ReAssure

Solvency and Financial Condition Report 2018

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Executive summary

Introduction

ReAssure MidCo Limited together with its subsidiaries ('the Group') has prepared a single Solvency & Financial Conditional Report ('SFCR'), with permission granted by the Prudential Regulation Authority ('PRA') in May 2017 to produce a single SFCR. The permission allows the Group to produce one SFCR for the Group and its subsidiaries, which is valid until May 2020.

The Group is a life insurance closed book consolidator. It is a scale player in a structurally growing market, delivering superior customer outcomes, with more than 3.3 million policyholders and assets under management of circa £42 billion. On 21 February 2019 the Group holding company changed its name from ReAssure Group Limited to ReAssure MidCo Limited.

Business and performance

The Group has continued its strategy of administering closed blocks of long term insurance business in the interests of policyholders and shareholders. The Group continues to support the acquisition strategy of its intermediate parent company, Swiss Re Life Capital ('SRLC'), in acquiring further blocks of long term insurance business as suitable opportunities arise. The Group comprises four main elements: ReAssure MidCo Limited (a holding company), ReAssure Limited (the UK life company in the Group), Ark Life dac (an Irish life company) and ReAssure UK Services Limited (a company providing administration services to ReAssure Limited and other life companies outside the Group). In 2019 the holding company changed its name from ReAssure Group Limited to ReAssure MidCo Limited. The name change had no impact on the operation or function of the Group.

During the year, the Group continued to run off its existing in force block of business releasing cash for reinvestment in the business or the payment of its dividends. The Group paid a dividend to Swiss Re ReAssure Limited of £921 million in June 2018. The changes in the capital composition of the Group are shown in the capital management section below. The Group met its capital requirements at all times during the year always holding at least 120% of its non profit fund SCR, in line with the target set out in its capital management policy.

In 2017 MS&AD, a Japanese Life Assurance Company, reached agreement to acquire a 15% stake in ReAssure Jersey One, a ReAssure MidCo Limited intermediate holding company (see structure chart on Page 13). This acquisition closed in 2018 and MS&AD subsequently announced that agreement had been reached for them to acquire a further 10% holding. This acquisition completed in February 2019. MS&AD have publicly stated that they support the closed book acquisition strategy that the Group follows and the acquisition has not led to any changes in strategic direction for the Group.

For the year ended 31 December 2018 ReAssure Limited, the main operating entity in the Group, made an IFRS profit after tax of £270 million (2017: £1,059 million, as restated). The following were the key drivers of the positive result:

- Profit emerging from the companies unit linked business on which the company earns fees for administering unit linked policies;
- The unwind of the risk margin attaching to the Group's annuity business and non linked investment income; and
- Income from the Risk Transfer Agreement in place with Legal & General.

In 2018 Swiss Re, the ultimate holding company for the Group, announced that it was exploring the possibility of listing the Group on the stock exchange by way of an Initial Public Offering (IPO). Currently there is no certainty as to if or when an IPO might take place. While an IPO would not be expected to lead to any material changes in either the core operations or the strategic direction of the Group an IPO could be expected to result in certain changes to the operational processes of the Group. These could include revised governance structures and certain functions that currently reside with Swiss Re being performed by the Group or moved to other third parties.

Executive summary continued

System of governance

The Group board of directors ('the board') is responsible for the strategic direction of Group. The ReAssure Limited board is responsible for managing the overall direction and performance of ReAssure Limited.

There have been no material changes to the system of governance during the year. The Group continued to operate its comprehensive three lines of defence governance model as follows:

- The first line of control is represented by risk control activities performed by front-line employees such as the use of authority limits and risk taking. In the context of managing operational risks, first line of control tasks are performed by any employee, no matter whether belonging to a front, middle or back-office.
- The second line of control is independent risk oversight. This is principally provided by Risk Management, although independent risk oversight and control tasks are also performed by Compliance.
- The third line of control is held by Group Internal Audit (GIA). The main task of the third line of defence is to provide independent assurance to the Board regarding the effectiveness of the first and second lines of defence.

The group operates a stand-alone system of governance. The Boards have Operating Manuals which set out the governance arrangements and these manuals form part of the Governance Framework. They outline key responsibilities, those powers which the Boards wish to exercise themselves (or through formally constituted committees of the Boards) and delegation of authorities and other powers, such as the delegation of day to day management of the business to the Chief Executive Officer of ReAssure Limited. Risk Management, Compliance and GIA closely coordinate their second and third line of control activities related to the operation of the Risk Control Framework.

Risk profile

The Group faces a number of key risks which it manages by having a strong risk management framework and a culture of controlled risk taking. Due to the nature and composition of the business, key risks faced by the Group are investment risk (on its sizable investment portfolio) and longevity risks (on its annuity book). The Group also faces operational risks (which includes risks driven by the change and integration projects), high volume of regulatory change and uncertainties in the markets and wider UK economy regarding Brexit (political risk). The Group's Risk Management function continues to model the economic volatility effecting the Statement of Financial Position in order to assess the impact of uncertainty arising from the Brexit process. There is no operational impact upon the Group.

The Group manages its risk-taking by having a clearly set out risk appetite and then managing the risks arising by having a strong risk management framework including processes for risk identification, measurement and reporting. This framework is intended to ensure that the Group is well placed for risk mitigation actions to be taken in a timely manner should they be required.

Valuation for solvency purposes

The Group's Technical Provisions as at 31 December 2018 were £36,225 million (2017: £40,188 million). They were comprised of the following components:

2018 £'000	RAL Solo	Ark Solo	Group Expenses	**Total**
Technical Provisions calculated as a whole	18,409,462	1,533,980	–	**19,943,442**
Gross BEL	15,665,050	332,706	570,660	**16,568,416**
Risk margin	1,396,580	40,522	–	**1,437,102**
Transitional on Technical Provisions	(772,293)	–	–	**(772,293)**
Total Technical Provisions	34,698,799	1,907,208	570,660	**37,176,667**
Reinsurance Recoverable	(588,859)	(363,135)	–	**(951,994)**
Technical Provisions allowing for Reinsurance Recoverable	34,109,940	1,544,073	570,660	**36,224,673**

2017 £'000	RAL Solo	Ark Solo	Group Expenses	Total
Technical Provisions calculated as a whole	20,978,663	1,713,724	–	22,692,387
Gross BEL	17,319,870	272,430	183,019	17,775,319
Risk margin	1,204,825	40,158	–	1,244,983
Transitional on Technical Provisions	(481,023)	–	–	(481,023)
Total Technical Provisions	39,022,335	2,026,312	183,019	41,231,666
Reinsurance Recoverable	(736,579)	(307,086)	–	(1,043,665)
Technical Provisions allowing for Reinsurance Recoverable	38,285,756	1,719,226	183,019	40,188,001

The results above show the Technical Provisions under Solvency II calculated as at 31 December 2018 and 31 December 2017. The 2017 figures include the Technical Provisions relating to the reinsurance arrangement with Legal and General following the acquisition of its mature savings business on 6 December 2017.

The total Technical Provisions consist of Technical Provisions calculated as a whole, which is the value of the unit funds for all unit-linked policies, the Best Estimate Liabilities ('BEL'), the Risk Margin of the Group, and any transitional on Technical Provisions. The transitional on Technical Provisions is applied as a deduction to the Technical Provisions and is referred to throughout this document as Transitional Measures on Technical Provisions ('TMTP').

The calculation of the BEL involves discounting best estimate cash flows using a risk-free term structure prescribed by EIOPA. The Group has authorisation to use a Matching Adjustment on a ring-fenced block of non-profit annuities. These were previously held as two segregated blocks of annuities but were combined during 2018; therefore there is now only one Matching Adjustment Portfolio following the merger. There was minimal financial impact of the merger, with the main benefits being operational. This adjustment is calculated as a fixed addition to the EIOPA risk-free term structure. The Group also has authorisation to use a Volatility Adjustment and the risk-free term structure has been increased by this Volatility Adjustment (also prescribed by EIOPA) for certain annuities in the ReAssure Limited Non-Profit Fund and guaranteed annuity rates, guaranteed annuity option and cash guarantees in the National Mutual With-Profit Fund (NMWPF) and the With-Profit Fund (WPF).

Executive summary continued

Capital management

A summary of the Group's Own Funds at year end was as follows:

Solvency II Capital & Reserves	**2018 £'000**	2017 £'000
Share Capital	**73,051**	73,051
Share Premium	**83,911**	83,911
Reconciliation Reserve	**2,868,617**	3,036,145
Surplus Funds	**556,068**	672,204
Amounts equal to value of deferred tax assets (Tier 3 funds)	**103,990**	–
Total	**3,685,637**	3,865,311

There has been no change in the share capital or share premium of the Group during the period. The decrease in the reconciliation reserve arises from the decrease in consolidated retained earnings during the period. This was driven by an increase in the provision for future Group expenses where a number of changes to assumptions have been made based on an updated group business plan. This was offset to a partial extent by profit arising in ReAssure Limited during the year the main drivers of which are outlined in the business and performance section above. All capital held at the end of 2018 is Tier 1 and fully available for absorbing losses without restrictions with the exception of the amount equal to the value of deferred tax assets. This is Tier 3 capital.

In December 2018, the Group was given approval to use a Partial Internal Model for the calculation of its Group SCR. Under the PIM, the Internal Model is used to determine the capital requirements for the majority of the business and the Standard Formula is only used to determine the capital requirements for the with-profits funds and the economic exposure to the business acquired from Legal & General in 2017. All values reported for 2018 are on a partial internal model basis. 2017 comparatives are on a standard formula basis.

During the year the Group retained surplus in excess of its capital requirements at all times. In addition to holding the Solvency II SCR the Group also holds a 20% buffer on its non-profit fund capital requirements as part of its capital management policy. The total available own funds at year end was as follows:

Total available Own Funds	**2018 £'000**	2017 £'000
Total Own Funds	**3,685,637**	3,865,311
Solvency Capital Requirement	**2,851,386**	3,122,523
Excess Own Funds	**834,251**	742,788

The Group had a solvency ratio of 129% (2017: 124%) at the year end. The solvency ratio includes the impact of using a matching adjustment and the Group has applied a transitional deduction to technical provisions. Without use of the matching adjustment the solvency ratio is 58% (2017: 78%). Without the application of a transitional deduction the solvency ratio is 103% (2017: 109%).

The total Own Funds less the amount equal to the value of deferred tax assets (Tier 3 funds) of £3,581,647 thousand are fully available to cover the Minimum Capital Requirement (MCR). The Group MCR is £693,307 thousand. The Group held Own Funds in excess of the MCR at all times during the year.

The group paid a dividend of £921 million during the year. As noted under business and performance the Group is exploring the possibility of an Initial Public Offering. In the event of an IPO the Group would review its capital management policy to ensure that it was appropriate for the new ownership structure.

Audit opinion

Report of the external independent auditors to the Directors of ReAssure MidCo Group Limited ('the Group') pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the relevant elements of the Single Group-Wide Solvency and Financial Condition Report

Opinion

Except as stated below, we have audited the following documents prepared by the Company as at 31 December 2018:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Single Group-Wide Solvency and Financial Condition Report of the Company as at 31 December 2018, (**'the Narrative Disclosures subject to audit'**); and
- Group templates S.02.01.02, S.22.01.22, S.23.01.22, S.25.01.22 and S.32.01.22 (**'the Group Templates subject to audit'**).
- Company templates S.02.01.02, S.12.01.02, S.22.01.21, S.23.01.01 and S.28.01.01 in respect of ReAssure Limited and Ark Life Assurance Company dac (**'the Company Templates subject to audit'**)

The Narrative Disclosures subject to audit, the Group Templates subject to audit and the Company Templates subject to audit are collectively referred to as the **'relevant elements of the Single Group-Wide Solvency and Financial Condition Report'**.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the **Other Information** which comprises:

- Information contained within the relevant elements of the Single Group-Wide Solvency and Financial Condition Report set out above which is, or derives from the Solvency Capital Requirement, as identified in the Appendix to this report;
- The 'Executive Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Single Group-Wide Solvency and Financial Condition Report;
- Group templates S.05.01.02 and S.05.02.01 and S.25.02.22
- Information calculated in accordance with the previous regime used in the calculation of the transitional measure on technical provisions, and as a consequence all information relating to the transitional measure on technical provisions as set out in the Appendix to this report;
- Company templates S.05.01.02, S.05.02.01, and S.25.02.21 in respect of ReAssure Limited and Ark Life Assurance Company dac;
- The written acknowledgement by management of their responsibilities, including for the preparation of the Single Group-Wide Solvency and Financial Condition Report (**'the Responsibility Statement'**);

To the extent the information subject to audit in the relevant elements of the Single Group-Wide Solvency and Financial Condition Report includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

In our opinion, the information subject to audit in the relevant elements of the Single Group-Wide Solvency and Financial Condition Report of the Company as at 31 December 2018 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals.

Audit opinion continued

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the relevant elements of the Single Group-Wide Solvency and Financial Condition Report section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Single Group-Wide Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the Single Group-Wide Solvency and Financial Condition Report is not appropriate; or
- the directors have not disclosed in the Single Group-Wide Solvency and Financial Condition Report any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Single Group-Wide Solvency and Financial Condition Report is authorised for issue.

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Company's trade, customers, suppliers and the wider economy.

Emphasis of Matter – Basis of Accounting

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' sections of the Single Group-Wide Solvency and Financial Condition Report, which describe the basis of accounting. The Single Group-Wide Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Single Group-Wide Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Single Group-Wide Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Other Information

The Directors are responsible for the Other Information.

Our opinion on the relevant elements of the Single Group-Wide Solvency and Financial Condition Report does not cover the Other Information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Single Group-Wide Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the Single Group-Wide Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the Single Group-Wide Solvency and Financial Condition Report or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Single Group-Wide Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Single Group-Wide Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations, which have been modified by the modifications and supplemented by the approvals made by the PRA under section 138A of FSMA, the PRA Rules and Solvency II regulations on which they are based, as detailed below:

- Permission to publish Single Group-Wide SFCR;
- Approval to use the matching adjustment in the calculation of technical provisions;
- Approval to use the volatility adjustment in the calculation of technical provisions; and
- Approval to use the transitional measure on technical provisions; and
- Approval to use a full or partial internal model.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Single Group-Wide Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities for the Audit of the relevant elements of the Single Group-Wide Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the information subject to audit in the relevant elements of the Single Group-Wide Solvency and Financial Condition Report is prepared, in all material respects, in accordance with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Single Group-Wide Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the Single Group-Wide Solvency and Financial Condition Report.

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

This report, including the opinion, has been prepared for the Board of Directors of the Company in accordance with External Audit rule 2.1 of the Solvency II firms Sector of the PRA Rulebook and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose or to any other party save where expressly agreed by our prior consent in writing.

Other Matter

The Company has authority to calculate its Group Solvency Capital Requirement using a partial internal model ('the Group Model') approved by the Prudential Regulation Authority in accordance with the Solvency II Regulations. The group members have authority to calculate their Solvency Capital Requirements using partial internal models ('the Solo Models') approved by the Prudential Regulation Authority in accordance with the Solvency II Regulations. In forming our opinion (and in accordance with PRA Rules), we are not required to audit the inputs to, design of, operating effectiveness of and outputs from the Group Model and the Solo Models, or whether the Group Model and the solo Models are being applied in accordance with the Company's and the group members' application or approval order.

Audit opinion continued

Report on Other Legal and Regulatory Requirements

Other Information

In accordance with Rule 4.1 (3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of the Company's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
London

30 May 2019

Appendix – relevant elements of the Single Group-Wide Solvency and Financial Condition Report that are not subject to audit

- The relevant elements of the Single Group-Wide Solvency and Financial Condition Report that are not subject to audit comprise:
  - The following elements of Group template S.02.01.02:
  - Row R0550: Technical provisions - non-life (excluding health) - risk margin
  - Row R0590: Technical provisions - health (similar to non-life) - risk margin
  - Row R0640: Technical provisions - health (similar to life) - risk margin
  - Row R0680: Technical provisions - life (excluding health and index-linked and unit-linked) - risk margin
  - Row R0720: Technical provisions - Index-linked and unit-linked - risk margin
- The following elements of Group template S.22.01.22
  - Column C0030 – Impact of transitional on technical provisions
  - Row R0010 – Technical provisions
  - Row R0090 – Solvency Capital Requirement
- The following elements of Group template S.23.01.22
  - Row R0020: Non-available called but not paid in ordinary share capital at group level
  - Row R0060: Non-available subordinated mutual member accounts at group level
  - Row R0080: Non-available surplus at group level
  - Row R0100: Non-available preference shares at group level
  - Row R0120: Non-available share premium account related to preference shares at group level
  - Row R0150: Non-available subordinated liabilities at group level
  - Row R0170: The amount equal to the value of net deferred tax assets not available at the group level
  - Row R0190: Non-available own funds related to other own funds items approved by supervisory authority
  - Row R0210: Non-available minority interests at group level

- Row R0380: Non-available ancillary own funds at group level
- Row R0680: Group SCR
- Row R0740: Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds
- Row R0750: Other non available own funds

• The following elements of Company template S.02.01.02:

- Row R0550: Technical provisions - non-life (excluding health) - risk margin
- Row R0590: Technical provisions - health (similar to non-life) - risk margin
- Row R0640: Technical provisions - health (similar to life) - risk margin
- Row R0680: Technical provisions - life (excluding health and index-linked and unit-linked) - risk margin
- Row R0720: Technical provisions - Index-linked and unit-linked - risk margin

• The following elements of Company template S.12.01.02

- Row R0100: Technical provisions calculated as a sum of BE and RM - Risk margin
- Rows R0110 to R0130 – Amount of transitional measure on technical provisions

• The following elements of Company template S.22.01.21

- Column C0030 – Impact of transitional on technical provisions
- Row R0010 – Technical provisions
- Row R0090 – Solvency Capital Requirement

• The following elements of Company template S.23.01.01

- Row R0580: SCR
- Row R0740: Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

• The following elements of Company template S.28.01.01

- Row R0310: SCR

• Elements of the Narrative Disclosures subject to audit identified as ‘unaudited’

Directors' statement in respect of the Group SFCR

We acknowledge our responsibility for preparing the Group SFCR in all material respects in accordance with the PRA Rules and the Solvency II Regulations.

We are satisfied that:

a) throughout the financial year in question, the Group has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable at the level of the Group; and

b) it is reasonable to believe that the Group has continued so to comply subsequently and will continue so to comply in future.

Signed on behalf of the Board of ReAssure MidCo Group on 29 May 2019 by:

Matthew Cuhls
Chief Executive Officer

Ian Patrick
Chief Financial Officer

Section A: Business and performance

In this section

Section A: Business and performance

A1: Business

1 Full name and legal form

ReAssure MidCo Limited, registered office: Windsor House, Ironmasters Way, Telford Centre, TF3 4NB. Registered in England No 02970583. The company is a limited liability company incorporated under UK law. On 21 February 2019 ReAssure MidCo Limited, the parent company of the Group, changed its name from ReAssure Group Limited.

2 Name and contact details of ReAssure MidCo Group's Supervisory Authority

The Prudential Regulation Authority (PRA), the Financial Conduct Authority (FCA) and the Central Bank of Ireland (CBI) are the supervisory authorities responsible for the regulation and financial supervision of the regulated entities in the Group. The contact details are:

Prudential Regulation Authority
20 Moorgate
London
EC2R 6DA UK

Financial Conduct Authority
25 The North Colonnade
Canary Wharf
London E14 5HS

Central Bank of Ireland
New Wapping Street
North Wall Quay
Dublin 1

ReAssure MidCo Limited is an insurance holding company and heads a Solvency II group subject to group supervision. ReAssure MidCo Limited is not a regulated entity.

3 Name and contact details of the ultimate parent company's supervisor

Swiss Re Ltd, a company incorporated in Switzerland, is the ultimate controlling parent company of the Group. Swiss Re Ltd is regulated by the Swiss Financial Market Supervisory Authority (FINMA). The contact details of FINMA are:

Swiss Financial Market Supervisory Authority
27 Laupenstrasse
CH – 3003 Bern
Switzerland

4 Name and contact details of External Auditor

PricewaterhouseCoopers (PwC) LLP is the appointed auditor of ReAssure MidCo Group. The contact details of PwC are:

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT UK

5 Description of the holders of qualifying holdings in ReAssure MidCo Group Limited

There are two qualifying holdings in ReAssure MidCo (being a holder of 10% or more of the capital or voting rights).

	% of total voting rights
Swiss Re Life Capital	75
MS&AD Insurance Group	25

Swiss Re Life Capital is a division of Swiss Re, a public limited company incorporated in Switzerland.

