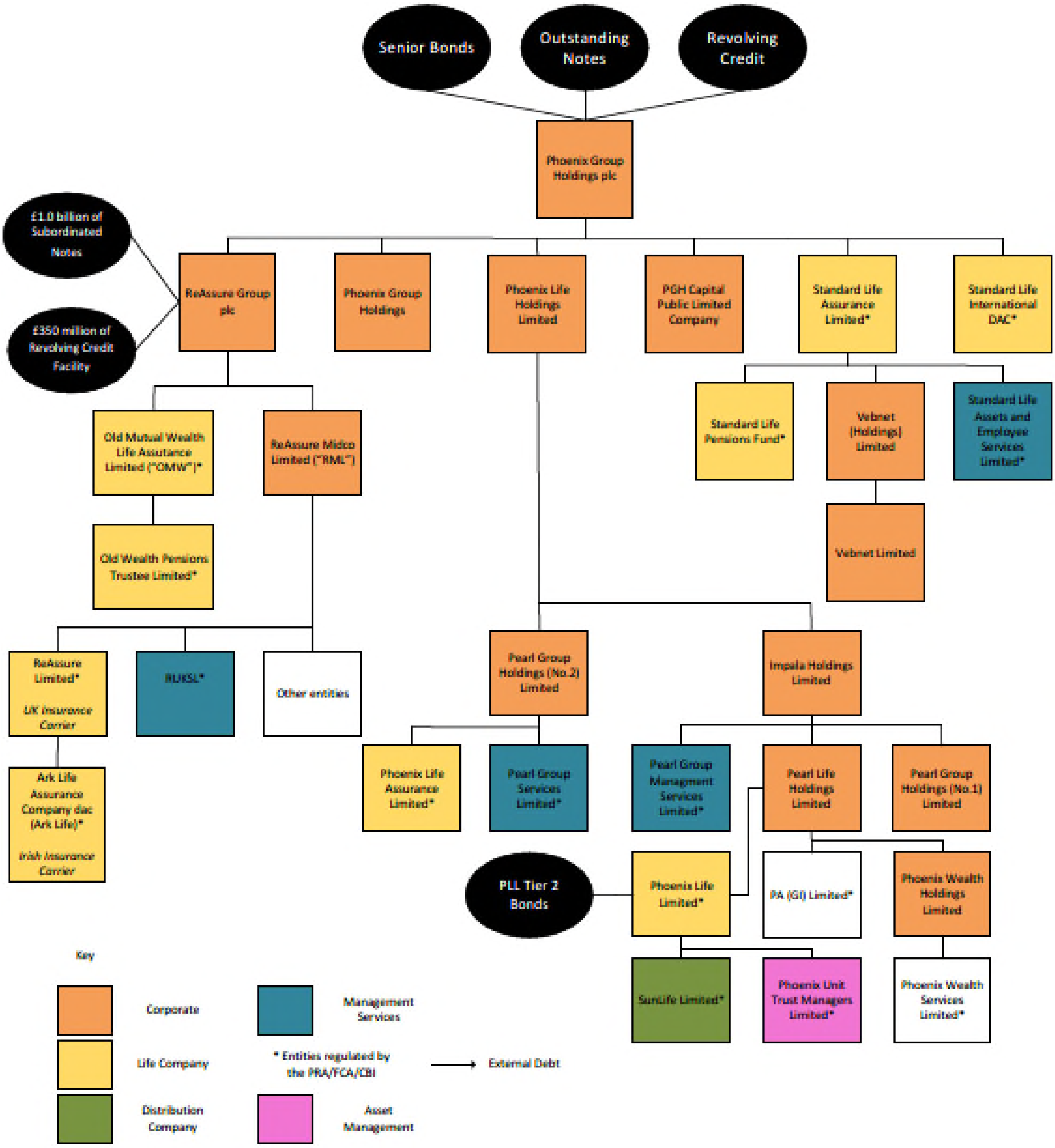
Market Overview

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.

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.



Capital

Following completion of the introduction of PGH as a new UK-incorporated holding company of the Group above PGH Cayman in the organisational structure ("**Onshoring**") of the Group, a new UK-registered holding company, PGH 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 PGH as at the date of this Supplement.

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. PGH'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 PGH 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 AXA SunLife Direct Limited (now Phoenix SL Direct Limited) (together, "**AXA Wealth**") and Abbey Life businesses in March 2017 and March 2018 respectively.

The acquired SLAL 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 to calculate Group SCR, aggregating outputs from the existing PGH 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 PGH 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 PGH 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 the Transitional Measures on Technical Provisions ("**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 ("MCR")

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 SLAL 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 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 SLAL 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 ReAssure Acquisition as PGH will seek the approval of the PRA to aggregate the ReAssure Group under Method 2.

The aggregated MCR 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 PGH 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.

Key factors affecting the Group's results of operations and comparability

PA (GI) 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 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

SLAL was also a participant in the thematic review of non-advised annuity sales issued by the FCA on 14 October 2016.

On the SLA Acquisition, 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 PGH 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).

Recent developments, current trading and outlook

Cash generation

In March 2019, PGH announced cash generation targets, excluding the impact of the ReAssure Acquisition, of £3.8 billion for the years 2019 to 2023, with a further £8.2 billion of cash generation expected from 2024 onwards.

PGH 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 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 management

Solvency II Surplus

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.

Change in PGH Solvency II Surplus between 30 June 2019 (estimated) and 31 December 2018

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.

Material Contracts

Revolving Credit Agreement

On 27 June 2019, PGH entered into the Revolving Credit Agreement between, among others, PGH and NatWest Markets Plc (as agent). 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 PGH 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 Supplement, the Revolving Credit Agreement is undrawn.

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.

Litigation

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.

Further Information on the ReAssure Group

Key Factors Affecting the ReAssure Group's Historical and Future Results of Operations

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 European 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, please refer to the Information on the ReAssure Group.

Acquisition of the Guardian Group

The ReAssure Group completed the acquisition (the "**Guardian Group Acquisition**") of the UK long-term insurance business of Guardian Holdings Europe Limited (the "**Guardian Group**") 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 plc ("**Quilter**") and the acquisition was completed on 31 December 2019.

For more information regarding OMW, please refer to the Information on the ReAssure Group.

Impact of the ReAssure Proposed IPO and the ReAssure Reorganisation

In July 2019, in connection with ReAssure's proposed initial public offering and admission to listing on the premium segment of the Official List and to trading on the London Stock Exchange in July 2019 (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 has issued the ReAssure Subordinated Notes totalling £1.0 billion to Swiss Re Finance (Jersey) Limited (formerly Swiss Re ReAssure Limited) ("**SRFJL**");
- ReAssure has used part of the proceeds of the issuance of the ReAssure Subordinated Notes to pay its direct parent, Swiss Re, the dividend of £519 million in connection with the issuance and settlement of the ReAssure Subordinated Notes (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 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 (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 SRL and its subsidiary undertakings, from time to time (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 ReAssure UK Services Limited ("**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.

Liquidity and Capital Resources

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.

SCR

Solvency II introduced a risk-sensitive SCR, which can be calculated using the Standard Formula or a partial Internal Model 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 partial Internal Model 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 partial Internal Model comprises two components—an internal model calculation for the assets associated with the ReAssure Group's fund containing non-linked and unit-linked products that are not ring-fenced (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 partial Internal Model 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 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 partial 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 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

	As at 31 December		
	2018	2017	2016
	(£ million, except percentages)		
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 partial Internal Model.

(b) Calculated using the Standard Formula.

(6) Calculated using the partial Internal Model (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 the positive 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, 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 the basis of 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, although the economics of the L&G Transaction are largely included given that 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 (as amended, 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 partial Internal Model (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 London Stock Exchange's Professional Securities Market (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 ("**Winding-Up**"), 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, 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, 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 RCF

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.

Material Contracts

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 Supplement 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.

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 RTA;
- 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 (as amended, the "**BTA**");
- the L&G Investment Management Agreements: 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 (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.

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.

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 liabilities which LGAS has agreed to retain pursuant to the BTA ("**BTA Excluded Liabilities**") 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 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 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.