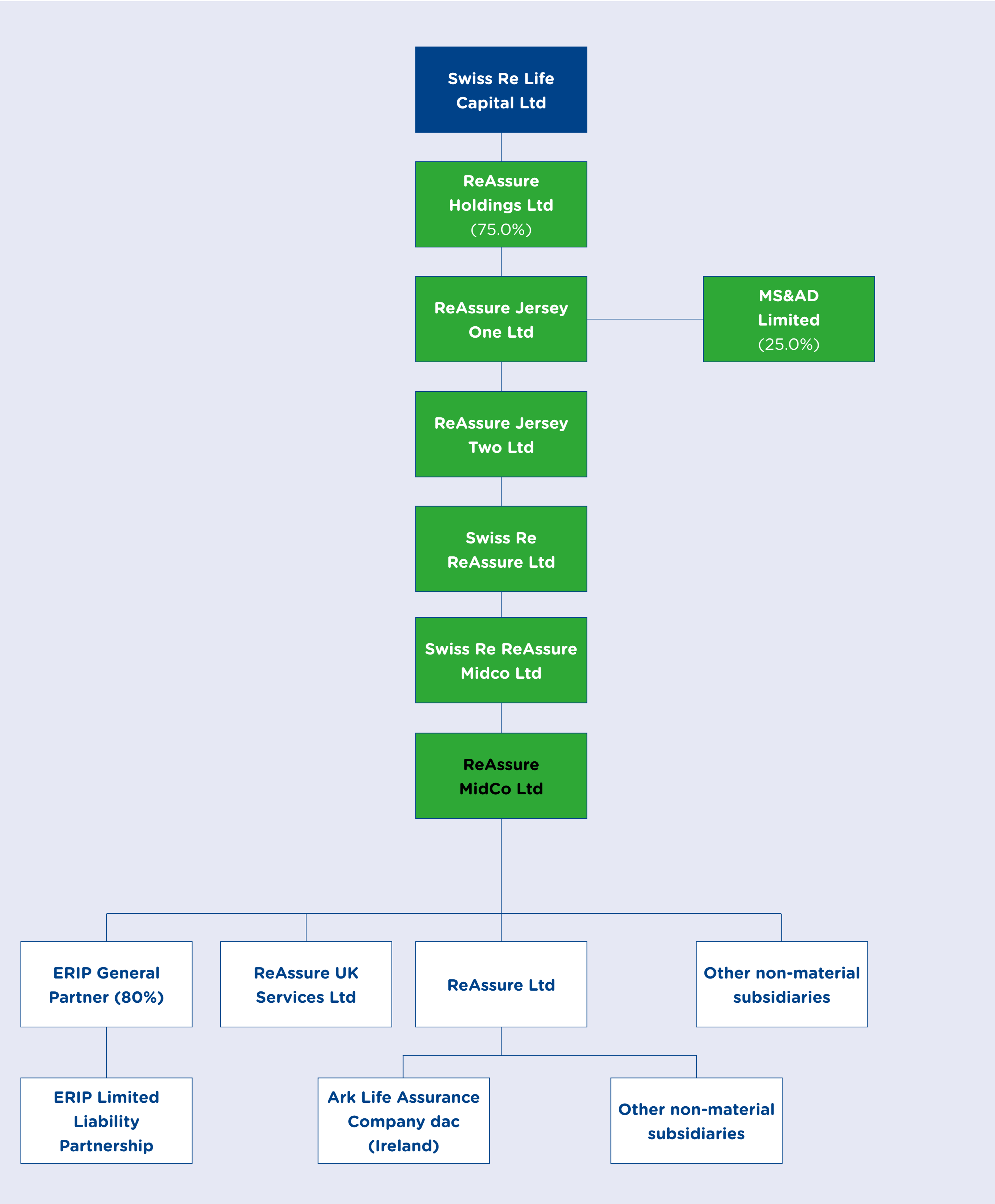
MS&AD Insurance Group is a public limited company incorporated in Japan.

6 Details of ReAssure MidCo Group Limited's position within the Swiss Re Life Capital legal structure

The position of ReAssure MidCo Limited within the legal structure of Swiss Re Life Capital is shown in the Group Structure Chart below. The immediate holding company of ReAssure MidCo Limited is Swiss Re ReAssure Midco Limited, a company incorporated in Jersey. The divisional holding company is Swiss Re Life Capital Limited, a company incorporated in Switzerland. The ultimate parent company is Swiss Re, a public limited company incorporated in Switzerland.incorporated in Switzerland. The ultimate parent company is Swiss Re, a public limited company incorporated in Switzerland.

7 Structure Chart for ReAssure MidCo Group and description of all material related undertakings

The ownership structure of ReAssure Limited is shown below. All holdings are 100% unless shown.



Section A: Business and performance continued

ReAssure Limited is the main insurance carrier for the Group. ReAssure Limited administers long term life, health and pension business for the benefit of policyholders. ReAssure Limited also owns Ark Life Assurance Company dac (Ark Life) a long term insurance carrier based in Ireland. ReAssure UK Services Limited acts as the primary management services company for the Group. The company provides IT, administration and project management services to ReAssure Limited and to other Group companies as required. ERIP Limited Liability Partnership is an investment vehicle that holds a portfolio of residential property for the benefit of ReAssure Limited.

8 Material lines of business and geographical area served

The Group operates in the UK and Ireland. ReAssure MidCo Limited acts as an insurance holding company, setting strategy and direction for group companies including the carriers of long term insurance business. Its principal insurance companies have the following material lines of business:

- Life and pension annuities in payment
- Personal and Group pension business
- Life protection and endowment business
- Health protection business

Within these lines of business, the companies have a mix of non-profit, unit linked and with profit products. The Group also includes entities that provide services to its long term insurance operations and provide third party administration services.

9 Significant business or other events in the reporting period

As part of the wider business strategy to secure capital to fund new acquisitions, in October 2017 it was announced that MS&AD, a conglomerate insurer based in Japan, had agreed to acquire an initial 5% stake in ReAssure Jersey One Limited ('RJOL'), an intermediate holding company above ReAssure MidCo in the Group. This agreement to purchase 5% was accompanied by a commitment to invest up to £800 million in RJOL. Regulatory approval for the deal was received in January 2018, and on 23 January 2018 MS&AD completed the acquisition of the initial 5% for £175 million and on the same date acquired a further 8.2% of RJOL for £330 million. On 28 February 2018, MS&AD acquired a further 1.8% for £82 million, bringing their total stake to 15% and their total investment to £587 million. On 20th February 2019 MS&AD acquired a further 10% in RJOL taking their total holding to 25%. MS&AD have publicly stated that they are supportive of the closed book acquisition strategy that the ReAssure MidCo Group follows and the acquisition has not led to any changes in strategic direction for the Group.

This injection of capital has enabled the Group to pursue its principal acquisition activities, and in December 2017 ReAssure Limited agreed to purchase approximately 1.1 million policies from Legal & General for £650 million. The policies contain a mix of with-profits, unit-linked and savings products and comprise approximately £33 billion of funds under management. The transaction has further enhanced ReAssure Group's position as a leading closed life book consolidator in the UK, with over 3 million owned policies in force. The agreement was structured initially as a risk transfer agreement, under which from 1 January 2018 ReAssure took on the risks and rewards of the business. During 2018 this has been fully operational with both ReAssure and Legal & General fulfilling their responsibilities under the agreement. The business is expected to transfer fully to the Group by way of a transfer under Part VII of the FSMA 2000 in 2019.

In December 2018, ReAssure Limited was given approval to use a Partial Internal Model (PIM) for the calculation of its SCR. The internal model is used to determine the capital requirements for the majority of the business including the Ark Life subsidiary and the Standard Formula is only used to determine the capital requirements for the with-profits funds and the economic exposure to the business acquired from Legal & General in 2017. The SCR for ReAssure Limited is calculated by adding together the Internal Model and Standard Formula SCR components. Diversification between these two components is not allowed for. The PIM results are widely used to support decision making, including setting the business strategy. The model is used to understand the key risks to the business and is integrated within the Risk Management framework.

In 2018 Swiss Re, the ultimate holding company for the Group, announced that it was exploring the possibility of listing ReAssure MidCo Group on the stock exchange by way of an Initial Public Offering. Currently there is no certainty as to if or when an IPO might take place. While an IPO would not be expected to lead to any material changes in either the core operations or the strategic direction of the Group an IPO could be expected to result in certain changes to the operational processes of the group. These could include revised governance structures and certain functions that are currently performed by Swiss Re being performed by the Group or moved to other third parties. It is anticipated that Swiss Re would retain a minority stake in the business and it is not anticipated that MS&AD would dispose of any of its holding as part of the IPO.

10 Group consolidated financial statements

ReAssure MidCo is not required to produce audited consolidated financial statements at the ReAssure MidCo level. This is because consolidated financial statements for the full Swiss Re Group include all the companies in ReAssure MidCo Group. For internally produced consolidations of the ReAssure MidCo Group there are no differences between the data used in the consolidations and the data used for the calculation of group solvency.

11 Group operations

ReAssure Limited, which acts as the UK insurance carrier, represents the bulk of Group activity. ReAssure Limited has assets of £40.3 billion compared to total the Group assets of £42.6 billion. The majority of the remaining Group assets are the assets of Ark Life. Aside from the holding company, the Group has two ancillary service companies who provide management services to the insurance entities. The UK is the Groups' country of domicile and its principal market.

Section A: Business and performance continued

A2: Underwriting performance

1 Underwriting performance by Group company and material lines of business

The underwriting performance of the ReAssure MidCo Group's insurance companies and summary IFRS results are shown below.

£'000	ReAssure Limited 2018	Ark Life Assurance Company 2018	Total 2018
Underwriting Profit	1,680,051	53,979	1,734,030
Investment Return	(1,209,037)	(40,316)	(1,249,353)
Administration & Other Expenses	(154,644)	–	(154,644)
Profit Before Tax	**316,370**	**13,663**	**330,033**
Tax On Profit	(46,757)	(4,068)	(50,825)
IFRS Profit/(Loss)	**269,613**	**9,595**	**279,208**

An analysis of the underwriting profit split by material lines of business is as follows:

£'000	ReAssure Limited 2018	Ark Life Assurance Company 2018	Total 2018
Insurance with profit participation	139,501	–	139,501
Index-linked and unit-linked insurance	1,106,280	49,798	1,156,078
Health insurance	10,292	(1,331)	8,961
Other life insurance	423,978	5,512	429,490
Total	**1,680,051**	**53,979**	**1,734,030**

Comparatives for 2017 for the underwriting result, IFRS profit (as restated) and material lines of business is as follows:

£'000	ReAssure Limited 2018	Ark Life Assurance Company 2018	Total 2018
Underwriting Profit	(1,821,169)	(81,010)	(1,902,179)
Investment Return	3,191,203	96,836	3,288,039
Other Expenses	(57,703)	–	(57,703)
Profit Before Tax	**1,312,331**	**15,826**	**1,328,157**
Tax On Profit	(253,130)	(6,231)	(259,361)
IFRS Profit	**1,059,201**	**9,595**	**1,068,796**

£'000	ReAssure Limited 2018	Ark Life Assurance Company 2018	Total 2018
Insurance with profit participation	(336,151)	–	(336,151)
Index-linked and unit-linked insurance	(2,036,607)	(83,348)	(2,119,955)
Health insurance	(5,027)	(1,611)	(6,638)
Other life insurance	556,616	3,949	560,565
Total	**(1,821,169)**	**(81,010)**	**(1,902,179)**

The ReAssure Limited IFRS result is included at its restated value. The 2017 IFRS results were restated in the 2018 financial statements to ensure the consistency of treatment of certain reinsurance contracts. ReAssure Limited operates in only one geographical segment which is the United Kingdom. Ark Life Assurance dac operates only in Ireland.

As a result of the structure of unit linked business in particular, which makes up a substantial proportion of the product portfolio, investment income earned offsets gains or losses at the underwriting level. This can be seen in the results above where in 2017 there is a loss at the underwriting level which is offset by net positive income and gains whereas in 2018 an underwriting profit is offset by net negative income and gains.

For the year ended 31 December 2018 ReAssure Limited, the main operating entity in the Group, made an IFRS profit of £270 million (2017: £1,059 million). The following were the key drivers of the positive result:

- Profit emerging from the companies unit linked business on which the company earns fees for administering unit linked policies;
- The unwind of the risk margin attaching to the Groups annuity business and non linked investment income; and
- Income from the Risk Transfer Agreement in place with Legal & General.

The reduction in profit from 2017 was driven by the fact that the contribution from the change in mortality assumptions in 2018 was less marked than in 2017. In addition the 2017 result contained a one off contribution from an extension of the business in the Solvency II matching adjustment portfolio which was not repeated in 2018. Favourable investment returns in 2017 compared with 2018 also enhanced the 2017 result.

A3: Investment performance

1 Income and expenses arising from investments

Investment income and expenses by investments assets category for ReAssure Limited, as at 31 December 2018, were as follows:

Year Ended 31 Dec 2018 £'000	Interest	Dividend	Fair Value Gains/Losses	Other	Total
Fixed & Variable Securities	747,162	–	(899,362)	–	(152,200)
Equities	–	444,598	(1,406,883)	–	(962,285)
Loans	23,096	–	(4,640)	–	18,456
Derivatives	–	–	(30,932)	–	(30,932)
Collective Investment Scheme	37,322	57,228	(259,114)	–	(164,564)
Participations	–	22,319	–	–	22,319
Investment Property	–	–	14,752	36,519	51,271
Cash & Deposits	7,738	–	1,119	–	8,857
Other Assets	–	–	39,414	17,585	56,999
Investment Management Expenses	–	–	–	(56,958)	(56,958)
Total investment income	**815,318**	**524,145**	**(2,545,646)**	**(2,854)**	**(1,209,037)**

Investment income and expenses by investments assets category for Ark Life, as at 31 December 2018, were as follows:

Year Ended 31 Dec 2018 £'000	Interest	Dividend	Fair Value Gains/Losses	Other	Total
Fixed & Variable Securities	5,833	–	(4,242)	–	1,591
Equities	–	30,404	(68,144)	–	(37,740)
Derivatives	–	–	(88)	–	(88)
Investment Property	–	–	17	530	547
Other Assets	–	–	(4,626)	–	(4,626)
Total investment income	**5,833**	**30,404**	**(77,083)**	**530**	**(40,316)**

Section A: Business and performance continued

A3: Investment performance continued

Investment income and expenses by investments assets category for ReAssure Limited, as at 31 December 2017, were as follows:

Year Ended 31 Dec 2017 £'000	Interest	Dividend	Fair Value Gains/Losses	Other	Total
Fixed & Variable Securities	810,154	–	101,946	–	912,100
Equities	–	425,736	1,137,884	–	1,563,620
Loans	5,979	–	–	–	5,979
Derivatives	–	–	5,186	–	5,186
Collective Investment Scheme	36,756	86,000	538,245	–	661,001
Participations	–	105,246	–	–	105,246
Investment Property	–	–	(43,653)	36,717	(6,936)
Cash & Deposits	22,499	–	(90)	–	22,409
Other Assets	–	–	–	(29,851)	(29,851)
Investment Management Expenses	–	–	–	(47,551)	(47,551)
Total investment income	**875,388**	**616,982**	**1,739,518**	**(40,685)**	**3,191,203**

Investment income and expenses by investments assets category for Ark Life, as at 31 December 2017, were as follows:

Year Ended 31 Dec 2017 £'000	Interest	Dividend	Fair Value Gains/Losses	Other	Total
Fixed & Variable Securities	5,956	–	(7,270)	–	(1,314)
Equities	–	30,483	66,397	–	96,880
Derivatives	–	–	4,992	–	4,992
Investment Property	–	–	(437)	700	263
Other Assets	–	–	(3,985)	–	(3,985)
Total investment income	**5,956**	**30,483**	**59,697**	**700**	**96,836**

The investment environment was difficult for both equities and fixed interest investments in 2018. Equity markets generally fell back during the year resulting in the unrealised losses on equities shown in the tables above. This was in contrast to 2017 where net unrealised gains were recorded.

For fixed interest investments gilt yields edged higher during the year and spreads on corporate bonds also widened. These movements reduced fixed interest capital values and produced the net unrealised losses for fixed income investments shown above.

A4: Performance of other activities

There are no other material activities that impact on Group performance.

A5: Any other information

There is no other material information to report for 2018.

Section B: System of governance

In this section:

Section B: System of governance

B1: General information on the system of governance

1 Overview of Governance Structure

In considering the governance structure of the Group, it is important to make the distinction between governance of ReAssure MidCo Limited (the legal entity company) and the consolidated ReAssure MidCo Group comprising ReAssure MidCo Limited and all of its subsidiary companies, which together form the Solvency II consolidated Group.

Governance arrangements described below concerning the legal entity board outline the legal responsibilities of the directors of ReAssure MidCo Limited to that legal entity. However in general, unless otherwise stated, the Board and Operational committees described cover the operations of all the Group companies. Some will often be primarily concerned with ReAssure Limited, the principal operating subsidiary of the Group and the carrier of the bulk of the insurance risk and other related risks. For example the Board Investment Committee is primarily concerned with ReAssure Limited.

The Boards

The activities of each entity within the ReAssure MidCo Group are governed by its respective Board of Directors. The Board Operating Manual (BOM) outlines the Board level governance arrangements for each entity as approved by each Board and establish the structure for oversight and management of ReAssure MidCo Group.

The manual forms part of the Governance Framework. It outlines key responsibilities, those powers which the Board wish to exercise themselves (or through formally constituted committees of the Board), delegation of authorities and other powers, such as day to day management of the business to the Chief Executive Officer of ReAssure MidCo Group.

The manual articulates key aspects of the internal control environment which assist the Board and Executive Management to govern, direct and control the business of ReAssure MidCo Group. The governance structure is reviewed by the Board at least annually and in the event of material changes to the business.

The Board reserve certain matters and decisions for themselves and also delegate other matters for decision to the relevant Board Committees. The Board may also delegate specific matters to other committees on an ad hoc or Standing Committee basis.

ReAssure MidCo Group Chief Executive Officer

The CEO of the Group is responsible for the execution of group strategy as approved and adopted by the Board of the Group legal entity. The principal areas of responsibility are:

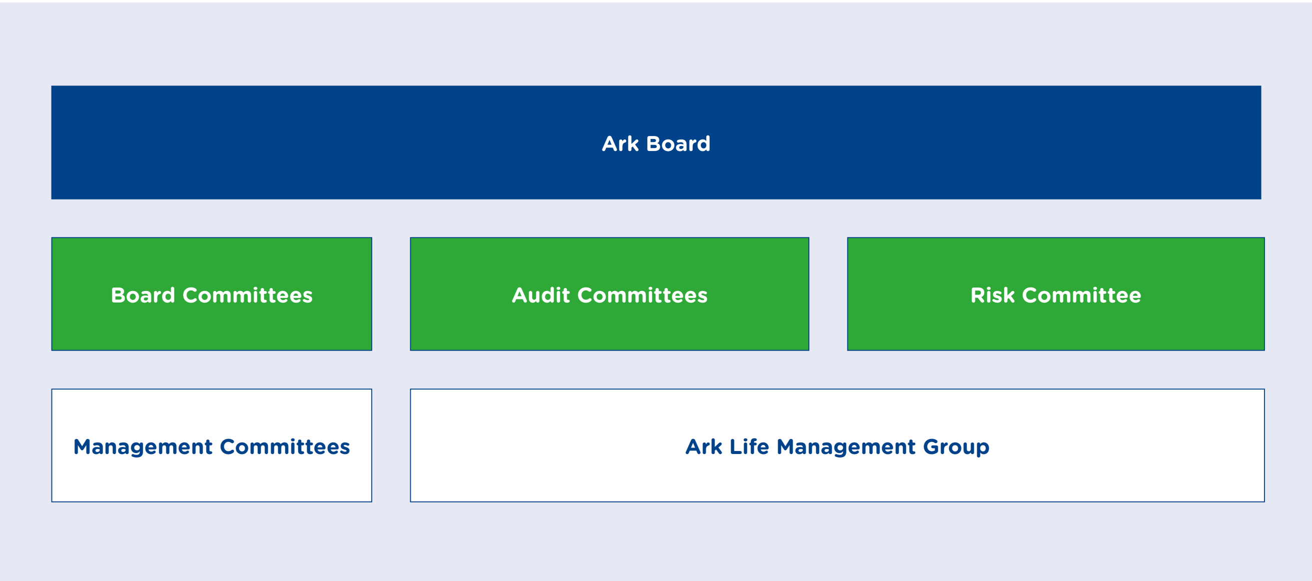
- Identifying opportunities for and facilitating delivery of value added activities within the business plan and that are approved during the year;
- Capital and investment management;
- Championing at all levels within the organisation the importance of treating customers fairly;
- The recruitment and retention of appropriate skilled personnel to ensure strong governance and operational management of all life company matters;
- Sponsorship of delivery of the core customer and product proposition initiatives to both maintain and, where necessary or justified, enhance customer outcomes;
- Ensuring compliance with regulatory requirements;
- Integration and transition into the Group of any businesses acquired; and
- Oversight of outsourced arrangements.

Leadership and direction are provided through the ReAssure Management Committee which is chaired by the CEO. The CEO directly oversees five units within ReAssure; each with its own head reporting directly to the CEO:

- Corporate Strategy and Planning;
- Product and Proposition;
- Operations;
- Customer Services; and
- Aviva Third Party Administration.

Ark Life Assurance Company dac

The governance and organisational structure of the Ark is set out in the Company's Terms of Reference and charters. These define the responsibilities and authority of the members of the Board and Committees. The following chart outlines the Company's structure at both the Board and Management levels:



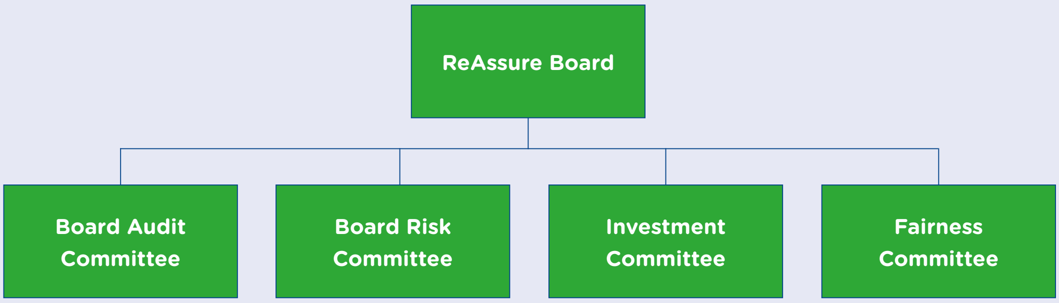
The board are fully engaged and actively involved in the oversight of the business.