4 ***L&G Investment Management Agreements***

ReAssure Limited, L&G Investment Management Limited ("**LGIM**") and L&G Property Limited ("**LGPL**") entered into a master investment management agreement (the "**Master IMA**") and an investment management agreement (the "**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.

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 (as described herein) (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 (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.

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.

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, 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 only 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.

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.

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.

10 ***ReAssure Transitional Services Agreement***

For information regarding the ReAssure Transitional Services Agreement, see paragraph 3 ("*ReAssure Transitional Services Agreement*") in the section entitled "*Further Information on the ReAssure Acquisition*".

Litigation

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which PGH is aware) during the 12 months preceding the date of this Supplement which may have, or have had, a significant effect on the financial position or profitability of the ReAssure Group.

Regulatory Overview

The Prospectus is amended by adding the following information at the end of the section entitled "*Regulatory Overview*".

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).

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.

Solvency II

The ReAssure Group has adopted a partial Internal Model for the purpose of determining its capital under Solvency II.

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.

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.

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.*"

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.

Further Information on the ReAssure Acquisition

The details of the ReAssure Acquisition are set out in the Announcement, which is incorporated by reference into this Supplement. Further information on the ReAssure Acquisition is set out below.

1 Timing and conditions

While the ReAssure Share Purchase Agreement was signed on 6 December 2019, the entire share capital of ReAssure shall transfer to PGH upon Completion. Completion cannot occur until each of the following conditions is satisfied (or waived by the agreement of PGH and Swiss Re under the terms of the ReAssure Share Purchase Agreement):

(a) approval of the ReAssure Acquisition (as a class 1 transaction under the Listing Rules) by a majority of votes cast by Shareholders at the general meeting of PGH to be held at Juxon House, 100 St Paul's Churchyard, London EC4M 8BU at 10.00 a.m. on 13 February 2020;

(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 PGH;

(c) actual or deemed consent from the CBI for the acquisition of control of Ark Life by PGH;

(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 ReAssure Acquisition Shares to Swiss Re (or a nominated member of the Swiss Re Group) and transfer of part of the ReAssure Acquisition Shares to MS&AD Insurance Group Holdings, Inc. ("**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 ReAssure Acquisition Shares to Swiss Re (or a nominated member of the Swiss Re Group) and transfer of part of the ReAssure 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 ReAssure Share Purchase Agreement will terminate and the ReAssure 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).

2 Integration

The ReAssure 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 ReAssure Reorganisation and the ReAssure Proposed IPO as PGH'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 ReAssure 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 PGH, by the end of 2022.

3 ReAssure 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 (the "**ReAssure 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 ReAssure 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 ReAssure 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 ReAssure 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 ReAssure 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 ReAssure 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 ReAssure Transitional Services Agreement services are set by reference to the cost of delivering those services.

A principle underlying the ReAssure 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 ReAssure 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.

4 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 ReAssure 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.

General Information

Paragraph (4) in the section entitled "*General Information*" on page 290 of the Prospectus shall be deleted and replaced by the following:

(4) Since 30 June 2019, there has been no significant change in the financial or trading position of PGH and its subsidiaries and since 31 December 2018, there has been no material adverse change in the prospects of PGH and its subsidiaries.

Important Information

Presentation of financial information

Capitalisation and indebtedness information for the Group and ReAssure Group in this Supplement and other financial information, unless otherwise stated, has been extracted without material adjustment from (i) PGH's unaudited half-yearly interim results for the six months ended 30 June 2019; (ii) PGH's Annual Report and Accounts for the year ended 31 December 2018; (iii) the unaudited consolidated historical financial information of the ReAssure Group as at and for the six months ended 30 June 2019; (iv) the audited consolidated historical financial information of the ReAssure Group as at and for the years ended 31 December 2018, 2017 and 2016; and (v) the audited historical financial information of OMW for the years ended 31 December 2018, 2017 and 2016. 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. The ReAssure Group Historical Financial Information and the ReAssure Group 2019 Interim Financial Information reflect this restatement. 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 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 in this Supplement and the information incorporated by reference into this Supplement is presented in pounds sterling and has been prepared in accordance with IFRS as adopted by the EU.

For accounting purposes, it is expected that ReAssure will be consolidated into PGH'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 ReAssure Acquisition in the Enlarged Group's statement of financial position. Intangible assets will be expected to arise from the ReAssure Acquisition and may include goodwill, acquired value of in-force ("**AVIF**") business, and other intangibles.

PGH believes that the unaudited consolidated financial information relating to the ReAssure Group for the six months ended 30 June 2019 has been prepared on a basis consistent with the IFRS accounting policies of PGH.

The financial information presented in a number of tables in this Supplement 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 Supplement 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 Supplement, 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 and the Unaudited Pro Forma Solvency Information.

The unaudited pro forma IFRS income statement and unaudited pro forma IFRS statement of net assets of the Enlarged Group contained in Annex 1 to this Supplement have been prepared in accordance with Annex II of Commission Regulation (EC) No 809/2004 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 PGH as if: (i) the proposed ReAssure 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 PGH as if the proposed ReAssure 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 PGH'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 PGH in preparing its consolidated financial statements for the year ended 31 December 2019.

The unaudited pro forma statement of Solvency II Surplus of the Enlarged Group contained in Annex 2 to this Supplement has been prepared in accordance with Annex II of Commission Regulation (EC) No 809/2004 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 PGH as if the proposed ReAssure 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 PGH 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 PGH 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 Supplement 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 EIOPA's "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.

- ***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 the 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".

- ***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 ReAssure 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 ReAssure 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.

- ***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 Supplement and the information incorporated by reference into this Supplement: (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 Supplement is intended as a profit forecast and no statement in this Supplement 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.

Currency exchange rate information

Unless otherwise indicated, the financial information contained in this Supplement has been expressed in pounds sterling. The functional currency of PGH 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 PGH, 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 prior to publication of this Supplement (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 Supplement is described therein and may be different to the convenience translations.

Third party information

PGH confirms that all third-party data contained in this Supplement has been accurately reproduced and, so far as PGH 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 Supplement, the source of such information has been identified.

General

The Issuers will provide, without charge, to each person to whom a copy of this Supplement has been delivered, upon the oral or written request of such person, a copy of any or all of the documents which are incorporated in whole or in part in the Prospectus. Written or oral requests for such documents should be directed to PGH at its principal place of business at Juxon House, 100 St Paul's Churchyard, London EC4M 8BU, United Kingdom. Copies of all documents incorporated by reference in the Prospectus can also be viewed on PGH's corporate website at http://www.thephoenixgroup.com and are also available free of charge on the website of the Regulatory News Service operated by the London Stock Exchange at http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html.

To the extent that there is any inconsistency between: (a) any statement in this Supplement; and (b) any other statement in, or incorporated by reference into, the Prospectus, the statements in (a) above will prevail.

Save as disclosed in this Supplement, there has been no other significant new factor, material mistake or inaccuracy relating to information included in the Prospectus since the publication of the Prospectus.

Annex 1
Unaudited Pro Forma IFRS Financial Information of the Enlarged Group

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 II of Commission Regulation (EC) No 809/2004 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 PGH as if: (i) the proposed ReAssure 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 PGH as if the proposed ReAssure 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 PGH'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 PGH 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				
	PGH Note 1	**Adjustments to PGH 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
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 PGH 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 PGH 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 the ReAssure Group Financial Information.

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 the OMW Historical Financial Information.

Note 5—This column reflects adjustments to align the presentation of the income statement of the ReAssure Group and for OMW to that of PGH as follows:

(a) PGH 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 PGH 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 ReAssure 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 ReAssure 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				
	PGH 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
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 PGH has been extracted, without material adjustment, from PGH'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 the ReAssure Group Historical Financial Information.

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 the OMW Historical Financial Information.