The business is compliant with the requirements of the Central Bank of Ireland (CBI) Corporate Governance Code and the governance requirements of Solvency II.

Section B: System of governance continued

2 Board Committees

The Board Committee structure acts on behalf of the full ReAssure MidCo Group of Companies. At Board level, the Committee structure and constitution is as follows:



Each Board Committee performs a function on behalf of the Board of Directors, with high level duties being summarised as follows:

Board Audit Committee

The Audit Committee acts on behalf of the Group, ReAssure and ReAssure UK Services and all of their subsidiary companies, operating under powers delegated to it from the ReAssure and RUKSL Boards. It oversees the integrity of the respective companies' financial statements and approves that they represent a true and fair reflection of the trading position and of the assets and liabilities. It ensures the appropriate performance of external audit, internal audit and business assurance functions, and reviews their outputs.

Board Risk Committee

The Risk Committee acts on behalf of the Group, ReAssure and ReAssure UK Services and all of their subsidiary companies, operating under powers delegated to it from the ReAssure and RUKSL Boards. It ensures compliance with legal and regulatory requirements and oversees the development and implementation of the respective companies' internal control environments, including risk management and compliance frameworks.

Board Investment Committee

The Board Investment Committee recommends overall investment strategy, policy and asset allocation for the Group. The Committee also considers and where appropriate sponsors or approves recommendations made in relation to investment strategy, policy and strategic asset allocations.

Fairness Committee

The Fairness Committee oversee the fair treatment of policyholders and acts as the ReAssure Limited with-profits committee. The Committee provide independent judgement in assessing compliance with the principles and practices of the with-profits funds of ReAssure Limited and considers significant transactions and issues arising in the Long Term Business Funds of ReAssure Limited which affect policyholders' and shareholder's interests (or conflicting interests of different groups of policyholders) so as to ensure that each party is treated fairly.

3 Other Committees

ReAssure Management Committee (RMC)

The purpose of the RMC is to promote strong, sound financial stewardship of the business (including investments) for the benefit of policyholders and shareholders and ensure that high standards of conduct risk are set and achieved. The RMC is the primary body bringing together executive management and takes input from a wide range of other committees. The scope of the RMC includes strategic oversight, risk management and governance.

Independent Governance Committee (IGC)

The purpose of the Independent Governance Committee is to operate in the interests of workplace pension scheme members to challenge the providers that schemes are offering a value for money product in an appropriate way. This involves the review of various aspects of the administration of workplace personal pensions administered by the Group.

Ark Life Committees

The following provides a brief outline of the role of the board and each committee, and where it falls within the three lines of defence model:

Board

Ark is a regulated entity and is a subsidiary of ReAssure Limited. The Board is comprised of two Executive Directors and four Non-Executive directors, three of which are independent. The Board's role includes defining the Company's business strategy, risk appetite, right compliance, policies, capital adequacy and solvency frameworks and to ensure that all policies and functions take full account of Irish law and regulations and the supervisory requirements of the CBI.

Risk Committee

The Risk Committee provides oversight, advice and assurance across the Company's business. The Risk Committee is comprised of three Non-Executive Directors and is attended by the relevant executive team members. Its duties include the setting of risk appetite and future risk strategy, assessing risk tolerance and exposure, overseeing the risk management framework, reviewing whistleblowing, fraud prevention and detection procedures and assessing the adequacy of the compliance function.

Audit Committee

The Audit Committee performs oversight and independent assurance over the effectiveness of systems of internal control. The Audit Committee is comprised of three Non-Executive Directors and is attended by the relevant executive team and internal audit and external audit representatives. Its duties include reviewing the internal audit remit and effectiveness, reviewing and challenging the Company's financial statements and regulatory returns and assessing the effectiveness of the external audit process. The Committee is also responsible for overseeing the relationship with the external auditor.

		Line of Defence		
Structure Group	**Board/Committee/Forum/Group**	**1st**	**2nd**	**3rd**
Board	Board	✓	✓	✓
Committee	Risk Committee	✗	✓	✗
	Audit Committee	✗	✗	✓

Section B: System of governance continued

4 Operational Committees

There are a number of other operational committees which have been constituted in order to discharge a number of key cross functional managerial responsibilities. These include:

- Management Risk Committee (RC) which oversees the risk environment of the business;
- Technical Committee (TC) which is focused on reviewing the appropriateness of the internal model;
- Operational Model Committee which exists to agree and enforce a coherent operating model for the business;
- Policyholder Investment Committee which ensures policyholder assets are appropriately invested;
- Customer Committee (CC) which ensures that the conduct risk framework of the Group is well defined and effectively implemented (note that there are two sub elements to this body focusing on Servicing and Technical Actuarial matters such as WP management and pricing respectively); and
- Change Committee which approves and oversees the delivery of material change within the business.

5 Main roles and responsibilities of key functions

Finance

The key role of finance is to identify and prepare appropriate information that allows a wide range of stakeholders (internal and external) to make informed judgements and decisions. The Finance function generates a broad spectrum of financial and non-financial information covering planning and forecasting, budgeting, board and management packs (operational and strategic), financial documentation, statutory and prudential reporting. It provides effective management support and rigour to investment appraisals with appropriate insight and analysis, and ensures that planning assumptions are well-conceived. The Finance function also plays a key role in articulating business performance enabling management to address and react to trends quickly.

Actuarial

The Actuarial function is responsible for calculating and monitoring the ongoing solvency of the Group on all applicable regulatory bases. It is also responsible for economic capital valuations and reporting the net worth of the in-force business on a realistic basis, together with providing actuarial calculations and analysis pertinent to profit reporting.

Risk Management

The Group's Risk Management function forms part of the wider Swiss Re Group Risk Management function forming an integral yet independent part of the Group's business model. The function is headed by the Group Chief Risk Officer (CRO) and comprises of Operational risk, Financial and Insurance risk, Investment Oversight and Information Security teams who oversee all the Group's risk-taking activities.

Risk Management provides independent second line oversight and assurance to the Group Boards, its Committees and the Executive Management Team that all risks to which the Group are exposed are identified, measured (modelled where appropriate), monitored, reported and controlled within the defined risk appetite and tolerance limits as set by the Boards as part of the business planning process.

Compliance

ReAssure maintains a permanent second line compliance function which operates independently and has the responsibility to monitor and, on a regular basis, to assess the adequacy and effectiveness of the measures and procedures put in place to comply with the Group's obligations under the regulatory system; and the actions taken to address any deficiencies in the Group's compliance with its regulatory obligations. The compliance function also monitors regulatory change, provides guidance on regulatory requirements and is responsible for producing Compliance Policies which meet UK regulatory and Swiss Re Group requirements.

Group Internal Audit

The Swiss Re Group Internal Audit (GIA) function is objective and independent from the Group's operational functions. GIA provide independent evaluation and assurance on the adequacy and effectiveness of the wider control framework covering design effectiveness and operational compliance, the effectiveness of the internal control system and other elements of the system of governance. GIA helps the Group accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. The conclusions drawn from the independent assessment must be reported to the Audit Committee of the Board in order to enable it to act on this information if necessary. The Audit Committee approve the GIA Plan on an annual basis.

Corporate Strategy and Planning (CS&P)

The key responsibilities of CS&P are to design and maintain comprehensive business plans for ReAssure. In discharging its duties, this business area actively engages with senior management, the Group Board and prudential regulator in respect of planning. It supports significant transactions providing co-ordination, management and project delivery expertise. CS&P also manage third-party relationships and confirm adequate oversight of suppliers.

RUKSL and delivery of services via the management services company

The Group delivers its management services via management services agreements between group companies and the services company ReAssure UK Services Limited ('RUKSL'). RUKSL delivers the majority of key management services to the rest of the Group. These include customer servicing, IT support and project and change management. ReAssure Limited pays a fixed fee per policy tariff for the delivery of core services and also contracts separately with RUKSL for the delivery of specific change projects where new requirements arise. Executive oversight of the delivery of services from RUKSL rests with the ReAssure Management Committee and ultimate responsibility resides with the ReAssure Limited Board.

Oversight of Ark Life dac

Ark Life operates as a stand alone long term insurance company in Ireland. Ark has its own governance arrangements which are the responsibility of the Ark board of directors, headed by the Ark Life CEO. The Ark Life CEO reports directly to the ReAssure Midco Group CEO and the ReAssure Management Group and the ReAssure Limited Board retain oversight responsibility for Ark Life dac. This ensures broad consistency of operational models between Ark Life dac and the rest of the ReAssure Midco Group.

Although the Ark Life governance arrangements are tailored to its own particular business it is broadly consistent with the arrangements followed in the rest of the Group. It also employs a three lines of defence structure and has a number of board committees which ensure a strong governance overview of its operations.

6 Reporting, resources and access to information

The Boards, the Board Committees and the Operational Committees have full authority to investigate any matters within their respective duties. They are authorised to obtain independent professional advice, request external advisors to undertake specific tasks or to obtain any information from any director, officer or employee acting on behalf of the Group and to secure their attendance to the relevant meetings when necessary.

The key functions have operational independence in performing their reporting functions with the exception of Internal Audit, which has complete independence in performing its reporting function. Key function holders report directly to the Boards, Board Committees or Operational Committees any issues that could have an impact on the Group. The heads of key functions have authority to recruit and retain suitably qualified staff and where necessary to supplement permanent staff with qualified and experienced temporary staff should that be required.

Section B: System of governance continued

7 Adequacy of the system of Governance

The Group is a large and complex organisation. The system of governance, including second and third line assurance functions reflects the broad spread of risks that the Group faces in its operations. The comprehensive nature of the structure of governance and the considerable resources that support the structure means that the Group is well placed to mitigate the multiple risks that it faces. The Group is also able to call on the wider resources of the Swiss Re Group, should it feel that such support is necessary. However the Group actively monitors for new and emerging risks and is ready to respond to those as necessary.

8 Consistent application of risk management systems across the Group

The majority of the insurance risk is contained in one group carrier, ReAssure Limited, and so many risk management systems apply only to that carrier. However where risk management systems such as compliance and internal audit are applicable to other group companies such as the ancillary service companies and the Group holding company these are applied with consistency across the Group. Internal audit, compliance and risk are Group functions and they work in a consistent manner across the Group, using the same standards, personnel and resources for all entities.

Ark Life operates as a stand alone long term insurance carrier but the CEO of Ark Life reports to the CEO of the Group and this ensures that equivalent standards are applied to Ark Life as are applied to the rest of the Group. Ark Life follows the same governance and risk management model as ReAssure, employing three lines of defence to manage risk to ensure appropriate governance.

9 Remuneration policy and practices

The Group adopted the Swiss Re Standard on Compensation which captures Swiss Re's compensation framework and governance, outlines the compensation processes across the Group and provides key guidelines for the execution of individual compensation actions.

ReAssure has obtained approval from the Swiss Re Group Compensation Committee to implement a revised remuneration structure for Senior Material Risk Takers in ReAssure.

Swiss Re aims for total compensation that is competitive in the market and also seeks to ensure that total compensation is well-balanced in terms of fixed versus variable compensation and in terms of short-term versus long-term incentives. This is to encourage sustainable performance and appropriate risk-taking in line with the business and risk strategy.

Swiss Re has several incentive programmes that reflect the long-term nature of the business: both the Value Alignment Incentive (VAI) as the deferred part of the Annual Performance Incentive (API) and the Leadership Performance Plan (LPP) aim to reward sustained performance rather than short-term results. These programmes support closer alignment of the interests of shareholders and employees.

10 Overview of the compensation components (applicable to all staff)

Fixed compensation

Base salary

Base salary is the fixed compensation paid to employees for carrying out their role and is established based on the following factors:

- scope and responsibilities of the role, and qualifications required to perform the role;
- market value of the role in the location in which Swiss Re competes for talent; and
- skills and expertise of the individual in the role.

Benefits

Swiss Re aims to provide a competitive package of employee benefits. Benefits are designed and implemented under a global framework, while appropriately reflecting local employment market conditions.

Variable compensation

Annual Performance Incentive

The API is a performance-based, variable component of compensation. Combined with the base salary, it provides competitive total cash compensation when both business and individual performance targets are achieved. When the total API level for an employee exceeds a pre-defined amount, the award is split into two components: an immediate cash incentive payment (cash API) and a deferred API (the Value Alignment Incentive, or VAI).

Value Alignment Incentive

The VAI is a mandatory deferral of a portion of the API and introduces a time component to this performance-based, variable compensation. This supports the Group's business model by aligning a portion of variable compensation with sustained long-term results.

Leadership Performance Plan

The purpose of the LPP is to provide an incentive for Swiss Re's senior management to create sustainable company performance over the long-term. The vesting and performance measurement period is three years with no additional holding requirement. For LPP awards granted to Group Executive Committee members and other key executives, the duration of the LPP is five years comprising a three-year vesting and performance measurement period and an additional two-year holding requirement.

11 Participation plans

Incentive Share Plan

The Incentive Share Plan (ISP) provides employees with an opportunity to purchase Swiss Re Ltd shares with some or all of their immediate cash API. Shares are offered with a 10% discount on the fair market value and are subject to a one-year blocking period. Full shareholder rights apply during this blocking period. The ISP encourages alignment with shareholder interests. At the end of the one-year period, the employee assumes full ownership of the shares. The ISP will be discontinued from 2019.

Global Share Participation Plan

The Global Share Participation Plan (GSPP) provides employees with an opportunity to directly participate in the long-term success of the Group by purchasing Swiss Re shares (up to a maximum of CHF 7,000 per year of a plan cycle and capped at 10% of base salary). Swiss Re provides a 30% match on the number of shares held by employees at the end of the three-year plan cycle. The match is subject to forfeiture in case of termination of employment before the end of the plan cycle. The GSPP has the same core design in all locations.

Compensation framework for the Board

Compensation structure for non-executive directors

The non-executive members of the subsidiary Boards receive their fees 100% in cash. The payments are made on a quarterly basis. The fees are determined in advance at the start of the year and are approved at the Swiss Re Group level.

Compensation structure for executive directors

Executive directors do not receive any additional fees for their services as members of the Boards at the subsidiary level.

Section B: System of governance continued

12 Performance criteria

Annual Performance Incentive

Swiss Re operates a Target API (TAPI) system along with a performance management framework that provides equal weighting to results-oriented and behavioural-related performance criteria for all employees. API is awarded for both objectives achieved and the demonstration of desired behaviours.

A TAPI is set for each eligible employee based on multiple factors, but primarily on the role being performed and market benchmarks. The actual API payout is based on Swiss Re's financial results and other qualitative criteria as well as the achievement of individual objectives and the demonstration of desired behaviours.

Value Alignment Incentive

The performance factors of the VAI are calculated based on the three-year average of the published Economic Value Management previous years' business profit margin. EVM is Swiss Re's proprietary integrated economic valuation and accounting framework for planning, pricing, reserving and steering the business. The EVM previous years' business profit margin is the ratio of EVM previous years' business profit to EVM capital allocated to previous years' business in the current year.

Leadership Performance Plan

At the grant date, the award amount is equally split into two underlying components: Restricted Share Units (RSUs) and Performance Share Units (PSUs). A fair value methodology executed by a third party determines the number of RSUs and PSUs granted.

Restricted Share Units

The performance condition for RSUs is return on equity (ROE) with a linear vesting line. Vesting is at 0% for an ROE at the risk free rate and at 100% for ROE at a predefined premium above the risk-free rate. The premium is set at the beginning of the plan period and for LPP 2018, this premium has been set at 900 basis points above the annual risk-free rate which is determined as the average of 12 monthly rates for ten-year US Treasury bonds of the corresponding performance year. At the end of each year, the performance against the ROE condition is assessed and one third of the RSUs are locked in within a range of 0% to 100%. At the end of the three-year period, the total number of units locked in at each measurement period will vest (capped at 100%).

Performance Share Units

The performance condition for PSUs is relative Total Shareholder Return (TSR) measured over three years. The PSUs vest within a range of 0% to 200%. Vesting starts at the 50th percentile of TSR relative to peers with 50% vesting and is capped at 200%[1] vesting at the 75th percentile relative to peers. In case of a negative TSR over three years, the Group retains the discretion to reduce the level of vesting. Swiss Re's TSR performance is assessed relative to the TSR of a pre-defined peer group. This peer group consists of companies that are similar in scale, have a global footprint or a similar business mix as Swiss Re.

13 Supplementary pension or early retirement schemes for key individuals

The Group does not have a policy of offering supplementary or enhanced early retirement to key individuals.

14 Material transactions

During 2018, there were no other material transactions with shareholders, with persons who exercise a significant influence on the Group, or with members of the administrative, management and supervisory bodies.

[1] Maximum vesting percentage excludes share price fluctuation until vesting.

B2: Fit and proper requirements

1 Skills, knowledge and expertise requirements of persons managing the business

The Group has in place an effective system of governance which provides for sound and prudent management of the business. This includes a transparent organisational structure with a clear allocation and appropriate segregation of responsibilities, proportionate to the nature, scale and complexity of the business.

The Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) (the Regulators) require regulated firms to act with integrity and ensure that individuals who effectively run the business are competent to fulfil their role as a Regulated Person. These individuals are accountable and responsible for their acts and omissions.

The Senior Managers and Certification Regime effective from 10 December 2018 requires all Regulated Persons, who effectively run the business, to be assessed as fit and proper, on appointment, and thereafter on a continuing basis. All Regulated Persons are required to adhere to the PRA Conduct Standards and the FCA Conduct Rules, which are consistent with the behavioural standards expected within ReAssure.

All Regulated Persons shall be fit and proper to fulfil their role taking into account the following factors:

(a) Their professional qualifications, knowledge and experience are adequate to enable sound and prudent management (fit); and

(b) They are of good repute and integrity (proper).

Regulated Persons within the Group should collectively possess appropriate qualification, experience and knowledge in respect of:

- insurance and financial markets;
- business strategy and business model;
- system of governance;
- financial and actuarial analysis; and
- regulatory framework and requirements.

2 Principles for assessing the fitness and propriety of persons managing the business

Certain prescribed information is obtained as part of the assessment of the individual at recruitment, and on an ongoing basis to demonstrate the individual is, and remains fit and proper to perform the role. The following key principles set out how the Group meets the fit and proper requirements:

- Apply the regulatory criteria for the assessment of the fit and proper requirements before an individual is appointed as a new Regulated Person.
- Obtain approval for a Regulated Person in line with regulatory requirements.
- Assess competence and undertake the checks required, including adherence to the PRA Conduct Standards and FCA Conduct Rules on an ongoing basis.
- Assessments are conducted professionally, fairly and with integrity.
- Inform the PRA and/or the FCA of:
  - any changes impacting the Regulated Person who effectively runs the business;
  - all information required to assess whether a prospective Regulated Person is fit and proper; and
  - any Regulated Person who has been removed or replaced because they no longer fulfil the fit and proper requirements.

Section B: System of governance continued

3 Policies and processes established to ensure persons are fit and proper

The Group has a documented Fit and Proper Policy and a Fit and Proper Standard.

The Fit and Proper Framework Policy sets out the requirements of the Fit and Proper Framework and roles and responsibilities. The Fit and Proper Standard provides guidance on how Regulated Persons and Certification Function Holders can demonstrate and meet the Fit and Proper requirements set out in the framework.

The Group Chief Executive Officer is responsible for leading the development, and monitoring the effective implementation, of policies and procedures for the induction, training and professional development for all Regulated Persons within ReAssure MidCo Group Ltd, with support from the Head of Compliance and the Head of Human Resources.

The Head of Compliance is responsible for ensuring the Group has a framework to comply with the obligation to ensure that every person who performs a key function is fit and proper, and to maintain the framework with support from Human Resources and Company Secretarial

The Chairman of the Board is responsible for leading the development, and monitoring the effective implementation, of policies and procedures for the induction, training and professional development for all members of the Board.

It is the direct responsibility of a Regulated Person's or a Certification Function Holders manager to:

- Assess the competence of the Regulated Person and Certification Holder at recruitment, and on an ongoing basis;
- Discuss any concerns with the Head of Compliance and any other persons as appropriate; and
- Formally inform the Head of Compliance and Head of Human Resources if the Regulated Person or Certification Function Holder is not assessed as fit and proper with recommendations as to next steps.

Human Resources own and maintain the process flows that have been established to ensure regulated persons are fit and proper.

HR will maintain records of breaches of any PRA Conduct Standards or FCA Conduct Rules by any Regulated Person including those reported to the Chief Executive Officer or the Head of Compliance.

Compliance will maintain a record of any breaches of PRA Conduct Standards and/or FCA Rules reported by Compliance to the Regulator.

Company Secretarial and HR will initiate reassessments based on standard time-frames. Competence Sign-Off forms will be maintained by Company Secretarial and Human Resources (as required) and kept on an individual's personnel file.

Company Secretarial is responsible for making any regulatory notifications and applications for regulatory approval to the regulator(s).

All line managers of Regulated Persons and Certification Holders are responsible for adopting and implementing the requirements of the Fit and Proper framework.

Ark Life

Ark Life follow set procedures relating to appointment to controlled functions. These include a number of checks to ensure that those persons possess the requisite skills, knowledge and experience for their roles. HR will undertake a due diligence process running checks on a range of factors including educational qualifications, references, knowledge of the Irish market, additional directorships, background CBI and criminal conviction checks. Staff in controlled functions are then subject to annual reassessment to ensure they remain fit and proper for their role.