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 PGH 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) PGH 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 PGH 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 ReAssure Acquisition Shares to be issued by PGH 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 PGH share capital following completion of the ReAssure 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 PGH 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

The Directors
Phoenix Group Holdings plc
Juxon House
100 St Paul's Churchyard
London EC4M 8BU
United Kingdom

Ernst & Young LLP
25 Churchill Place
Canary Wharf
London
E14 5EY

Tel: + 44 20 7951 2000
Fax: + 44 20 7951 1345
ey.com

The Directors
PGH Capital Public Limited Company
Arthur Cox Building
Earlsfort Terrace
Dublin 2
Ireland

17 January 2020

Dear Sirs,

We report on the unaudited pro forma IFRS financial information (the "**Pro Forma IFRS Financial Information**") set out in the section entitled "*Unaudited Pro Forma IFRS Financial Information of the Enlarged Group*" of the prospectus supplement dated 17 January 2020 (the "**Supplement**") to the £3,000,000,000 Euro Medium Term Note Programme base prospectus dated 24 June 2019 as previously supplemented on 15 August 2019 of Phoenix Group Holdings plc (the "**Company**") and PGH Capital Public Limited Company ("**PGHC**") 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 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 Company's acquisition of Standard Life Assurance Limited, and (iii) the associated financing, might have affected the financial information presented on the basis of the IFRS accounting policies expected to be adopted by the Company in preparing the IFRS financial statements for the period ended 31 December 2019. This report is required by item 7 of Annex II of Commission Regulation (EC) No 809/2004 and is given for the purpose of complying with that item and for no other purpose.

Save for any responsibility arising under Prospectus Rule 5.5.4R (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 13.1 of Annex IX to Commission Regulation (EC) No 809/2004, consenting to its inclusion in the Supplement.

Responsibilities

It is the responsibility of the directors of the Company and the directors of PGHC to prepare the Pro Forma IFRS Financial Information in accordance with items 1 to 6 of Annex II of Commission Regulation (EC) No 809/2004.

It is our responsibility to form an opinion, as required by item 7 of Annex II of Commission Regulation (EC) No 809/2004, 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 Rule 5.5.4R (2)(f) we are responsible for this report as part of the Supplement and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Supplement in compliance with item 1.2 of Annex IX of Commission Regulation (EC) No 809/2004.

Yours faithfully

Ernst & Young LLP

Annex 2

Unaudited Pro Forma Solvency Information of the Enlarged Group

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 II of Commission Regulation (EC) No 809/2004 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 PGH as if the proposed ReAssure 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 PGH or the Enlarged Group's actual financial position, results or solvency position. The Unaudited Pro Forma Solvency Information is stated on PGH's basis of Solvency II reporting (the "**Solvency Accounting Policies**") expected to be applied by PGH for the year ending 31 December 2019.

The ReAssure Group has regulatory approval to calculate its solvency capital requirements in accordance with its own partial Internal Model. 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 partial Internal Model. The use of Method 2 is subject to approval at the discretion of the partial Internal Model. 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				
	PGH 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 PGH has been extracted, without material adjustment, from the PGH 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 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)

	Own Funds (£ billion)	Solvency Capital Requirement (£ billion)	Solvency II Surplus (£ billion)
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 ReAssure 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 PGH 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 ReAssure Acquisition Shares to be issued by PGH 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 PGH share capital following completion of the ReAssure Acquisition.

(b) Expenses incurred in association with the proposed ReAssure Acquisition and the associated financing including the assumed issuance of £1,200 million of hybrid capital instruments will be borne by PGH 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

The Directors
Phoenix Group Holdings plc
Juxon House
100 St Paul's Churchyard
London
EC4M 8BU
United Kingdom

Ernst & Young LLP
25 Churchill Place
Canary Wharf
London
E14 5EY

Tel: + 44 20 7951 2000
Fax: + 44 20 7951 1345
ey.com

The Directors
PGH Capital Public Limited Company
Arthur Cox Building
Earlsfort Terrace
Dublin 2
Ireland

17 January 2020

Dear Sirs,

We report on the unaudited pro forma solvency information (the "**Pro Forma Solvency Information**") set out in the section entitled "*Unaudited Pro Forma Solvency Information of the Enlarged Group*" of the prospectus supplement dated 17 January 2020 (the "**Supplement**") to the £3,000,000,000 Euro Medium Term Note Programme base prospectus dated 24 June 2019 as previously supplemented on 15 August 2019, 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 applied by Phoenix Group Holdings plc for the period ending 31 December 2019 (the "**Solvency Accounting Policies**"). This report is required by item 7 of Annex II of Commission Regulation (EC) No 809/2004 and is given for the purpose of complying with that item and for no other purpose.