B3: Risk management system including the ORSA

The Group Risk Management function also referred to as Risk Management, is an integral, yet independent part of the ReAssure MidCo Group business model. The function is headed by the ReAssure MidCo Group CRO and comprises of Operational risk, Information Security, Financial, Insurance risk and Investment Oversight teams, who oversee all the Group risk-taking activities supported by the ReAssure CRO Office.

Risk Management provides independent second line oversight and assurance to the Group Board, its Committees and the RMC that all risks to which the Group is exposed are identified, measured (modelled where appropriate), monitored, reported and controlled within defined risk appetite and risk limits as set by the Board as part of the business planning process.

Risk Management oversees the effective operation of the risk, control and governance frameworks. It sets risk standards and monitors the risk profile and aggregated view on risk exposures across the Group in line with the approved appetite and risk limits within the Group. Risk Appetite Framework ('RAF').

Independence

The Group Risk Policy confirms the role and independence requirements of the risk function as follows:

"To avoid conflicts of interest, dedicated specialised units monitor risk origination activities. The Group Risk Management function is responsible for providing independent assurance that all of the Group's risks are being appropriately modelled managed and that adequate control instruments are in place. In order to discharge these responsibilities, Group Risk Management is given unrestricted access to all information deemed relevant."

Three lines of control

Risk-taking activities are typically subject to three lines of control, which are also referred to as the three lines of defence:

- The first line of control is represented by risk control activities performed by front-line employees such as the use of authority limits and risk taking. In the context of managing operational risks, first line of control tasks are performed by any employee, no matter whether belonging to a front, middle or back-office.
- The second line of control is independent risk oversight. This is principally provided by Risk Management, although independent risk oversight and control tasks are also performed by Compliance.
- The third line of control is held by Group Internal Audit. The main task of the third line of defence is to provide independent assurance to the Board.

Risk Management, Compliance and GIA closely coordinate their second and third line of control activities related to the operation of the Risk Control Framework ("Coordinated Assurance").

Risk Management Activities

Risk Management supports and provides monthly risk and solvency reporting and risk assurance findings to the management Risk Committee ('RC'), a line 2 management committee that is chaired by the ReAssure MidCo Group CRO and supports, and has certain delegated authority through its terms of reference to the ReAssure Board Risk Committee ('BRC').

Risk Management also provides quarterly risk and solvency reporting across all risks to the BRC, which is chaired by an independent non-executive Board member. The BRC is attended by the Group CRO who serves the BRC in all matters relating to risk and solvency.

The Risk Management Framework supports regular risk and solvency reporting against defined exposure, tolerance, appetite limits and risk concentrations for the key risks faced by the business. The risk profile of the business is monitored through regular risk and control self-assessments completed by risk originating functions supported by risk partners from Risk Management.

Section B: System of governance continued

Risk Management Activities continued

Risk assurance is provided to the RC and BRC through the integrated assurance framework, which is reviewed and approved by the BRC to ensure that key risks are being effectively controlled across the business.

Risk Management also provides line 2 oversight in all potential acquisitions, mergers, projects and investments. The function also provides risk input in to the strategic business, recovery and resolution planning, ensuring that all risks are fully understood, and that the business plan operates within the levels of risk appetite defined by the Boards.

The Risk Management Function is responsible for supporting the Emerging Risk Panel ('ERP') and overseeing the Emerging Risk Process in order to capture and evaluate new or changing risks, which may have a material direct impact on the business model, or indirectly through impacts to society, industry or commerce.

ReAssure MidCo Group Risk Management System

Elements

The Group Risk Management System comprises of the following elements:

- Risk Strategy
- Risk Culture
- Risk Management Principles
- Risk Management Framework and Governance
- Risk Management Process
- Partial Internal Model Governance Framework and Use Test

Risk Strategy

Risk Strategy is the term used to describe the circumstances under which the Group is willing to engage in risk taking activities as well as the criteria for controlling its operational risks.

Due to the nature of its business activities the Group takes on risks in insurance and financial markets actively managing these risks using risk selection as well as capital market instruments and insurance retrocessions.

However, such risks should only be actively sought if:

- There is a thorough understanding of how the risks, including all associated financial and reputational risks, can be adequately assessed and managed; and
- The potential risk accumulations within the overall risk portfolio are fully understood and can be adequately controlled, both at the Group and at Swiss Re Group levels.

The Group identifies, manages and accepts to a certain degree the operational risks inherent in these risk-taking activities. Operational risks are, where possible, avoided or where unavoidable mitigated to the extent that it is cost effective to do so, balancing the anticipated costs of the mitigation activities against the corresponding reduction in expected losses, capital costs, and any reputational risk that may crystallise.

Risk Culture

The Group risk culture is based on transparency and its ability to respond to change, which are integral to the risk and control processes, facilitating risk management knowledge sharing at all levels.

The central goal of risk transparency is to create a culture of mutual trust, and to reduce the likelihood of surprises regarding the source and potential magnitude of losses. This goal is achieved through regular dialogue and by establishing timely and appropriate risk reports, which document the risk landscape and loss potential. The aim is to establish risk transparency internally and, to the extent, that it does not affect the Group's competitive position, externally with shareholders and regulators.

Risk transparency requires the establishment of processes and systems to regularly review and update the risk landscape and in particular to monitor emerging risks. In addition, it also requires that the bases for key risk decisions are appropriately documented. This allows these decisions to be potentially challenged and ultimately improved.

Risk Management Principles
There are four guiding principles in relation to how risks are managed:

- Controlled risk taking
- Clear accountability
- Independent risk controlling function
- Open risk culture

Under these risk management principles all risk taking must be controlled, have clear accountability and be monitored by an independent risk controlling function.

Risk Management Framework
The Risk Management Framework ('RMF') sets out how the Group organises and applies its risk management practices to ensure that all activities are conducted according to its risk appetite.

The major elements of the RMF are:

- The Group Risk Policy;
- Risk principles
- Risk strategy
- Risk culture
- Risk Appetite Framework establishing the Group's risk preferences, appetite statements and risk limits;
- The Group Risk Management Standards outlining the fundamental risk governance and risk roles and responsibilities for the delegation of risk taking; and
- The Risk Control Framework ("RCF"), which defines the standards for risk control tasks that are required to ensure that the group engages in controlled risk taking.

Risk Appetite Framework
The RAF establishes the Group's preference and practices in terms of controlled risk taking. At its highest level this is expressed as a series of Risk Appetite Statements, which in accordance with the Group's strategy, expresses the types of risk that the Group wishes to pursue, or avoid. The Group's risk limits outlines the maximum extent to which the Board has authorised senior management to assume risk given its financial resources.

The Group's risk appetite is defined and documented in the ReAssure MidCo Limited Risk Appetite Framework. The business, led by the RMC, is expected to implement the RAF via its Business Plan and to ensure that all delegated risk taking is subject to proper risk controls. In particular, the RMC must install a limit framework that allows them to control adherence to the appetite statements and limits set by the Board. The CRO is responsible for monitoring those limits and communicating them to the Board, its Committees and the RMC.

Risk reporting
Goal
The principal goal of risk reporting is to create internal risk transparency in order to make informed risk decisions and meet external disclosure requirements. These goals translate into three objectives:

- Design risk reports from the perspective of recipients so that they optimally meet their needs;
- Provide stakeholders with accurate and timely information about material risk issues in such a way that the recipient can understand the message; and
- Facilitate informed decision-making.

Section B: System of governance continued

Risk reporting continued

Approach

In general, risk report owners depend on input from various sources in order to produce a report. Individuals or functions that provide information to report owners are described as information providers.

Risk reports provide risk information in order to decide whether a risk should be accepted, rejected or mitigated, as well as informing external stakeholders where the Group has a duty to disclose risk information (e.g. regulators) or an interest in creating risk transparency (e.g. analysts, shareholders and clients).

Monthly reporting

Monthly risk and solvency reporting is provided to the RMC, RC and as part of the monthly Executive Information Pack (EIP) for consideration, review and challenge.

Quarterly ORSA reporting

Quarterly reporting is provided to the RMC, RC, Board Risk Committee and the Boards. Quarterly ORSA reporting is performed via the Risk & Solvency Update as part of the on-going ORSA process. This covers the majority of the areas included in the annual ORSA except for those identified below in the Annual ORSA process and reporting.

Annual ORSA process and reporting

The Annual ORSA process and reporting covers all the areas of the Quarterly Risk & Solvency Update noted above, as well as the following additional elements:

- Stress & scenario testing, including reverse stress testing;
- Material changes to reported Transitional Measures;
- Forward assessment of own risks, including ability to meet regulatory capital requirements across the business planning horizon (considering run-off and growth scenarios per the ReAssure Business Plan) via capital projections and stress & scenario testing;
- Suitability of Partial Internal Model;
- Quality of capital/funding; and
- Governance responsibilities.

The Integration of the ORSA process into the organisational structure is defined in the ORSA Policy, which lists the processes and procedures for conducting the ORSA as well as roles and responsibilities of the organisation, including the Boards, Committees and key functions.

The ORSA allows senior management and the Boards to understand the risks facing the Group and provides a forward-looking assessment of the risk profile and solvency position across the business-planning horizon timeline. The ORSA also considers the future risk and solvency position of The Group under stressed conditions and assumed growth and run-off scenarios, informing senior management and the Boards with respect to decision-making and capital planning. Risk reports produced throughout the year may also include an assessment of upcoming transactions on the Group risk profile, risk limits and solvency to facilitate decision making in advance of any transactional activity.

Risk Management responsibilities:

- The CRO is responsible for delivering the Quarterly Risk & Solvency Update to the RMC, the RC, BRC and the Boards;
- In case of significant regulatory, business, economic or demographic change, the CRO will determine if an interim ORSA should be produced; and
- Risk Management produces the Quarterly Risk & Solvency Update and ORSA Reporting.

Business and Corporate functions responsibilities:

- Ensure qualitative and quantitative information submitted for the ORSA is accurate, complete and timely.

Capital and liquidity adequacy targets

The goal of controlling capital and liquidity adequacy targets is to ensure that the capital and liquidity adequacy of the Group remains within the risk tolerance criteria set by the Group Risk Policy and/or local Boards if more onerous.

Capital and liquidity adequacy targets are set by the Boards based on proposals from the Group to ensure that both ReAssure as a whole remains within the risk tolerance boundaries set in the Group Risk Policy. This monitoring includes checking against major planning exercises, changes to the regulatory and, or political landscape, large transactions as well as potential mergers and acquisitions.

Risk capacity limits

Risk capacity limits are established to limit risk exposure accumulations at different levels. The limits are sized by comparing the impact of a hypothetical scenario of full limit usage on the Group's risk tolerance.

Risk capacity limits may be set at a Group level or lower risk taking levels where deemed necessary. Breaches of risk capacity limits require escalation to the limit-approving body, including a plan for managing the consequence of the breach. Monitoring outputs are then checked against potential breaches of risk capacity limits and any potential breach has to be signed-off by the limit owner.

B4: Internal control system

1 Integrated assurance framework

The Group Board uses an integrated assurance framework to identify the principal risks to the organisation and the relevant key controls to manage them, as well as to demonstrate that a sufficient level of assurance is gained from the effectiveness of those controls. The framework comprises three lines of defence:

First line of defence

The first line of defence refers to those who carry out risk management at or close to the source of the risk. It comprises the risk owners and risk takers in the business and corporate units, recognising that these parties own the entire control environment. All employees have a responsibility to identify and flag risks to their team leaders or managers.

Second line of defence

The second line of defence refers to a layer of independent risk controlling. It comprises the Risk Management function, which establishes and coordinates the risk management framework, and the Compliance function, which guides and advises the business on regulatory matters and conducts independent monitoring.

Third line of defence

The third line of defence comprises the independent review of processes and procedures by GIA on behalf of the Chairman and Audit Committee of the Group Board. The benefits of this approach include the ability to establish and enforce expected control related behaviour, set tolerance levels, minimise overlap and duplication between assurance functions and focus all lines of defence on the most critical risks.

2 Overview internal control system

A number of sub committees exist, including the Board Risk Committee, which cover a broad spectrum of business risks and issues through scheduled management reporting and/or ad hoc escalations (to the extent these are relevant). Outside of formal committee structures, management are accountable to the Boards for monitoring internal control systems on a day to day basis, and for providing assurance that this has taken place via regular reporting. The whistle blowing process also provides a formal procedure for all employees to report suspected improper conduct directly to the Group Compliance and/or regional compliance heads. If a reasonable basis for an investigation exists, Compliance will manage or oversee the investigation and escalation of an issue.

Section B: System of governance continued

2 Overview internal control system continued

The Group follows the risk management principles of controlled risk taking, clear accountability, an open risk culture and the presence of an independent risk controlling function. To support the implementation of its risk management principles, the Group uses a framework which is made up of five components which work together to build an effective internal control system. Operating an effective internal control system allows the business to provide Management and the Boards of Directors with required assurance that the business operates within the defined risk appetites. The five components are: (i) risk assessment, (ii) control environment, (iii) control activities, (iv) information and communication and (v) monitoring.

3 Compliance function

Implementation of the Compliance function

The Group is committed to operating its business in compliance with all applicable legal and regulatory requirements, the highest professional and ethical standards, and its stated corporate values.

To ensure that the Group's compliance objectives are consistent with the expectations of Swiss Re, the UK regulatory authorities, shareholders, clients and other stakeholders, the Boards of Directors mandate best compliance practices and an appropriately staffed and resourced Compliance function with clearly defined roles, responsibilities and authority to perform its duties.

Compliance serves in the dual capacity as (i) an enabling function supporting business activities regarding ethical and regulatory compliance; and (ii) a control and governance function providing independent assurance on Compliance Risk matters to management and the Audit Committee, Risk Committee of the Boards. Compliance is a member of the Swiss Re Coordinated Assurance Framework and remains independent from the Group's business units. The authority and responsibilities of the Compliance function are established by the Boards of Directors and the ReAssure Management Committee and are recorded in the Group Compliance Charter.

Compliance's responsibilities cover the following specific areas: Compliance Oversight and Regulatory Guidance, support for day to day Data Protection queries, Compliance Assurance and Financial Crime.

The specific areas of the Group's Compliance Risk within the scope of the Compliance function's core responsibilities include:

- UK Regulatory requirements;
- Money laundering and terrorist financing;
- Fair Competition;
- Bribery and anti-corruption;
- Fraud;
- Conduct Risk;
- Conflicts of Interest Framework;
- Data protection and privacy;
- Insider trading;
- International trade controls;
- Investment management compliance oversight;
- Third Party Outsourcing oversight;
- Solvency II compliance oversight; and
- Whistleblowing.

Solvency II Compliance Oversight function

Pursuant to Article 46(2) of the Solvency II Directive, the responsibilities arising as part of the Solvency II Compliance Oversight function are apportioned on the basis described in more detail within the Group Management Responsibilities Map.

Chief Compliance Officer (CCO)

The Chief Compliance Officer of the Swiss Re Group leads the Global Compliance function and is accountable for the overall execution of the Compliance function's responsibilities. The Chief Compliance Officer reports directly to the Swiss Re Group Chief Legal Officer and, to ensure the independence of the Compliance function, has a dotted reporting line to the Chair of the Swiss Re Group Audit Committee. In addition, the Chief Compliance Officer has reporting responsibilities to the Chair of any relevant legal entity Audit Committees which may be delegated to a qualified Senior Compliance Officer in a location.

Operating Unit, Group Functions and Compliance Heads

In line with Swiss Re governance arrangements, the Group has a Compliance Head with dual reporting lines to the Group Chief Executive Officer and the Swiss Re Life Capital Chief Compliance Officer. The Group Head of Compliance is accountable for providing support to the relevant legal entity Audit Committees and Management within the scope of their respective business units and regions consistent with the responsibilities of the Group's Compliance function. The Group Head of Compliance is the Regulated Person for compliance oversight. The Money Laundering Reporting Officer is also a Regulated Person who reports into the Group Head of Compliance.

Compliance Assurance

Compliance Assurance form part of the Swiss Re's Coordinated Assurance Framework, in partnership with Group Internal Audit and Risk Management. They are responsible for providing primary independent assurance to the Board of compliance with the Group's compliance risks (including identifying, assessing, control process design, monitoring, testing and reporting), and perform second line of defence oversight of all the Group entities. The Compliance Assurance function also assists Management in the design of remedial actions and oversees their implementation.

An annual risk based Compliance Monitoring Plan is developed based on Compliance's assessments of identified Compliance Risks and related controls, on-going work and dialogue with business and functional units. It also considers on-going integrated assurance work with Operational Risk Management and Group Internal Audit, Group Internal Audit findings and audit plans, and Management's own assessments of Compliance Risks and controls. The Annual Compliance Monitoring Plan is submitted to the Audit and Risk Committees for approval each year and is reviewed and modified as needed for changes in risks and priorities each quarter. Any significant deviation from the formally approved Annual Compliance Plan is communicated to the Audit Committee and the Risk Committee through progress reports.

The Compliance Assurance team does not provide operational support so as not to impair its objectivity.

Compliance Oversight and Regulatory Guidance

The Compliance Oversight and Regulatory Guidance team is responsible for advising the internal management on compliance with applicable laws and regulations, including providing assessments of the possible impact of any changes in the legal and regulatory environment on the operations of the Group, and the identification and assessment of related Compliance Risk. In particular, Compliance principally is responsible for providing compliance-related guidance regarding policies and standards, including the Code of Conduct and local regulatory requirements.

Financial Crime

The Financial Crime Team maintain the Financial Crime Framework in line with the corporate risk appetite, evolving and increasing regulatory expectations and industry practice. The team forms part of the Compliance Department and provides second line support to all business areas.

Section B: System of governance continued

B5: Internal audit function

1. Internal Audit function implementation

Swiss Re Group Internal Audit is an independent and objective assurance function that assists the ReAssure Board of Directors and the Group Executive Committee to protect the assets, reputation and sustainability of the organisation. GIA performs audit activities designed to assess the adequacy and effectiveness of the Group's internal control systems, and to add value through improving the Group's operations.

GIA staff govern themselves by adherence to The Institute of Internal Auditors (the IIA) "Code of Ethics." The Institute of Internal Auditors' "International Standards for the Professional Practice of Internal Auditing" constitutes the operating guidance for the department. In addition, GIA adheres to the Group's guidelines and procedures, and GIA's organisation and processes, manuals and guidelines.

2. Independence of the Internal Audit function

GIA performs its internal audit activities with independence and objectivity. Activities are coordinated with the other assurance functions. GIA has no direct operational responsibility or authority over any of the activities it reviews. In addition, potential conflicts of interests of the audit staff are considered for each audit in order to maintain GIA's independence.

The Swiss Re Group Chairman, together with the Chairman of the Swiss Re Audit Committee, is responsible for the GIA function, and appoints/removes the Head of GIA, subject to confirmation by the Swiss Re Audit Committee. The Head of GIA reports to the Chairman of the Swiss Re Group's Audit Committee and has reporting responsibilities to the Chairman of any relevant legal entity Audit Committee, including the Group.

The Head of Internal Audit for the Group (Audit Director, Swiss Re Life Capital) reports to the Swiss Re Group Head of GIA, ensuring independence from the Group executive management.

Authority is granted to GIA for full, free and unrestricted access to any and all of the Group's property and personnel relevant to any function under review. All employees are required to assist GIA in fulfilling their duty. Documents and information provided to GIA will be handled prudently, respecting their confidentiality as defined by the information owning functions. Any difficulties encountered in the course of audits, including restrictions on the scope of the work or access to required information, shall be discussed with the Chairman of the Swiss Re Group Audit Committee and Chairman of the Group Audit Committee.

Structure of Internal Audit

B6: Actuarial function

1 Implementation of the Actuarial Function

The Actuarial Function (AF) is headed by the Chief Actuary, who is a Fellow of the Institute and Faculty of Actuaries and is the holder of Controlled Function 12 under the PRA Approved Persons Regime.

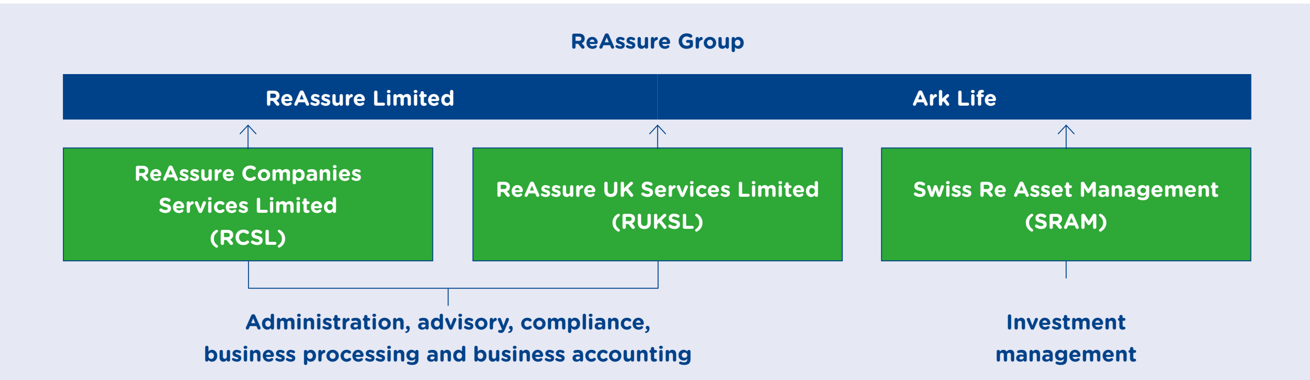
The AF is organised into three main areas, each reporting to the Chief Actuary, as follows:

- Financial Reporting – production of all financial reporting submissions, including calculation of Technical Provisions and Solvency Capital Requirement, operating the Partial Internal Model in with the framework specified by the Risk Management function, and supporting efficient management of the capital position of the Group;
- Governance – provision of support activities, including the management of the three with-profits funds, unit pricing services and administration of reinsurance arrangements;
- Projects and Systems – support to the Group projects and management of actuarial systems and infrastructure.

B7: Outsourcing

1 Information on material Intra-Group outsourcing arrangements

In the Group there are Intra-Group outsourcing arrangements between ReAssure Limited and Ark Life and ReAssure UK Services Limited (RUKSL) and ReAssure Companies Services Limited (RCSL), who provides administration, advisory, compliance, business processing and business accounting services to ReAssure Limited and Ark Life.



RUKSL and RCSL provide the above services for all ReAssure policies predominately out of the Telford and Hitchin offices. The Group has in place an oversight model which is underpinned by a governance framework that feeds into meetings attended by the Group CEO.

As well as the RUKSL and RCSL relationship there is also investment management performed by Swiss Re Asset Management (SRAM). SRAM is overseen as part of ReAssure's Supplier Management Framework which includes second and third line assurance activity. Regular governance meetings challenge the risk management and internal control environment and there is also an annual review of the service delivery undertaken. SRAM are also subject to internal and external audit procedures.

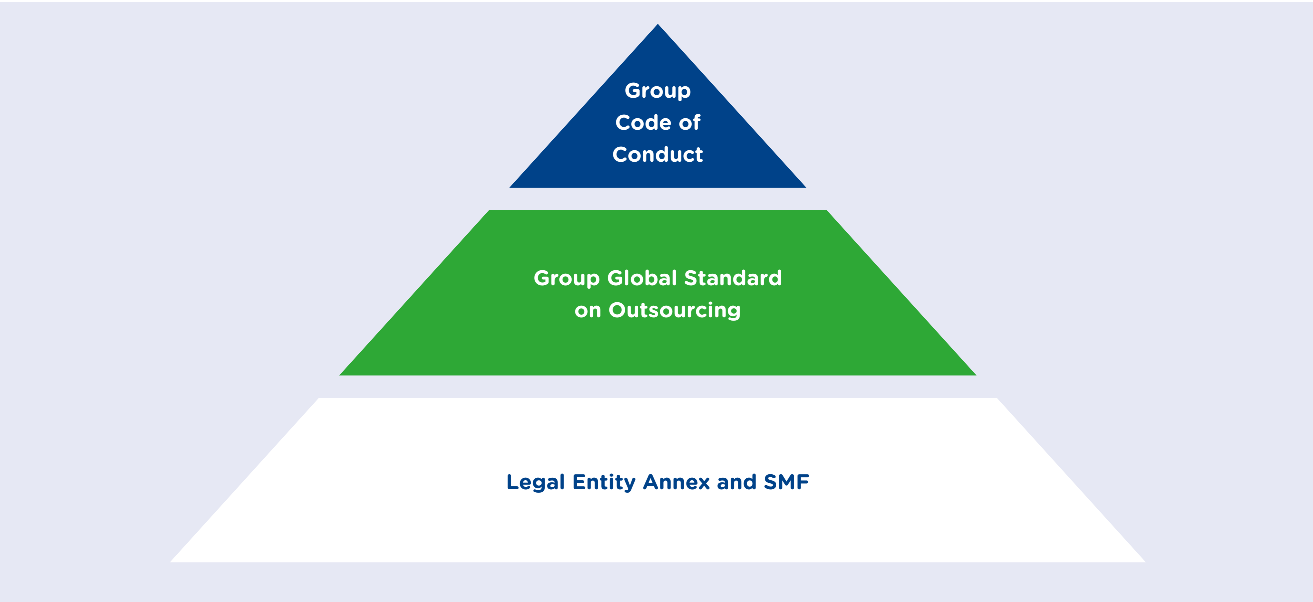
2 Description of outsourcing policy

Swiss Re has an outsourcing framework in place that covers the Group, its legal entities, locations, and business units. ReAssure Limited, ReAssure UK Services Limited, ReAssure Companies Services Limited, Ark Life and Namulas Pension Trustees Ltd (a subsidiary company of ReAssure Limited) are all included in this framework.

The outsource policy legal entity annex and ReAssure's local Supplier Management Framework are intended to complement the 'Swiss Re Group Targeted Standard on Outsourcing' and operating model approved by ReAssure Board of Directors, by clarifying the roles and responsibilities for outsourcing governance at entity level. Special mention has been made of Solvency II and the need for the current policy and process to meet this and all other regulatory requirements for the management of material outstanding arrangements.

Section B: System of governance continued

2.1 Overview of Governance Structure



Authority is delegated from the Group Board of Directors (BoD) to Risk Takers (ReAssure Management Committee RMC members). RMC Members are the 'Accountable Execs' for specific relationships.

The Head of Corporate Strategy & Planning is also specifically tasked with designing the local Legal Entity Annex to Group Standards and local Supplier Management.

Risk Controllers (Risk & Compliance functions) are tasked by the Board to help Risk Takers understand how to operate within the appetite for risk set by the Board, and independently monitor and report on all Risk Taking.

The Head of Compliance is also specifically tasked with notifying the regulator of Critical or Important (CIM) Tier 1.

- Relationship Managers are appointed by the Accountable Exec (RMC member) and are responsible for:
- Day to day management & oversight
- Following the Supplier Management Framework
- Reporting to the Accountable Executive

Sourcing & Procurement support Risk Takers and Relationship Managers in executing their duties, including due diligence, contract negotiation and ongoing relationship management.

They are tasked with embedding the Supplier Management Framework within the ReAssure MidCo Group and monitoring adherence to the Group and Legal Entity Annex to the Board.

2.2 Senior Management and Board Oversight

An overview of key suppliers is provided to the RRMC on a monthly basis in the form of a Supplier Dashboard. In addition, an Annual Outsourcer Review is submitted into the Group BoD and RMC which provides an overview of performance for Critical suppliers for the current year, and delivers a forward looking view for the year to come.

3 Service providers to whom critical operational activities have been outsourced

The Group use a supplier categorisation tool to determine if an outsourcer is deemed a critical supplier which is underpinned by the Solvency II definition.

Below are details of critical or important operational functions that are outsourced by ReAssure Limited to entities outside the Group:

Supplier	Service Supplied
HCL IBS	HCL provides the administration for circa 460k Life & Pension policies
LV	LV provides the administration for circa 1k SIPP policies
BARCLAYS	Administration of mis-selling complaints on former Barclays Life book
HANNOVER RE	Administration of circa 26k annuities which ReAssure acquired as part of the HSBC acquisition. As well as the administration, Hannover Re fully reinsures this block.
STANDARD LIFE ABERDEEN	Provides investment management services
SRAM	Provides investment management services
HGAM	Provides investment management services
HSBC HSS	Investment Accounting and Unit Pricing services, including (but not limited to): asset servicing, fund valuation, asset liability matching, non-discretionary dealing, taxation and Management Information.
KAMES	Investment Accounting and Unit Pricing services, including (but not limited to): asset servicing, fund valuation, asset liability matching, non-discretionary dealing, taxation and Management Information.
CAPITA	Provider of storage services (previously provided administration activities).
DILIGENTA	Provider of storage services (previously provided administration services).
IRISH LIFE FINANCIAL SERVICES	Provider of policy administration and financial accounting support for Ark Life
IRISH LIFE INVESTMENT MANAGEMENT	Provider of investment management services for Ark Life
FCS	Printing and postage facilities for ReAssure correspondence
EQUINITI PAYMASTER	Provider of payroll and tax reporting facilities to ReAssure policyholders
IRON MOUNTAIN	Provider of storage facilities
JLT	JLT provides administration services to 12 Occupational Service Schemes
MIDLAND HR	Provides HR function services
NTT	Provides managed IT infrastructure services
RESTORE	Provider of storage facilities
EDM	Provider of storage facilities

Section B: System of governance continued

4 Jurisdiction in which service providers of operational functions or activities are located

All service providers fall under UK jurisdiction other than the following:

- HCL IBS – Outsources administration to Chennai and Lucknow in India to support overall HCL IBS servicing strategy;
- HSBC HSS – Provides services out of India and Sri Lanka offices to support overall HSBC strategy.
- Hannover Re – All direct functions are based in the UK with overall Group policies driven out of Germany; and
- Irish Life – Irish Life operates in Ireland.

B8: Any other information

There is no other material information to disclose.

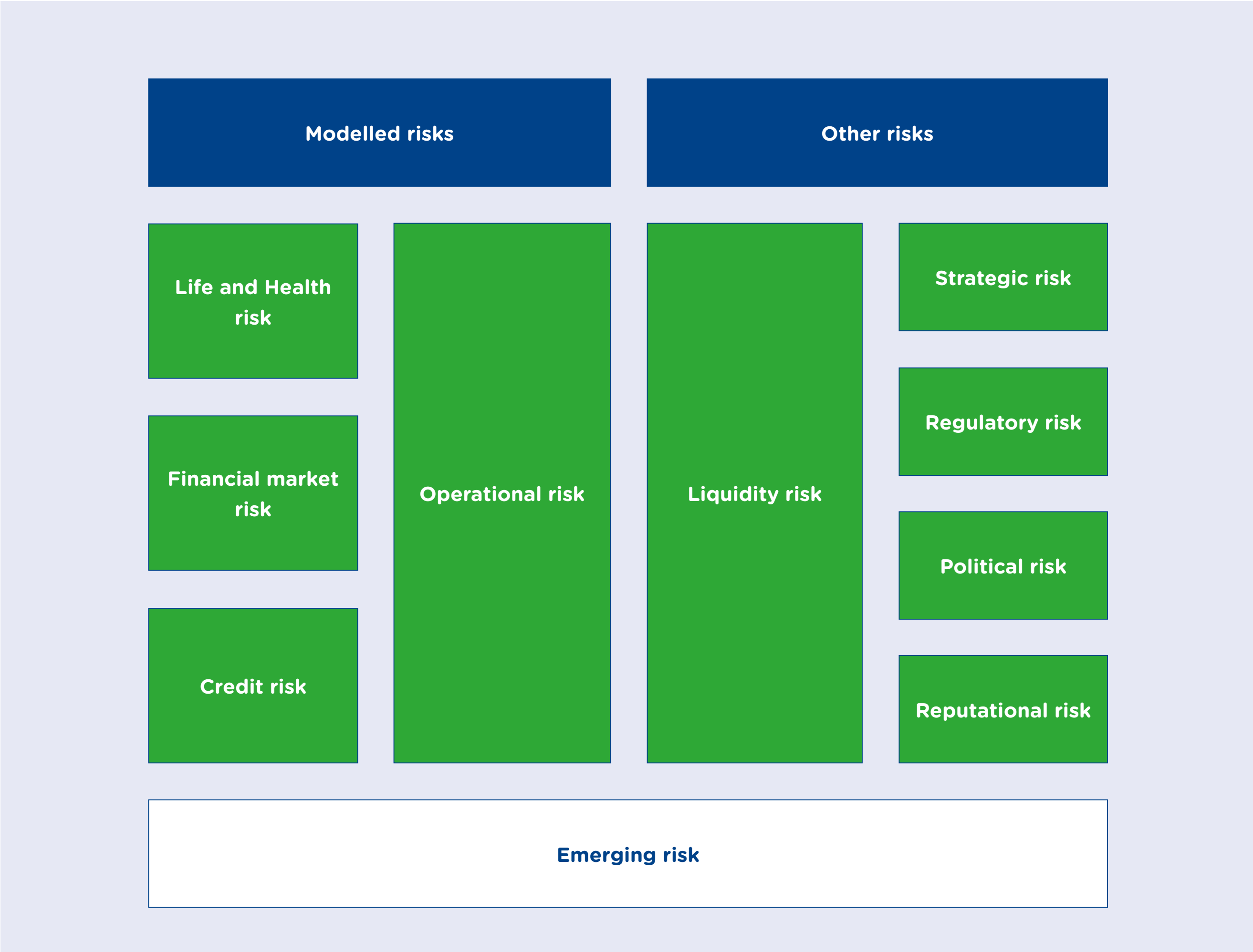
Section C: Risk profile

In this section:

Section C: Risk profile

ReAssure MidCo Group is exposed to a broad landscape of risks which are shown in Figure 3 below.

Figure 3 – ReAssure MidCo Group key risk categories



Measures used to assess risks and material changes

At the end of 2018 the Group were granted approval by the PRA to assess all modelled risk categories and derive the Solvency Capital Requirement (SCR) based on its Partial Internal Model (PIM). The scope of the Internal Model component of the PIM captures the risks from all the Group's entities, except for the with-profit funds and the recent business acquired from Legal and General. Business that falls outside the scope of the Internal Model have their risks calculated using the Solvency II Standard Formula approach. Risks not covered by the Solvency Capital Requirement, shown as 'other risks' in Figure 3 above, are qualitatively monitored, reviewed and reported through the Own Risk and Solvency Assessment (ORSA) process.

In line with the definition of Solvency II, the Solvency Capital Requirement of the Group is based on a 99.5% Value-At-Risk over a 1-year time horizon, which is a measure of the expected one in two hundred year loss.

Risk Concentration

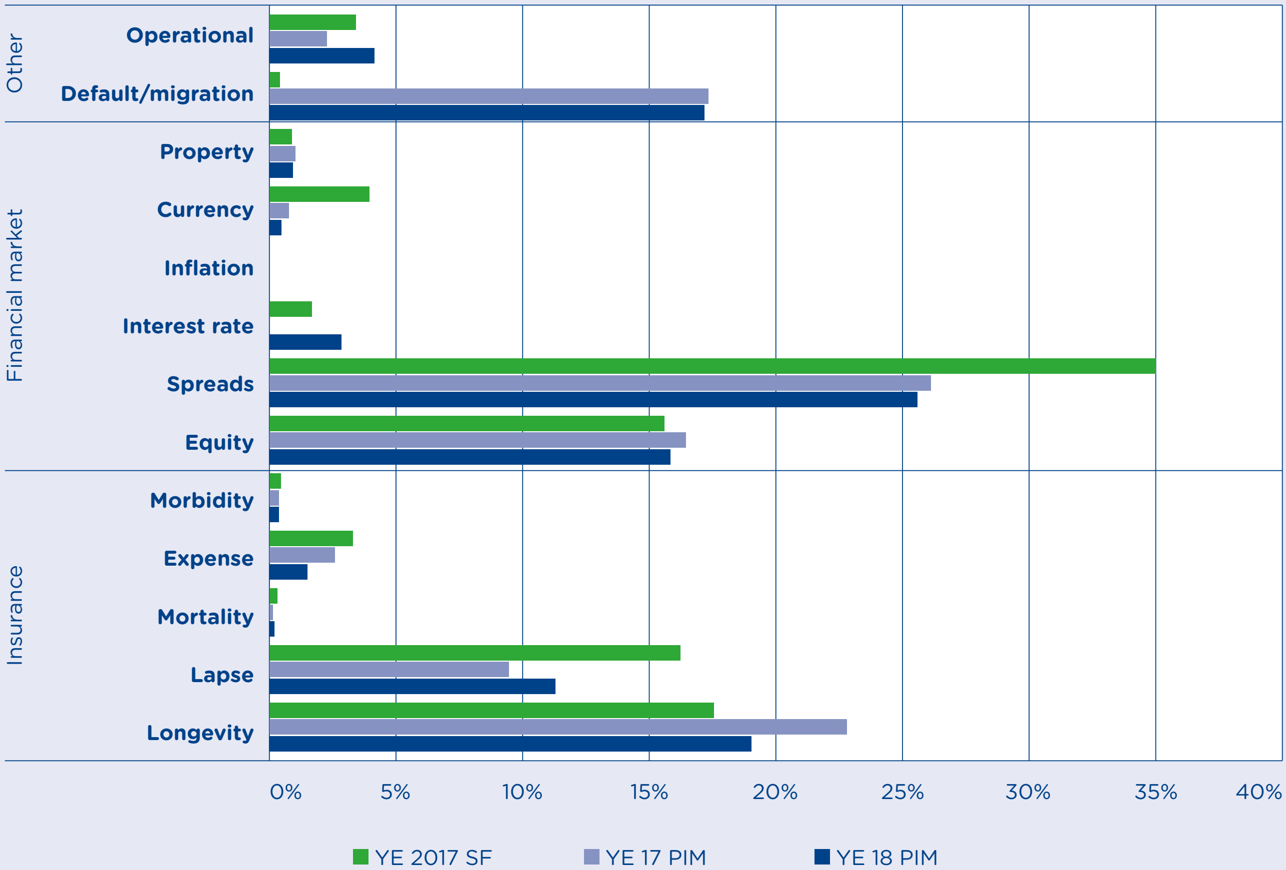
Material risk developments over the reporting period

The key change from last year is that the Group has become a Partial Internal Model firm (rather than Standard Formula).

The concentration of risks for the Group under the Partial Internal Model is shown below. There is a wide spread of risks with default/migration, spread, and longevity being the highest.

The below shows the breakdown of the SCR for the Group excluding the with-profits funds. This includes the L&G risk transfer agreement being modelled on the Standard Formula.

RAGL NFP Risk Concentrations



Section C: Risk profile continued

C1: Underwriting risk

Underwriting risk, also referred to as Life and Health risk, is defined as the unexpected economic impact from mortality, longevity, expense or morbidity obligations, as well as persistency rates deviating from the levels assumed at outset or subsequently in reserving.

The Group does not actively market or seek to write any new business and the Group is mainly exposed to underwriting risk through its acquisition of closed life insurance entities or portfolios of insurance business.

New acquisitions are managed under the Large Transactions Process. This requires detailed due diligence to be undertaken and independently reviewed by Risk Management to ensure all material risks are identified.

Exposure to underwriting risk is primarily measured via the Groups Partial Internal Model. Underwriting risk is mitigated via:

- Use of reinsurance
- Regular monitoring of exposure changes via regular risk reporting
- Annual review of longevity, mortality and persistency assumptions

The Group, where possible, avoids a heavy concentration in any one risk type and aims to have a diversified portfolio of underwriting risks. 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. The Group does not have any significant concentration of policyholders by geographic area.

Longevity risk

Longevity risk is defined as the risk that beneficiaries to whom the firm has a contractual obligation (e.g. policyholders and defined benefit scheme members) live longer than expected, and, as a consequence, receive benefit payments for longer than expected.

The Group is predominately exposed to longevity risk through its large portfolio of deferred and in-payment lifetime annuity policies. Residual exposure comes from the purchase of longevity swaps and the Group's closed defined benefit pension scheme.

In order to limit the Group's exposure to longevity risk, a number of reinsurance arrangements and longevity swaps are in place across each of the exposed funds. These arrangements have been applied consistently with the criteria of Articles 208-215 of the Delegated Act and the Group considers them to be appropriate risk mitigation techniques for Solvency II purposes.

Change over reporting period: The move from Standard Formula to a Partial Internal Model increased the size of longevity risk as measured by the SCR. However, interest rate rises and changes in the matching adjustment rate over 2018 have also reduced the risk as measured by the Partial Internal Model.

Lapse risk

The Group defines lapse risk as the risk that the proportion of policyholders that choose to discontinue their existing policy with the Group is different from that assumed in the Solvency II Technical Provision, resulting in a loss in the Basic Own Funds.

The majority of exposure to lapse risk can be found within the Group's unit-linked business and deferred annuity products. More specifically, higher lapses than expected within the unit-linked business causes a reduction in expected future management charges and a loss for the Group. In addition, an increase in the number of annuity policyholders choosing to take guaranteed benefits (less lapses than expected) priced at interest rates in excess of those currently in the market could cause a loss.

Change over reporting period: The move to a Partial Internal Model has reduced lapse risk due to the change in model calibration within our Internal Model. Over 2018, lapse risk increased due to changes in the BEL methodology.

Mortality, Critical Illness, Income Protection risk

The Group defines mortality risk as the risk of losses due to fluctuations in mortality rates relative to those assumed when calculating the Group's Technical Provisions. This risk arises within the Group's protection and savings business.

The Group defines Critical Illness (CI) risk as the risk of losses due to fluctuations in CI inception rates relative to those assumed in the calculation of the Group's Technical Provisions. The Group is exposed to fluctuations in these rates through the inclusion of CI benefits in some protection and saving policies.

The Group defines Income Protection (IP) risk as the risk of losses due to fluctuations in IP inception rates and/or recovery rates relative to that assumed within the calculation of the Group's Technical Provisions. The Group is exposed to fluctuations in these rates through the inclusion of IP benefits in some protection and saving policies.

Mortality, CI and IP risks are all of very low materiality and only contribute a small amount to the SCR.

Expense risk

The Group defines expense risk as the risk of loss or adverse change in the Group's balance sheets, resulting from changes in the level of expenses. Expense inflation is not included within the Group's definition of expense risk as it is included as an inflation risk.

Change over reporting period: Expense risk under the Partial Internal Model decreased over 2018 due to a change in the internal model expense risk calibration.

C2: Market risk

The Group defines Financial Market (FM) risk as the risk of loss arising from holding a portfolio of positions and contracts, due to market changes impacting the economic value of the portfolio. FM risk therefore refers to the risk of loss from changes in financial market variables and may arise in several forms including:

- Regular or stressed movement in market observable parameters such as equity prices, or interest rate levels;
- Regular or stressed movement in parameters used for financial modelling such as volatility or correlation; and
- Regular or stressed movement in market observable credit variables such as credit spreads or recovery assumptions.