Save for any responsibility arising under Prospectus Rule 5.5.4R (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 13.1 of Annex IX to Commission Regulation (EC) No 809/2004, consenting to its inclusion in the Supplement.

Responsibilities

It is the responsibility of the directors of the Company and the directors of PGHC to prepare the Pro Forma Solvency Information in accordance with items 1 to 6 of Annex II of Commission Regulation (EC) No 809/2004.

It is our responsibility to form an opinion, as required by item 7 of Annex II of Commission Regulation (EC) No 809/2004, 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 Rule 5.5.4R (2)(f) we are responsible for this report as part of the Supplement and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Supplement in compliance with item 1.2 of Annex IX of Commission Regulation (EC) No 809/2004.

Yours faithfully

Ernst & Young LLP

Annex 3

ReAssure Group Historical Financial Information

PART A: 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 B: ACCOUNTANT'S REPORT IN RELATION TO THE CONSOLIDATED HISTORICAL FINANCIAL INFORMATION OF THE REASSURE GROUP FOR THE THREE YEARS ENDED 31 DECEMBER 2018

pwc

The Directors
Phoenix Group Holdings plc
Juxon House
100 St Paul's Churchyard
London
EC4M 8BU

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 the section entitled "*Consolidated Historical Financial Information of the ReAssure Group for the Three Years Ended 31 December 2018*" (the "**ReAssure Historical Financial Information**") of the supplement dated 17 January 2020 (the "**Supplement**") to the £3,000,000,000 Euro Medium Term Note Programme base prospectus dated 24 June 2019, as previously supplemented on 15 August 2019, of Phoenix Group Holdings plc (the "**Company**") and PGH Capital Public Limited Company ("**PGHC**"). The ReAssure Historical Financial Information has been prepared for inclusion in the Supplement on the basis of the accounting policies set out in note 1 to the ReAssure Historical Financial Information. This report is required by item 11.1 of Annex IX to Commission Regulation (EC) No 809/2004 (the "**PD Regulation**") and is given for the purpose of complying with that item and for no other purpose.

Responsibilities

The Directors of the Company are responsible for preparing the ReAssure Historical Financial Information 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 ReAssure Historical Financial Information gives a true and fair view, for the purposes of the Supplement 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 5.5.4R(2)(f) of the Prospectus Rules of the United Kingdom Financial Conduct Authority (the "**Prospectus 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 13.1 of Annex IX to the PD Regulation, consenting to its inclusion in the Supplement.

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 ReAssure Historical Financial Information gives, for the purposes of the Supplement dated 17 January 2020, 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 Rule 5.5.4R(2)(f) we are responsible for this report as part of the Supplement and we declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Supplement in compliance with item 1.2 of Annex IX to the PD Regulation.

Yours faithfully

PricewaterhouseCoopers LLP
Chartered Accountants

Annex 4
OMW Historical Financial Information

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:

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

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 of Old Mutual Wealth Life Assurance Limited set out in the section entitled "*Historical Financial Information of Old Mutual Wealth Life Assurance Limited for the Three Years Ended 31 December 2018*". This financial information has been prepared for inclusion in the supplementary prospectus dated 17 January 2020 of Phoenix Group Holdings plc and PGH Capital Public Limited Company (together the "**Issuers**") on the basis of the accounting policies set out in note 2. This report is required by item 11.1 of Annex IX of Commission Regulation (EC) No 809/2004 (the "**PD Regulation**") and is given for the purpose of complying with that item and for no other purpose.

Responsibilities

The Issuers 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 item 5.5.4R(2)(f) of the Prospectus Rules of the United Kingdom's Financial Conduct Authority 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 13.1 of Annex IX of the PD Regulation, consenting to its inclusion in the supplementary 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 on financial information

In our opinion, the financial information gives, for the purposes of the supplementary 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 and in accordance with International Financial Reporting Standards as adopted by the European Union as described in note 2.

Declaration

For the purposes of Prospectus Rule 5.5.4R(2)(f) we are responsible for this report as part of the supplementary prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the supplementary prospectus in compliance with Item 1.2 of Annex IX to the PD Regulation.

Yours faithfully

KPMG LLP