The Group is exposed to FM risk through its assets and liabilities. Movements in financial market prices or rates, such as equity prices, interest rates, credit spreads, foreign exchange rates or real estate prices, affect the value of these assets and liabilities. The Group is exposed to FM risks from two main sources: through its investment activities and through the sensitivity of the economic value of liabilities to financial market fluctuations. Three types of FM risk are currently material for the Group: credit spread, equity and interest rate risks.

Exposure to market risks is primarily measured via the Partial Internal Model. Market risks are mitigated by:

- Asset-liability matching strategy
- Implementing hedging arrangements to ensure market risks remain within limits
- Use of Matching Adjustment/Volatility Adjustment
- Unit-linked matching to reduce equity risk

The Group has a Financial Risk Policy that aims to avoid significant concentrations of risks in any one type of market risk.

Section C: Risk profile continued

Prudent Person Principle

The Group ensures its assets are invested in accordance with the Prudent Person Principle as set out in Article 132 of the Solvency II Level 1 directive via its risk policies and framework (including the Group's investment policy). The Prudent Person Principle aims to ensure the whole of the Group's portfolio of assets have risks that the Group can properly identify, measure, monitor, manage, control and report and appropriately take in to account of its overall solvency needs.

The controls described in the Investment Guidelines policy and Derivatives Use Policy ensure the prudent person principles are satisfied where relevant. ReAssure's Risk Appetite Framework is also in place to ensure that the assets held are appropriate to the nature of the liabilities without taking excessive risks:

- Risk limits for market and financial risks are set and form part of the ReAssure Risk Appetite Framework;
- The Investment Guidelines sets out the controls in place to meet the requirements of the Prudent Person Principle.
- Asset management produces a report each working day covering key asset/liability matching and counterparty exposures. In addition, ReAssure Asset Management monitors investment guidelines' compliance on a regularly basis and reports to the quarterly Board Investment Committee;
- Concentration in investment exposures is avoided by setting investment limits in the Investment Guidelines. Total exposure to counterparties via investments, reinsurance and outsourcing service providers are monitored regularly and reported on quarterly basis by Risk Management to Risk Management Committee and Board Risk Committee. We have set soft limits for the total exposure in our risk appetites;
- The requirements related to the use of derivatives can be found in the Derivatives Use Policy. Derivative positions are monitored regularly and the reporting of the derivative positions is performed on quarterly basis to the Board Investment Committee by ReAssure Asset Management. This provides transparency to the derivative usage as well as demonstration of controls.

The sensitivities to market risks are shown below as at 31 December 2018:

	SCR Ratio	
Market stresses	No TMTP recalc	With TMTP recalc
Absolute change in the solvency ratio from the best estimate position		
Equity 25% fall	-5%	-6%
Property 25% fall	–	-1%
Risk-free rates rise 100bp	+17%	9%
Risk-free rates fall 100bp	-21%	-11%
Gilts rise over swaps 50bp	-8%	-3%
Spreads rise 100bp	5%	2%
Inflation rises 50bp	-6%	-3%
GBP falls 25%	3%	3%

Credit spread risk

The Group defines credit spread risk as the risk of losses due to changes in the value of credit spread. Changes in credit spreads also have an impact on the value of the matching adjustment and thus the level of technical provisions. The Group is exposed to the widening of credit spreads in their fixed interest holdings (e.g. corporate bonds).

The Group's credit spread exposure predominately 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 both its Investment Committee and Risk Management department. The latter is responsible for monitoring and reporting the Group's exposure to the 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 credit spread exposure by matching their long term liabilities with fixed interest assets. This mitigates some of the Group's 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 at a point in time.

Change over reporting period: Spread risk fell significantly when moving to the Partial Internal Model as under Standard Formula downgrades and default risk are addressed implicitly in the calibration of the factors of movements in credit spreads, and are not explicitly covered. The Partial Internal Model allows for these risks separately rather than implicitly within credit spread risk.

Equity risk

The Group defines equity risk as the risk of losses due to variations in the value of equity assets. The majority of the Group's exposure to equity risk comes from the charges it receives from unit linked funds under management. Since management charges are levied as a percentage of inforce unit linked assets under management, poor equity performance leads to lower fund values which leads to a decrease in income from fund charges. The Group has additional exposure through its direct holding of equity investments (e.g. in the pension scheme) and via the shareholder transfers from the with-profits funds.

The Group looks to mitigate equity risk in the unit-linked funds by hedging part of the portfolio against adverse movements using equity futures and has recently adopted a unit matching strategy to further mitigate equity risk.

Change over reporting period: Equity risk is largely similar between the Standard Formula and Partial Internal Model due to the similarity in calibrations across both approaches and movements over 2018 did not significantly change the risk profile.

Interest rate risk

Interest rate risk is defined as the impact of movement in the risk free yield curve on the Groups assets, liabilities and capital requirements. The Group uses interest rates to revalue both assets and liabilities and therefore the whole balance sheet is exposed to interest rate risk. The long-dated assets and liabilities that the Group holds are the most sensitive to interest rates changes.

The Group's interest rate risk arises primarily from investments in fixed interest securities. In addition to the extent that the value of 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.

The Group's Investment policy is designed to limit the amount of any mismatch between the assets and Technical Provisions, and thus minimise the impact of interest rates fluctuations. To the extent there are additional assets on the balance sheet over and above the Technical Provisions this gives rise to interest rate risk, which in turn gives rise to the capital requirement. Currently this capital requirement arises on assets backing the risk margin.

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 Group's investment committee.

Section C: Risk profile continued

Other, less material, financial market risks that the Group models in the PIM are as follows:

Currency risk

Currency risk is defined as the risk of movements in foreign exchange rates causing the value of foreign denominated assets and liabilities to change resulting in a loss. The Group is exposed to the risk of loss from the movement of foreign exchange rates where it holds investments denominated in foreign currencies or via charges on its unit-linked funds under management. The Group is also exposed to currency risk through Ark Life as it is domiciled in Ireland and transacts its business for the most part in Euros. It also has a very small exposure via foreign denominated liabilities.

The Group looks to limit its exposure to currency risk by hedging a portion of its position by using currency derivatives in the form of FX futures.

Inflation risk

Inflation risk is defined as the risk of a change in Own Funds caused by a deviation of the actual value of assets and/or liabilities from their expected value due to inflation. This may lead to an unanticipated change in the insurance cost and/or impact an insurance contract. The Group are predominately exposed to an increase in inflation through inflation linked annuity liabilities, expenses in the NPF and in the Defined Benefit Pension Scheme.

Property risk

Property is defined as the risk of a change in Own Funds arising from the change in property prices. Property risk only arises within the Groups Non Profit unit-linked funds. The Group's exposure results from management charges expected from property assets held within the UL funds. Therefore, the Group are only exposed to the volatility of the expected future management charges linked to the value of the fund. Property assets only represent around 3% of the unit-linked portfolio, therefore the materiality of property risk is low.

C3: Credit risk

Risk exposure

Credit risk reflects the risk of incurring a financial loss from the default of counterparties or of third parties. In addition, it takes account of the increase in risk represented by any deterioration in credit ratings of those counterparties. This 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 two classes of credit risk: credit default risk and credit migration risk.

Default risk: This is quantified by considering the probability of obligor default and the loss given default; and

Migration risk: This is quantified by considering the probability of a deterioration in obligor credit quality which adversely impacts the economic value of underlying positions.

The credit risk inherent within all positions is broken down into the spread risk elements (Financial Market risk) and the default/migration risk elements (Credit risk). The Group asset management function manages credit risk on a day-to-day basis using the policies and limits set out in the Groups risk policies.

The spread risk is considered as a "market induced" risk and is incorporated into the Financial Market risk category, and managed at an aggregate level.

The Group's key counterparty exposure is to its parent Swiss Re through Intra-Group retrocessions (IGRs). The Group's risk tolerance for this exposure is managed through the capital management policy which applies a floor to the capital buffer based on our exposure to Swiss Re Group.

The Group also monitors credit risk by considering the exposure of the Group's companies to each counterparty. The Board determines the credit 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.

Concentrations of credit risk by issuer, type of debt, sector or geographic area are controlled via specific concentration limits and annual Stress and Scenario Testing.

Change over reporting period: The move to a Partial Internal Model from the Standard Formula has increased the size of credit risk in the SCR. This is primarily due to these risks being modelled explicitly within the Partial Internal Model rather than being implicit within credit spread under the Standard Formula.

A sensitivity to migration risks is shown below:

	SCR Ratio	
2018	**No TMTP recalc**	**With TMTP recalc**
Absolute change in the solvency ratio from the best estimate position		
Downgrade 20% of bonds	-11%	-9%

A sensitivity to migration risks is shown below:

C4: Liquidity risk

Risk exposure

Liquidity risk is defined as the risk that the Group or its entities will not be able to efficiently meet both expected and unexpected (i.e. stressed) future cash flows and collateral needs without affecting either daily operations or their financial condition.

Liquidity risk in the context of the MA portfolios is defined as the risk that the Group will not have sufficient liquid resources, either within or outside the MA portfolios, to meet MA liability outgoings, in both normal and stressed circumstances, without resource to selling MA assets that are matched against liabilities.

The Group Funding and Liquidity Risk Management Standards state that funding liquidity risk is measured by comparing the sources and uses of funding in stressed conditions over a 12 month period. The position of the MA and non-MA funds is measured separately.

The Liquidity Coverage Ratio (LCR) is the ratio of liquidity sources to liquidity requirements under stress. The liquidity stress is based on the 12 month liquidity requirements under the 1-in-200 PIM stresses.

At 31 December 2018, all funds remain within risk appetite.

Liquidity Stress Ratio

2018	Non-MA	MA	ReAssure MidCo Group
Liquidity Coverage Ratio	114%	106%	304%

Section C: Risk profile continued

C5: Operational risk

Risk exposure

Operational risk is defined as the potential economic, reputational or supervisory impact resulting from inadequate or failed internal processes, people and systems both internally and externally to the Group. Operational risks include legal and compliance risks and the risk of a material mis-statement in the Group's financial reporting, but excludes strategic and business risks.

The key operational risks (by risk and potential impact) identified by the business during 2018 were as follows:

- Volume and complexity of change delivery, including preparation for the conversion of the administration system to support the transfer of business from Legal & General and preparations for Swiss Re's proposed Initial Public Offering of the ReAssure MidCo Group.
- Risk of cyber-attack; with the increasing global political tensions, a large-scale cyber-attack on government infrastructure is judged to be a key emerging risk. The cyber-attack could disrupt public/private sectors including industry, commerce, governments, transport, emergency services and defence. Risk Management keep under review the potential market volatility on the balance sheet resulting from a large scale cyber event. and
- Risk of insufficient availability of skilled employees and key people to cover both the business as usual activities and the incremental work rising from projects and acquisitions.

These risks are mitigated through intensive monitoring by the RMC and the Risk Committee, both of which have a range of options for ensuring that operational risks are kept within the risk appetite, including the authority to allocate resource to one or more business areas should that be required.

Risk Measurement

The risk capital requirement for operational risk is assessed using the Groups PRA approved PIM which is calibrated to withstand a stress event to a 99.5% confidence level over a one year period. The methodology uses expert judgment to assess the worst case loss potential for the designated operational risk capital scenarios. The scenario results are regularly reviewed by management oversight committees.

As at 31 December 2018, operational risk represented 4% of the Group's total diversified SCR as shown on section C.

Qualitative assessment of key risks against agreed tolerated limits is regularly provided to Management Oversight Committees.

Risk Concentrations

ReAssure processes a high volume of complex transactions and operates in a highly regulated environment. A key risk is the ability to maintain customer service standards. The Group is highly reliant on the core operating platform including a number of key applications. The Group also has a significant concentration of model risk in supporting financial and solvency reporting.

Risk Mitigation

The Group seeks to mitigate operational risk to within agreed risk tolerance limits as defined in the Group Risk policy and Risk Framework. Risk Management provides periodic reporting to management oversight committees on operational risk exposure against the tolerance limits. For any risk exposure outside risk tolerance the risk mitigation plans are assessed by the risk owners for effectiveness in bringing the risk back within tolerance. The key risk of maintaining customer servicing standards is primarily addressed by ensuring there is an appropriate back up and business continuity plans for business critical services. The plans are regularly updated and tested. Model risk is mitigated by the implementation of a comprehensive model validation process. This is done by an independent team of experts reviewing the effectiveness of the models used.

C6: Other material risks

There are no other material risks to disclose.

C7: Any other information

Stress & Scenario Testing

In addition to sensitivity testing, the Group also undertakes scenario testing where the impact of a range of adverse market and other credit risk and Life & Health movements are quantified via the construction of a number consistent scenarios. Each of these scenarios is designed to test the impact of a number of adverse factors occurring at the same time. The stress scenarios are determined after having regard to the scenarios developed by Swiss Re Group, the stress scenarios developed by EIOPA and additional factors that are specific to the Group's business.

This 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 financial structure of the Group means that it is capital generative and the adverse impact of the stress scenarios considered is gradually recovered through the surplus delivered by the portfolio of in force policies.

The results of the stress & scenario testing are used for a variety of purposes, including the development of potential management actions that could be used in the event of an actual stress situation. The results of the stress & scenario testing are also reported to the Board in the Own Risk Self Assessment (ORSA) document, which is produced annually.

Section D: Valuation for solvency purposes

In this section:

Section D: Valuation for solvency purposes

D1: Assets

1 Solvency II valuation for each material asset class

The Solvency II valuation for each material class of asset for the Group as at 31 December 2018 is as follows:

Investment Type	**Total Solvency II Value 2018 (£'000)**	Total Solvency II Value 2017 (£'000)
Property	332,078	368,025
Holdings in related parties, including participations	3,304	3,181
Equities	410,522	487,022
Bonds	17,739,530	20,819,035
Collective Investment Holdings	1,237,189	1,410,971
Derivatives	12,761	15,858
Assets Held for Index-Linked and Unit-Linked Contracts	20,093,816	22,790,076
Loans and Mortgages	1,178,247	1,061,904
Cash and Cash Equivalents	61,432	85,565
Total	**41,068,879**	**47,041,637**

Included in the total investment assets above are the investments of Ark Life solo entity of £1,748 million (2017: £1,938 million). The remaining investments are assets of ReAssure Limited, with the exception of £336 million (2017: £241 million) cash and deposits held by the holding and service companies. Valuation methodologies described below are adopted at both a solo and a Group level.

The Solvency II valuation for each material class of asset for ReAssure Limited as at 31 December 2018 is as follows:

Investment Type	**Total Solvency II Value 2018 (£'000)**	Total Solvency II Value 2017 (£'000)
Property	220,513	240,211
Holdings in related parties, including participations	453,396	463,456
Equities	410,522	487,022
Bonds	17,280,675	20,481,612
Collective Investment Holdings	1,187,489	1,336,371
Derivatives	12,761	15,858
Assets Held for Index-Linked and Unit-Linked Contracts	18,544,490	21,050,596
Loans and Mortgages	1,178,247	1,061,904
Cash and Cash Equivalents	42,080	33,419
Total	**39,330,173**	**45,170,449**

Section D: Valuation for solvency purposes continued

2 Valuation bases, methodologies and main assumptions for each material asset class

Valuation bases

The Group values its assets at fair value in line with IFRS accounting standards. In circumstances where the adoption of more than one valuation basis is permitted, the basis chosen is consistent with the economic valuation principles prescribed by Solvency II. The methodologies for ascertaining fair value are described in more detail below.

Valuation methodologies

The vast majority of the Group assets are priced using Quoted Market Prices (QMP) available from actively priced markets. For the Group assets that have a relatively low market liquidity, Alternative Valuation Method (AVM) is applied. AVM is typically used to determine a best estimate for certain assets where quoted market prices are unobtainable. AVM techniques rely on models that apply benchmarks, extrapolated or otherwise calculated, as far as possible, from available market inputs. Although the application of AVMs can be subjective, their use in the Group is consistent and carried out under a controlled environment with input from experienced professionals. Property valuations are free of mortgage, charge or other debt security and therefore no deductions are made for such charge or debt.

Valuation assumptions

Assets are valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction. All assets are valued separately and on a going concern basis. The valuation information produced and retained is complete, accurate and reliable. The principle method for valuing the Group assets is the utilisation of quoted market prices (QMP). Where an exchange market is closed, due to national holiday or otherwise, the last available price from the preceding trading day is used.

Listed equities

All equities, including foreign equities, are valued on a closing price basis. Foreign equities are quoted in the currency of the country in which they are listed and subsequently converted to sterling using the exchange rate supplied from the valuation date.

Unit trusts and open ended investment company funds

UK authorised unit trusts are valued at bid price. Holdings in open ended investment company funds (OEICs) are valued at the single quoted price for such funds. Underlying assets to these funds use fair value prices.

Government bonds

Government bonds are valued on a closing bid price basis.

Corporate bonds

Corporate bonds are priced using a closing bid price basis. The majority of corporate bonds held are priced using QMP although a small and immaterial number of assets are priced using AVM due to lack of publicly available prices in the market.

Assets held for index and unit linked funds

Assets held for index and unit linked funds are valued at the bid price of the funds. Underlying assets to these funds use fair value prices.

Collateralised securities

Collateralised securities are generally valued at bid price using QMP. A small number of illiquid securities are valued using AVM.

Mortgages and loans
Commercial mortgages and loans (including infrastructure loans) will not usually be traded in an open market and hence will not have an observable price. These investments will be valued using AVM. The price for such investments is calculated by taking the projected cash flows for the investment and applying a suitable discount factor based with an allowance for illiquidity built in over the benchmark government rate. The valuation will take into account any expected impairment to the prospective cash flows

Cash and deposits
Certificates of deposit mainly comprise of money market instruments that have a duration term of 3 months or less. Under IFRS, these holdings are classed as cash equivalents and as such, QMP methodology is not applied. The fair value of cash and cash equivalents is equal to their carrying value. Access to cash is on demand and bank deposits are accessible on demand or within one business day.

Property
Investment property consists of land and buildings held for investment purposes to generate rental income and/or capital appreciation. All properties are priced monthly by professional advisers on an open market value basis as determined by the Royal Institution of Chartered Surveyors (RICS) using an Alternative Valuation Method. ReAssure apply a further 1% discount to individual property valuations representing estimated selling costs.
A ReAssure MidCo Group subsidiary is also a limited partner in an Equity Release Investment Plan (ERIP) scheme that holds a reversionary interest in a portfolio of residential properties. These properties are individually valued every two years on a rolling basis by appointed professional advisers in accordance with RICS professional standards. In the interim period informal valuations are conducted monthly, applying the Nationwide Building Society regional index to the last available valuations. The market values of properties are then adjusted to reflect that ReAssure owns a reversionary rather than immediate interest in the property. This adjustment is calculated by estimating both the time until the transfer of the asset and the value of expected cash flows discounting to the valuation date.

Derivatives
Where derivative holdings are openly traded in an active market they are valued at open market price. That price taken would be the available mid, trade or settle price for the derivative contract. Certain derivative holdings do not have open market prices to reference. Where this is the case they are valued by an alternative valuation method, which would source price information from a suitable model. The substantial majority of derivatives held at year end were valued using QMP.

Immaterial asset classes
Those asset classes remaining such as unlisted equities, private placements and unquoted bonds are low value in proportion to the overall asset portfolio and apply QMPS and/or AVM, where appropriate.

Trade Receivables
Assets are recorded at fair value, which is their nominal amount adjusted for the probability of default of the counterparty.

Present Value in force
Intangible assets are valued at zero unless the intangible assets can be sold separately and it can be demonstrated that there is value for the same or similar assets (i.e. that a value has been derived from quoted prices in active markets). None of the Group intangibles have been assessed as meeting this criteria and therefore these are valued at zero. For IFRS, all intangible assets are measured on the balance sheet at cost less accumulated amortisation and any impairment loss recognised to date. This results in a £436 million difference due to the different valuation basis used for Solvency II purposes and that used for IFRS.

Section D: Valuation for solvency purposes continued

Deferred acquisition costs

Deferred acquisition costs reported are on the IFRS balance sheet and comprise the direct and indirect costs of obtaining and processing new insurance business.

Deferred acquisition costs are valued at zero for Solvency II unless they can be sold separately and it can be demonstrated that there is value for the same or similar assets (i.e. that a value has been derived from quoted prices in active markets). This does not meet the above criteria and therefore they are valued at zero.

3 Material differences between Solvency II and financial statement values for each material asset class

For each material asset class, no significant differences exist between the bases used, methodologies adopted or assumptions applied for solvency valuation purposes and those used for the financial statements valuation in individual company financial statements. The Group does not publish consolidated Group financial statements. There are no differences between valuation bases adopted at a solo level and those adopted at a Group level.

4 Criteria used to assess whether financial markets are inactive

Listed equities, unit trusts and OIECs are assumed to be traded in active markets, unless a listing is suspended or the fund manager advises of the existence of any trading restrictions. Certain corporate bond holdings are deemed not to be actively traded. This conclusion is made following advice from the fund manager who considers array of factors including the number of investors holding the asset, frequency of trades and units in issue. Where an asset is deemed not to be traded in an active market it is priced using an appropriate pricing model. Further details of models and approaches used in pricing illiquid assets are set out in section D4.

5 Deferred tax assets and liabilities

Deferred tax assets and liabilities on profit calculations

Deferred tax assets or liabilities are recognised in relation to timing differences in between the recognition of an item of profit or revenue in the Solvency II income statement account and the point at which the item of profit or loss is recognised for tax purposes.

Deferred tax assets and liabilities are also recognised for all deductible temporary differences, unrealised tax gains, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets are reviewed at each balance sheet 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 tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax assets to be recovered.

Changes to the mainstream corporation tax rate were enacted in Finance Act 2016, and therefore been reflected in Solvency II valuation tax rate assumptions. Under the Finance Act, the rate of corporation tax will fall to 17% with effect from 1 April 2020. Accordingly, deferred tax balances have been measured at 17%.

Non-profit business

Deferred tax liabilities and assets are calculated as follows for the non-profit business trading profits:

a) Solvency II technical provisions are compared to the corresponding IFRS amounts, to compute the deferred tax timing differences between the two bases;

b) Deferred tax assets are recognised for tax reliefs that are expected to be available in future periods, namely the ‘transitional relief’ granted following a change to the tax regime in 2013 and relief expected from expensing of the business acquisitions IFRS Value of in force;

c) Deferred tax assets are recognised in respect of the value of excess expenses, acquisition costs and capital losses that are available to reduce future life tax charges. This is justified by reference to realistic projections of future profits that predict the quantum of these assets that will be utilised against taxable profits within 15 years;

d) Deferred tax liabilities are provided in relation to unrealised chargeable gains that are expected to crystallise taxable profits in future periods.

With-profit business

Deferred tax in respect of trading profits for the three with-profits funds:

a) Deferred tax does not arise in relation to the trading profits of the National Mutual With Profit Fund (NMWPF) because this is a mutual fund with no shareholder surplus entitlement, so there are no differences between the Solvency II and IFRS balance sheets that could affect the shareholder profits.

b) A deferred tax liability is recognised in relation to the difference between the IFRS shareholder equity and Solvency II future shareholder funds.

c) Other deferred tax assets and liabilities in relation to items b) – d) described above for the non-profit business apply, as appropriate, to the with profit business.

Deferred tax balances

The Group has recognised a deferred tax asset of £103,990 thousand and a deferred tax liability of £249,709 thousand at 31 December 2018. The balance is made up of the following items:

Deferred Tax Asset	**£'000**
Acquisition expenses	825
Unrealised chargeable gains	(30,323)
Capital losses recognised	31,157
Group pension scheme	102,331
Deferred tax asset	**103,990**

Deferred Tax Liability	**£'000**
Deferred tax on liability differences	(264,882)
Transitional Adjustments	14,776
Deferred acquisition costs	14,714
Acquisition expenses	(82)
Unrealised chargeable gains	(3,518)
Ark Life	(95)
Group pension scheme	(5,304)
Group expense provision	(5,318)
Deferred tax liability	**(249,709)**

6 Holdings in related undertakings

Holdings in insurance entities, ancillary service undertakings and undertakings carrying out financial activities are included on a fully consolidated basis, with the Solvency II balance sheet reflecting the underlying assets and liabilities of those undertakings. The group has a small number of other non-regulated entities. The group investment in these is equity accounted for in line with the Solvency II valuation principles.

7 Changes made to recognition or valuation bases in the period

There were no changes made to the recognition or valuation bases in the period.

Section D: Valuation for solvency purposes continued

D2: Technical provisions

1 Value of Technical Provisions

A summary of the Technical Provisions for the Group calculated as at 31 December 2018 and 31 December 2017 is shown in the tables below. The tables include the Technical Provisions of the reinsurance arrangement with Legal & General following the acquisition of its mature savings business on 6 December 2017.

Technical Provisions 2018 **£'000**	**RAL Solo**	**Ark Solo**	**Group Expenses**	**Total**
Technical Provisions calculated as a whole	18,409,462	1,533,980	–	19,943,442
Gross BEL	15,665,050	332,706	570,660	16,568,416
Risk margin	1,396,580	40,522	–	1,437,102
Transitional on Technical Provisions	(772,293)	–	–	(772,293)
Total Technical Provisions	**34,698,799**	**1,907,208**	**570,660**	**37,176,667**
Reinsurance Recoverable	(588,859)	(363,135)	–	(951,994)
Technical Provisions allowing for Reinsurance Recoverable	34,109,940	1,544,073	570,660	36,224,673

Technical Provisions 2017 **£'000**	RAL Solo	Ark Solo	Group Expenses	Total
Technical Provisions calculated as a whole	20,978,663	1,713,724	–	22,692,387
Gross BEL	17,319,870	272,430	183,019	17,775,319
Risk margin	1,204,825	40,158	–	1,244,983
Transitional on Technical Provisions	(481,023)	–	–	(481,023)
Total Technical Provisions	39,022,335	2,026,312	183,019	41,231,666
Reinsurance Recoverable	(736,579)	(307,086)	–	(1,043,665)
Technical Provisions allowing for Reinsurance Recoverable	38,285,756	1,719,226	183,019	40,188,001

ReAssure Limited Technical Provisions split by line of business are as follows:

RAL Line of Business 2018 **£'000**	**With Profit**	**Unit-linked**	**Other Life**	**Health**
Technical Provisions calculated as a whole	–	18,394,543	–	14,919
Gross BEL	2,971,964	(971,538)	13,443,065	221,559
Risk margin	34,631	201,825	1,135,994	24,130
Transitional on Technical Provisions	(14,781)	(100,799)	(644,447)	(12,266)
Total Technical Provisions	**2,991,814**	**17,524,031**	**13,934,612**	**248,342**
Reinsurance Recoverable	(2,806)	–	(582,453)	(3,600)
Technical Provisions allowing for Reinsurance Recoverable	2,989,008	17,524,031	13,352,159	244,742

RAL Line of Business 2017 £'000	With Profit	Unit-linked	Other Life	Health
Technical Provisions calculated as a whole	–	20,961,489	–	17,174
Gross BEL	2,969,310	(1,456,358)	15,534,855	272,063
Risk margin	58,561	189,953	943,963	12,348
Transitional on Technical Provisions	(27,760)	(74,856)	(373,541)	(4,866)
Total Technical Provisions	3,000,111	19,620,228	16,105,277	296,719
Reinsurance Recoverable	(2,497)	354	(730,836)	(3,600)
Technical Provisions allowing for Reinsurance Recoverable	2,997,614	19,620,582	15,374,441	293,119

Ark Life Technical Provisions split by line of business are as follows:

Ark Line of Business 2018 £'000	**With Profit**	**Unit-linked**	**Other Life**	**Health**
Technical Provisions calculated as a whole	–	1,533,980	–	–
Gross BEL	–	(36,757)	353,001	16,462
Risk margin	–	14,581	23,292	2,649
Transitional on Technical Provisions	–	–	–	–
Total Technical Provisions	**–**	**1,511,804**	**376,293**	**19,111**
Reinsurance Recoverable	–	–	(340,521)	(22,613)
Technical Provisions allowing for Reinsurance Recoverable	–	1,511,804	35,772	(3,502)

Ark Line of Business 2017 £'000	**With Profit**	**Unit-linked**	**Other Life**	**Health**
Technical Provisions calculated as a whole	–	1,713,725	–	–
Gross BEL	–	(39,328)	297,360	14,396
Risk margin	–	15,114	22,767	2,278
Transitional on Technical Provisions	–	–	–	–
Total Technical Provisions	–	1,689,511	320,127	16,674
Reinsurance Recoverable	–	–	(285,375)	(21,711)
Technical Provisions allowing for Reinsurance Recoverable	–	1,689,511	34,752	(5,037)

The total Technical Provisions consist of Technical Provisions calculated as a whole, which is the value of the unit funds for all unit-linked policies, the BEL the Risk Margin and any Transitional Measures on Technical Provisions (TMTP).

The Group has approval to apply TMTP in order to provide a smooth transition between the Technical Provisions under the previous Solvency I regulatory regime and the Technical Provisions under the Solvency II regulatory regime. The PRA gave approval for ReAssure to use a Partial Internal Model for the Solvency II Risk Margin and SCR in the 2018 year end balance sheet. As a consequence, ReAssure applied to recalculate the TMTP at 31 December 2018.

Contributing to the total Technical Provisions in the Group are: the Technical Provisions for the solo ReAssure legal entity (RAL), the Technical Provisions for the Ark Life solo legal entity and some additional expense provisions that are allowed for at Group level.

There are no material adjustments to individual Technical Provisions in the calculation of the Group Technical Provisions

2 Bases and methodology – BEL

Other Life and Health business

This comprises non-linked non-profit business. The BEL corresponds to the probability-weighted average of future policyholder cash-flows, taking account of the time value of money (expected present value of future cash-flows), using the relevant risk-free interest rate term structure, with allowance for, where appropriate, a Matching Adjustment or Volatility Adjustment. The calculation is conducted at a per-policy level for all non-linked non-profits business.

The cash-flow projections include all the cash in- and out-flows required to settle the insurance and reinsurance obligations over the lifetime of the policy.

Unit-linked business

For unit-linked business, the value of the units is included in Technical Provisions calculated as a whole. The discounted value of future profits arising from unit-linked business is shown in the BEL (where it is negative being an asset to the Group). Future profits arise from the difference between income items such as premium margins, management charges on the internal linked funds, deductions for cost of mortality and morbidity benefits and policy fees, and outgo items such as claims in excess of unit value, expenses and cost of mortality and morbidity benefits. The calculation is conducted at a per-policy level for unit-linked business.

Section D: Valuation for solvency purposes continued

With-profits business

For with-profits business, the BEL consists of the asset share plus an allowance for the cost of options and guarantees.

The asset shares represent the underlying value of a with-profit investment and are calculated by accumulating historical premiums paid, return on assets backing asset shares and deductions made. With-profits policies may have minimum maturity or surrender value guarantees. Some policies have annuity guarantees, principally guaranteed minimum rates for conversion of maturity value to an annuity.

For the With-Profit Fund (WPF) and the National Mutual With-Profit Fund (NMWPF), the cost of guarantees is modelled stochastically. The cash flow projections use an Economic Scenario Generator (ESG). The projections use model points representing groups of similar policies (rather than individual policy data) for practical reasons.

In the Guardian Assurance With-Profit Fund (GAWPF) 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.

3 Discount rates and inflation assumptions

Discount rates are determined by reference to basic risk-free interest rates prescribed by EIOPA. These have a term structure, so vary by time, for each currency. The basic risk-free interest rate curve may be adjusted upwards for illiquidity, via a Matching Adjustment or a Volatility Adjustment (but not both), with the result referred to as the relevant risk-free rate term structure.

A Matching Adjustment is applied to certain blocks of the Group's annuity business. The calculation of this is prescribed by EIOPA, although the result depends on the actual spreads on the Matching Portfolio of assets, and the credit quality of those assets. During 2018, the two Matching Adjustment portfolios previously held separately were combined, and the resulting Matching Adjustment rate applied to the combined MA Fund at 31 December 2018 is 1.05%. At 31 December 2017, the Matching Adjustment rates applied to the separate MA Funds were 0.79% in MA Fund 1 and 0.81% in MA Fund 2.

Where a Volatility Adjustment is included in the discount rate, the rate is prescribed by EIOPA, and at 31 December 2018 is 0.27% per annum for the next 50 years reducing to 0.101% per annum over the following 100 years (2017: 0.18% per annum for the next 50 years reducing to 0.067% per annum over the following 100 years).

Ark Life does not apply a Matching Adjustment or a Volatility Adjustment to the discount rate used for Solvency II Technical Provisions.

An assumption is made about future rates of inflation to be applied, in particular to payments to policyholders and expenses which increase in line with the value of a specified index (for example, ReAssure uses an RPI assumption which is set based on information published by the Bank of England).

4 Demographic and expense assumptions

Best estimate demographic and persistency assumptions are generally set with regard to recent Group experience, but consideration may also be given to expert judgement, industry practice and market information.

Policy expenses are determined with reference to Management Service Agreements in place between the legal entities included in the Group and a number of service companies (some of them external and some controlled by the Group) to provide policy administration and support services. In addition, assumptions are made about payments to investment firms in return for the management of investments.

An assessment of the future overall expenses expected to be incurred by the Group for the administration of insurance contracts (directly or through holding the service companies) and the expense allowances made at legal entity level is carried out at the valuation date. ReAssure analyses the planned business costs by function over a three-year horizon to establish the overall Solvency II provision for expense overrun for the lifetime of the contracts in ReAssure. This entails allocating expenses of the Group that relate to the administration of the in-force insurance business in ReAssure. For 31 December 2018, an extensive reassessment was undertaken of both the Group expenses and the allocation methodology to take into account significant changes to the structure of the Group.

In determining the Group expense provisions at the valuation date a share of expenses is allocated to existing RAL policies (as either the direct costs of administering that business or a share of expenses relating to Group functions, so excluding those expenses relating either to the acquisition of future deals or to administration of the business of third parties). These are projected over the lifetime of the existing RAL policies following an appropriate pattern of run-off and discounted, with the best estimate liability at group level set as the excess over the expense provision already held in the legal entity of RAL.

Following reassessment at 31 December 2018, including additional expenses expected to arise following a restructuring of the holding company of the Group and a higher allocation of other Group expenses, and taking into account known changes to project costs, the share of expenses allocated to existing RAL policies has given rise to a material increase in the technical provision held for expenses. This is due to the annual update to the allocations and also the Group's preparation for a potential IPO, bringing group-level functions and activities previously provided by the parent company (Swiss Re) into the holding company in order for it to be able to operate as a separate listed entity.

As part of the IPO preparation, there has been some reallocation between investment management expenses and direct costs for asset management services and an increase in overall costs to be recognised as liabilities relating to the insurance business within the Group in accordance with Solvency II rules.

The Group has undertaken to give further consideration to whether a proportion of the expenses relating to the acquisition strategy should be recognised in the expense provision. This is on the basis that, although in the long term these costs only exist to support acquisitions, in the short term, costs arise in pursuing a growth strategy even if no acquisition takes place. These costs are currently not included in the technical provisions.

5 Material changes in assumptions

Material changes to assumptions made since the last reporting period are listed below:

- The revision of the Group expenses model during 2018, as described in section 4, resulted in Technical Provisions increasing by £387,641,000.
- Discount rates are based on the EIOPA risk-free term structure increased by the Matching Adjustment or Volatility Adjustment for certain blocks of business. The impact of changes in these rates results in a decrease in Technical Provisions of £283,019,000.
- Changes to the provision for conduct risk resulted in a decrease in Technical Provisions of £138,000,000.
- Changes in the investment management expenses assumptions have resulted in a decrease in Technical Provisions of £85,624,000.

6 Bases and methodology – Risk Margin

The Risk Margin represents the cost of capital that would be added to the BEL to arrive at a fair value of the liabilities i.e. the price at which a notional purchaser (the "reference undertaking") would take on the liabilities assuming a rational market. The rate used in the determination of the cost of providing that amount of eligible Own Funds (cost of capital rate) is the same for all insurance undertakings and is defined in the Solvency II regulations as 6% per annum.

Section D: Valuation for solvency purposes continued

7 Level of uncertainty within the Technical Provisions

The calculation of Technical Provisions involves predicting future cash flow payments (income and outgo). Some of these values are known amounts, but others have to be estimated using existing information and judgement about future conditions. There is a significant degree of uncertainty around the best estimate assumptions used to determine future cash flow payments. These assumptions contain uncertainties, such as economic performance, timing of insured events such as policyholder deaths, and other factors that cannot be known in advance. Hence the amount of cash-flows and their current values may be higher or lower than those calculated.

The assumptions that are subject to the greatest uncertainty are:

- Assumption for remaining life expectancy of annuitants – ReAssure Limited has a significant block of annuity business for which the Technical Provisions calculation requires an estimate for the length of time over which annuities will be paid, which could extend for many years into the future. Future mortality rates are inherently uncertain so actual annuity payments will differ from those assumed.
- Policyholder behaviour – Policyholders' decisions to terminate policies early are subject to a range of causes that cannot be predicted with confidence. Companies in the Group set persistency assumptions using recent years' experience of policyholder behaviour. Future developments, such as changes in regulation or economic outlook, can lead to actual persistency experience being higher or lower than that assumed.
- Economic assumptions – There is considerable uncertainty around future economic conditions, which can lead to investment performance being materially different to that assumed.

8 Comparison to valuation for financial statements

At 31 December 2018, the gross Technical Provisions for the Group calculated under the IFRS basis were £40,745,178,000 (2017: £44,601,069,000) and the gross Technical Provisions for Solvency II were £37,176,667,000 (2017: £41,231,666,000). Summary Technical Provisions are shown in the tables below.

2018 £'000	**RAL Solo**	**Ark Solo**	**Group Expenses**	**Total**
Technical Provisions in financial statements	38,031,984	2,065,026	648,168	40,745,178
Valuation differences	(3,333,186)	(157,818)	(77,507)	(3,568,511)
Total Technical Provisions	34,698,798	1,907,208	570,661	37,176,667

2017 £'000	RAL Solo	Ark Solo	Group Expenses	Total
Technical Provisions in financial statements	42,587,186	2,013,883	–	44,601,069
Valuation differences	(3,564,851)	12,429	183,019	(3,369,403)
Total Technical Provisions	39,022,335	2,026,312	183,019	41,231,666

A breakdown of ReAssure Limited Technical Provisions by type of business is shown below.

2018 £'000	**With Profit**	**Unit liabilities and VIF**	**Non profit**	**RAL solo total**
Technical Provisions in financial statements	3,466,352	18,409,462	16,156,170	38,031,984
Valuation differences	(474,538)	(951,112)	(1,907,536)	(3,333,186)
Total Technical Provisions	2,991,814	17,458,350	14,248,634	34,698,798

2017 £'000	With Profit	Unit liabilities and VIF	Non profit	RAL solo total
Technical Provisions in financial statements	3,861,568	20,979,404	17,746,215	42,587,187
Valuation differences	(861,456)	(1,546,869)	(1,156,527)	(3,564,852)
Total Technical Provisions	3,000,112	19,432,535	16,589,688	39,022,335

The material items making up the difference of £3,568,511,000 between the IFRS Technical Provisions and the Technical Provisions for Solvency II at 31 December 2018 are described below:

- Future distribution of the estate for the with-profit funds of £528,508,000 is included in the IFRS Technical Provisions but excluded for Solvency II;
- Unit-linked value of in-force business (VIF) of £1,088,895,000 is not recognised in the financial statements, but is recognised under Solvency II;
- Prudential margins of £549,192,000 are included under the IFRS but not under Solvency II;
- Solvency II Technical Provisions reduced by Transitional Measures of £772,293,000;
- Legal & General Solvency II impact of £630,883,000 is not included under IFRS; and
- Group expenses provision under IFRS is £77,507,000 higher than under Solvency II.

9 Reinsurance recoverables

The legal entities within the Group have entered into a number of reinsurance arrangements. The reinsurance ceded predominately relates to annuity business in the form of longevity swaps. In the valuation of ceded reinsurance, the counterparty risk is considered.

10 Matching Adjustment

At 31 December 2017, there were two distinct Matching Adjustment portfolios within the ReAssure Limited Non-Profit Fund, one relating to the ReAssure Limited business that was within the fund prior to the Part VII transfer of Guardian (MA1); and, separately, one relating to the former Guardian business Matching Adjustment portfolio transferred in at the Part VII transfer date extended with additional annuities from the Guardian portfolio that were added at 31 December 2017 (MA2).

During 2018, the two Matching Adjustment portfolios were merged into a single Matching Adjustment portfolio. The impact on Technical Provisions was negligible, because the liability cash flows are simply discounted using one Matching Adjustment rate that reflects the combined portfolio as opposed to two separate rates, and the Risk Margin calculation already allowed for diversification between the two portfolios. The impact on the SCR was also negligible due to the calculation allowing for diversification between the two portfolios. Ark Life does not apply any Matching Adjustment.

The table below shows the effect of the Matching Adjustment on the Group financial position as at 31 December 2018.

Impact of Matching Adjustment £'000	With Matching Adjustment	Without Matching Adjustment	Difference
Technical Provisions	(37,176,667)	(38,430,951)	(1,254,284)
Solvency Capital Requirement	(2,851,386)	(4,566,745)	(1,715,359)
Minimum Capital Requirement	(693,307)	(1,122,147)	(428,840)
Basic Own Funds	3,685,638	2,638,013	(1,047,625)
Own Funds eligible to cover SCR	3,685,638	2,638,013	(1,047,625)
Own Funds eligible to cover MCR	3,581,647	2,534,022	(1,047,625)

The table above shows that in the scenario where the Group is not able to take credit for the Matching Adjustment, it would not have sufficient resources to cover the Solvency Capital Requirement. In this event, the Group would seek to implement the following actions in order to restore compliance:

- Restore its capital position through a capital injection from Swiss Re Group;
- Reduce its credit risk exposure through corporate bonds and other credit assets and match the liabilities with assets with a lower risk profile;
- Seek to hedge its equity and property risk; and
- Explore the opportunity to reduce longevity risk of their blocks of annuities through reinsurance arrangements.

Section D: Valuation for solvency purposes continued

11 Volatility Adjustment

The Volatility Adjustment is applied to certain annuities in the ReAssure Limited Non-Profit Fund and for all future policyholder-related liabilities in the NMWPF and WPF.

The table below shows the effect of the Volatility Adjustment on the Group financial position at 31 December 2018.

Impact of Volatility Adjustment £'000	With Volatility Adjustment	Without Volatility Adjustment	Difference
Technical Provisions	(37,176,667)	(37,275,217)	(98,550)
Solvency Capital Requirement	(2,851,386)	(2,868,162)	(16,776)
Minimum Capital Requirement	(693,307)	(697,501)	(4,194)
Basic Own Funds	3,685,638	3,624,410	(61,228)
Own Funds eligible to cover SCR	3,685,638	3,624,410	(61,228)
Own Funds eligible to cover MCR	3,581,647	3,520,419	(61,228)

Ark Life does not apply any volatility adjustment.

12 Transitional Measures (unaudited)

No Group company has applied the transitional risk-free interest rate structure allowed by regulations.

ReAssure has applied the TMTP as a deduction to Technical Provisions (TDTP) as allowed by Article 308d.

Ark Life has not applied any TMTP.

The table below shows the effect of the TMTP on the Group financial position at 31 December 2018.

Impact of Transitional Measures to Technical Provisions (TMTP) £'000	With TMTP	Without TMTP	Difference
Technical Provisions	(37,176,667)	(37,948,960)	(772,293)
Solvency Capital Requirement	(2,851,386)	(2,949,722)	(98,336)
Minimum Capital Requirement	(693,307)	(717,891)	(24,584)
Basic Own Funds	3,685,638	3,028,023	(657,615)
Own Funds eligible to cover SCR	3,685,638	3,028,023	(657,615)
Own Funds eligible to cover MCR	3,581,647	2,924,032	(657,615)

The PRA gave approval for ReAssure to use a Partial Internal Model for the Solvency II Risk Margin and SCR in the 2018 year end balance sheet. As a consequence, ReAssure applied to recalculate the TMTP at 31 December 2018.

There is no adjustment at Group level to the TMTP used at individual level.

13 Simplifications

There are no significant simplifications used in the valuation of the Technical Provisions.

D3: Other liabilities

1 Valuation of other liabilities

Solvency II value for each material class of other liabilities for the Group as at 31 December 2018 is as follows:

2018 Other Liabilities £'000	**Solvency II Value**	**Solvency II Value**
Claims admitted but not yet paid	234,452	
Unallocated policyholder receipts, commission and insurance refunds due	30,309	
Insurance and intermediaries payables		**264,761**
Reinsurance payables		**126,931**
Due for investment purchases	159,321	
Other trade payables	183,655	
Payables (trade not insurance)		**342,976**
Other Liabilities		**1,745**
Total		**736,413**

Included in the total above are the other liabilities of Ark Life of £14 million.

2017 Other Liabilities £'000	Solvency II Value	Solvency II Value
Claims admitted but not yet paid	217,719	
Unallocated policyholder receipts, commission and insurance refunds due	24,579	
Due to Legal and General	650,000	
Insurance and intermediaries payables		**892,298**
Reinsurance payables		**92,635**
Due for investment purchases	120,846	
Corporation tax due	225,302	
Dividends due not yet paid	–	
Other trade payables	143,470	
Payables (trade not insurance)		**489,618**
Other Liabilities		**9,937**
Total		**1,484,488**

Included in the total above are the other liabilities of Ark Life of £18 million.

Other liabilities for ReAssure Limited as at 31 December 2018 are as follows:

2018 Other Liabilities £'000	**Solvency II Value**	**Solvency II Value**
Claims admitted but not yet paid	234,462	
Unallocated policyholder receipts, commission and insurance refunds due	29,992	
Insurance and intermediaries payables		**264,454**
Reinsurance payables		**122,004**
Amounts due to Group companies	348,206	
Due for investment purchases	158,662	
Other trade payables	53,937	
Payables (trade not insurance)		**560,805**
Other liabilities		**1,744**
Total		**949,007**

Section D: Valuation for solvency purposes continued

2017 Other Liabilities £'000	Solvency II Value	Solvency II Value
Claims admitted but not yet paid	217,719	
Unallocated policyholder receipts, commission and insurance refunds due	24,440	
Due to Legal and General	650,000	
Insurance and intermediaries payables		892,159
Reinsurance payables		87,485
Amounts due to Group companies	303,370	
Corporation tax due	226,002	
Due for investment purchases	120,846	
Other trade payables	30,851	
Payables (trade not insurance)		681,069
Other liabilities		9,937
Total		1,670,650

2 Valuation bases, methodologies and main assumptions for each material asset class

Other liabilities are valued at the transaction price on initial recognition. This is considered to be a fair economic value consistent with Solvency II principles. At the reporting date all amounts are payable within one year and liabilities are recorded at the undiscounted cash amount to be paid.

Claims amounts due are calculated based on the contractual amount payable under the policy at the date of the liability event plus any interest that is due to the policyholder for late payment. The Group holds amounts for claims due where contact with the policyholder has been lost, although considerable efforts are made to contact any policyholders to whom amounts may be due.

Collateral posted held within other liabilities represents amounts received under a contract of reinsurance. Amounts received give the Group security over amounts that are expected to be due under the contract at a future date, given current conditions and assumptions.

Amounts due for corporation tax are based on estimated calculations of amounts due until the liability has been agreed with HMRC at which point provision is made for the actual amount payable. Estimated amounts due are based on internal calculations of liability based on understanding of the current legislative framework.

Other liabilities are valued in accordance with economic valuation principles and so the valuations are appropriate for Solvency II. Therefore, there are no differences between the values used in the financial statements and the valuation for solvency purposes.

3 Solvency II other provisions

The Group held provisions of £20 million at the year end. The Group has made provision for the closure of one of its offices and the related restructuring costs of £6 million. As a result of an internal thematic review, an additional provision of £10.3m has been recognised as at 31 December 2018 within other provisions (2017: £nil) in respect of charges for the attached benefits of paid-up policies.

4 Employee benefits

ReAssure MidCo Limited is the sponsor of one defined benefit scheme, the Admin Re Staff Pension Scheme ('ARSPS'), which is closed to future accruals. The scheme had just under 3,000 members at year-end.
The Group also operates an unfunded unapproved retirement benefit scheme or private retirement trust for one deferred member.

In accordance with Solvency II regulations the company values its scheme assets and liabilities in accordance with International Accounting Standard 19. The net asset for the schemes in the Solvency II balance sheet at 31 December 2018 was £13.4 million (2017 – £10.5 million liability).

The key assumptions used in the valuation of the scheme liabilities were as follows:

Assumptions	**2018 £'000**	2017 £'000
Discount rate	**2.9%**	2.6%
Inflation rate (RPI)	**3.4%**	3.4%
Inflation rate (CPI)	**2.4%**	2.4%
Rate of increase in salaries	**3.4%**	3.4%
Rate of increase in pensions	**3.4%**	3.4%
Rate of increase in deferred benefits in deferment	**2.4%**	2.4%

Mortality	**2018 £'000**	2017 £'000
Longevity at age 60 for current pensioners		
– Men	**28.6**	28.9
– Women	**30.1**	30.4
Longevity at age 60 for future pensioners currently aged 45		
– Men	**29.9**	30.3
– Women	**31.5**	31.8

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

£'000	**2018**	2017
Equities	137,443	148,962
Bonds	113,257	131,365
Gilts	73,713	91,260
Secure income	38,008	31,102
Cash	21,500	6,548
Total assets	**383,921**	**409,237**

In addition the Group has made a contribution into an escrow account the funds of which will be made available to the pension scheme should the scheme not achieve certain funding levels by 2025. The value in the escrow account at 31 December 2018 was £42 million. (2017: £42 million). Subsequent to the year-end ReAssure MidCo Limited contributed a further £17 million to the escrow account, taking the balance to £59 million.

5 Changes made to recognition or valuation bases in the period

There were no changes made to the recognition or valuation bases in the period.

6 Material differences between Solvency II and financial statement values for each material liability class

For each material liability class, no significant differences exist between the bases used, methodologies adopted or assumptions applied for solvency valuation purposes and those used for the financial statements valuation in individual company financial statements. The Group does not publish consolidated Group financial statements.

Section D: Valuation for solvency purposes continued

D4: Alternative methods for valuation

1 Identification of assets subject to mark to model valuation techniques

All land and buildings held by the Group use a mark to model valuation technique. Illiquid investments such as commercial mortgages and infrastructure loans are valued using AVM. Other than properties and illiquid investments, an immaterial amount of assets, predominantly bonds, are valued using AVM. In addition, certain derivative positions are valued by alternative valuation techniques.

2 Justification for using mark to model techniques for valuing assets

Investment properties

Investment properties are subject to AVM due to the absence of a tradable financial market for which identical or similar properties are frequently exchanged to provide common and credible market prices. Investment properties are valued by specialists equipped with a wealth of available resources, wide-ranging expertise, access to a large array of market sensitive information and an up-to-date knowledge base.

Illiquid corporate bonds

The use of alternative valuation methods to price a small number of corporate bonds is justified because no actively traded market prices are available.

Mortgages and loans

The use of alternative valuation methods is necessary as these investments generally have no open market observable prices.

Derivatives

Certain derivative positions held by the Group are more bespoke holdings often held to hedge very long term annuity liabilities. These may not have an active market and as a result there may be no open market price that can be used for valuation purposes. Where this is the case derivatives are valued on a mark to model basis.

3 Documentation of assumptions underlying the mark to model valuation

Changes in valuation model and inputs used

There have been no material changes during the period to valuation models or the inputs used.

Investment properties

The Group uses property valuation experts to support the valuation of all investment property held within the property fund.

The process for valuing investment properties encompasses a degree of subjectivity in estimating the probability of realising expected future rental income and future resale values. Property valuations are broadly made using two types of assumptions;

- Property-specific assumptions (e.g. opinions of market rent); and
- Valuation assumptions (outlined in the annual valuation report, the contract and general terms of business).

Property valuation experts and surveyors adhere to the professional reference known as the RICS 'Red Book' when making valuation assumptions. The Red Book contains mandatory rules, best practice guidance and related commentary for all members of RICS conducting property valuations. It also offers a useful reference resource for valuation users and other stakeholders.

Valuations are based on the assumption of vacant possession and properties are subject to regular inspection. Valuation estimates reflect usual deductions in respect of purchasers' costs, full liability for legal costs, agents' fees and stamp duty applicable at valuation date. No provisions are made in the asset valuation for expenses of realisation, potential capital gains tax or VAT chargeable on disposal. It is assumed that there is good and marketable title and properties are free of mortgage, charge or other debt security with no deductions for such charge or debt. Properties are assumed to be in good structural condition, meeting statutory requirements and complying with planning regulation. It is assumed that properties are not, nor are likely to be, affected by land contamination and that there are no ground conditions which would affect the present or future uses of the properties. The emergence of categorical evidence regarding property contamination will be reflected in a property valuation.

Corporate bonds

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

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

Accessibility to finance supported by a UK government backed sovereign guarantee is assumed for those local authority bonds with no market price modelled using alternative valuation models. The Public Works Loans body has the ability to grant loans to local authorities and therefore the main risk consideration is liquidity exposure. The multiple applied currently to the illiquidity premiums is two for calculating the spread over UK Gilts and deducing the price of the Local Authority Bond.

Mortgages and loans

When pricing illiquid investments the Group uses suitable traded gilts and bonds as a reference to arrive at a suitable assumption for the illiquidity premium to use in the price modelling. The Group will also use fund managers with experience in these investment types to benchmark assumptions and prices against their experience of observed prices for illiquid investments where they have traded at an open market valuation.

Derivatives

Where pricing models are used for derivatives, the Group uses industry standard pricing models using the derivative contract specifics. These use market observable metrics such as currency exchange rates, index values, current (and forward) interest rate curves in a given currency and, for contracts with optionality, volatilities. Typically these metrics would be sourced from external data providers and fed into valuation models.

4 Assessment of valuation uncertainty surrounding mark to model techniques used

Investment properties

Commercial and residential properties are traded less frequently than assets such as listed equities and therefore a lack of liquidity increases the challenge to easily assess and attribute accurate prices. Inherent uncertainties prevail in any method of valuing property. There are different types of uncertainty which include:

- Property valuations based on opinion which cannot be quantified;
- Market conditions at the time of valuation (particularly in rapidly moving markets);
- Property-specific issues (e.g. will the tenant vacate at lease expiry or renew); and
- Investment Approach.

Valuation assessments are made on the basis of collation and analysis of appropriate comparable investment and rental transactions, together with evidence of demand within the vicinity of the respective properties. With the benefit of such transactions, valuation experts then apply these factors to individual properties, taking into account size, location, lease terms, covenant strength and other material applicable factors. Uncertainty is further reduced by harnessing multiple sources of quality information, including external benchmarks, in-house and industry-specific databases.

Other valuation uncertainties concern properties where few or no similar properties exist within close vicinity upon which to base a valuation opinion. A scarcity of comparable local properties places greater weighting on the surveyors' own opinion. While there is an element of subjectivity to a surveyor's assessment, each valuation should be reviewed and subject to sign-off. Further analysis may be undertaken by property analysts to independently review a valuation, discuss their findings with the surveyor and provide a report updating senior management or partners to secure a final decision.

Section D: Valuation for solvency purposes continued

Corporate bonds

All models are subject to limitations and uncertainties. For private placement bonds, the spreads applied can vary within a range of approximately 200 basis points. Private placement asset holdings are relatively small, therefore the margin of error is deemed immaterial in terms of the entire portfolio.

Models subject to liquidity premiums typically feature a higher frequency of uncertainty. Where a liquidity premium is applied, this factor is highly variable on a day-to-day basis although the liquidity multiple which the bonds are marketed at is reviewed once a month to reflect the buy and hold nature of the bonds. In addition to the size of the holdings, maturity is also given consideration versus the total portfolio size. Sizes are small with an aggregate of below 1% of the portfolio. When considering these factors, they equate to an insignificant contribution in terms of duration and market value to the overall portfolio.

Mortgages and loans

While these assets are not generally traded actively in an open market there is an active new issue market and assets are traded between willing buyers and sellers. Valuation uncertainly is reduced by taking valuation advice from fund management experts who deal frequently in these asset types, whether that is on the primary issue market or the secondary market. The residual valuation uncertainly inherent in these asset types is not considered to be material with respect to the overall size of the portfolio.

Derivatives

Valuation uncertainties are reduced by using market observable data in pricing models wherever this is possible. In addition, model results are subject to price verification review as part of the standard price verification process.

5 Comparison of the valuations against experience

Investments valued by alternative valuation methods are generally towards the more illiquid end of the scale and in some cases, particularly infrequently traded bonds, mortgages and infrastructure loans, they will often be held to maturity. In such cases the valuations used, which reflect cash flows at an appropriate discount rate, will be a close match to actual experience.

Property assets are also infrequently traded with disposals often reflecting a particular opportunity. That opportunity might be both positive (to realise as asset a premium to valuation) or negative (to dispose of a poorly performing property or one that no longer fits the strategic aim of the property portfolio). While this may mean that experience of property assets is that they can realise both a premium and a discount to valuation, overall property valuations would be supported by values realised from disposals. Over time, the Group has not experienced material detriment from the realisation of property below the valuation attributed in the balance sheet.

In the derivatives market prices, are generally set using standard derivative models and the Group would expect to be able to realise derivative assets at or close to balance sheet valuation if that was required.

D5: Any other information

There are no material differences between valuation methods applied at a Group level and those applied at a solo level.

Section E: Capital management

In this section:

Section E: Capital management

E1: Own Funds

1 Objectives, policies and processes employed for managing Own Funds

Own Funds are managed in line with the documented capital management policy of the Group. The capital management policy for ReAssure MidCo Limited is an annex to the Swiss Re legal entity capitalisation policy and includes features specific to ReAssure MidCo Group UK legal entities. It is also consistent with the ReAssure MidCo Group business unit legal entity guidelines.

The minimum capitalisation is determined by the regulatory requirements of EIOPA delegated acts, applicable to life insurance companies. The summary objectives of the capital policy are as follows:

- At all times ensure that ReAssure MidCo Limited and all subsidiary companies maintain capital resources consistent with regulatory requirements and adopted risk appetites;
- At all times ensure each operating entity maintains adequate liquidity within its total financial resources to ensure ability to discharge liabilities as and when they fall due;
- When entering into material new business transactions ensure access to and commitment of adequate levels of Swiss Re Group financial resources to support the underwriting of the new business transaction and no material change to the residual post transaction risk profile of the ReAssure MidCo Group operating companies;
- To utilise as appropriate Intra-Group financial instruments to manage the transfer of risk capital and emergent profit streams between Swiss Re Group corporate entities; and
- To document the capital management policy specific to the with-profit funds, which is to be compliant with what is set out in the individual fund's Principles and Practices of Financial Management.

The Own Funds held must be sufficient to absorb shocks at the level set out in the Group's risk appetite. The Group's adopted risk appetite is an aggregate operating model such that it has sufficient operating capital to absorb the loss consistent with a 1 in 200 year risk event materialising within the following 12 month period and still have adequate resources to discharge in full its policyholder liabilities as they fall due. The risk appetite framework sets macro concentration limits to exercise control over the exposure to individual risk factors. Risk limits apply to each category within insurance risks, market, credit, and operational risk.

For Non-Profit funds, the primary capital management target of a ReAssure insurance company is to maintain a minimum excess Solvency II capital resources of 20% of Solvency II SCR, subject to the discretion of the Board and on the interaction of the buffer with any specific capital margins required by either Court Order or the PRA. There is an additional floor that the target capital should exceed 50% of the exposure to Swiss Re Group and its subsidiaries (where surplus Own Funds is defined as Own Funds less SCR). This is measured as 50% of the decrease in surplus Own Funds were Swiss Re to default on their obligations to ReAssure MidCo Group. This target will from time to time be reviewed by the Board. Excess capital should be managed to within a range of 90% to 110% of the target capital.

To the extent that a specific material risk event crystallises, or there is a fundamental change in the perception of the potential liability for a specific insurance risk category necessitating increased capital resources after applying a consistent risk appetite standard, ReAssure Group will seek additional financial resources from Swiss Re Group. The level of resources sought would be such as to maintain capital levels in excess of capital requirements at a level consistent with those applicable before the given change in perception or actual event. The precise form of those additional resources may utilise any form of acceptable Intra-Group financial instrument including effective risk transfer from ReAssure MidCo Group to other Swiss Re Group entities as opposed to increasing absolute financial resources in ReAssure MidCo Group.

The capital position of the ReAssure MidCo Group insurance companies is formally reported to management committees at least monthly, with full valuations at least six monthly. Projected positions are reported periodically as revised assessments are performed. Key drivers of the position are monitored more frequently with daily updates of the bond portfolio position. At the Board's discretion, an additional buffer may be held to ensure the solvency target capitalisation is maintained at all times. Any dividend calculation will maintain the buffer set by the Board, but it is possible that experience variations may temporarily cause resources to fall below that level. If the buffer is expected to be irrevocably breached then the same process for securing additional capital resources as noted above for a specific material risk event or change in reserving standard will apply.

The with-profit funds are managed in accordance with the provisions of the relevant PPFM, run-off plan, and any prior Scheme of Transfer:

- For the With-Profit fund a run-off plan has been put into effect that evaluates the distributable surplus.
- A similar run-off plan has been implemented for the NM With-Profit fund. The run-off plan also takes into account certain principles established as part of the original demutualisation.
- For the Guardian With-Profit fund, subject to any minimum guaranteed amount, the long term aim is to pay 100% of asset shares on surrender, death and maturity.

Consistent with these requirements, the ability of the funds to meet their capital requirements will be assessed taking into account any additional Board approved management actions that are not already reflected in capital projections. In particular, recourse to past miscellaneous surplus to meet the SCR is permitted.

Swiss Re Group is a complex financial services business with multiple regulated constituent businesses operating in multiple regulatory jurisdictions. The precise form of capital support available to ReAssure MidCo Group companies will depend on Swiss Re Group's preferred source of funding, taking into account the ReAssure MidCo Group company's current capital and liquidity structure.

ReAssure MidCo Group capital funding may take the form of one or more of the following:

- Actual cash financing by way of formal shareholder capital contribution;
- Increased paid up share capital, ordinary or preference;
- Contingent loan financing;
- Ordinary loan finance;
- Partial or complete portfolio securitisation; and
- Reassurance – both Intra-Group and independent third party.

This list is illustrative and not exhaustive and all forms of capital funding can be considered. The actual form of capital funding selected will be influenced by the circumstances applying at the time the capital is required (including consideration of the relevant provisions of EIOPA guideline 36). Reassurance, securitisation or repayment of specific existing financial instruments will be the mechanisms by which ReAssure MidCo Group companies may repay capital or transfer emerging profits to connected Swiss Re Group companies in addition to explicit dividend payments where these are permissible.

When Intra-Group reassurance is utilised between the ReAssure MidCo Group and other Swiss Re Group companies, ReAssure MidCo Group's capital requirements will make appropriate allowance for Intra-Group financial exposure and the explicit risk of default consistent with the stated risk appetite. Detailed capital plans are prepared as projections for the current year and forecasts for the next three years.

As noted under business and performance the Group is exploring the possibility of an Initial Public Offering. In the event of an IPO the Group would review its capital management policy and capital structure to ensure that it was appropriate for the proposed change in ownership. In doing so the group would ensure that high quality loss absorbing capital and strong capital buffers are maintained for the protection of policyholders.

Section E: Capital management continued

Capital Management of the With-Profit Funds

With-profit funds are managed in line with the PPFM. All with-profit funds are being managed with the aim of distributing the estate over the remaining term of the policies in the fund. With-profit plans are managed in accordance with the provisions of the relevant PPFM, run-off plan and any prior scheme of transfer.

2 Business planning time horizon for Own Funds

Projections of Own Funds are made over the three year business planning period, including related stress and scenario tests. For items that are expected to cause major changes to Own Fund balances, such as acquisitions of closed blocks of business, the impact of the event on Own Funds is typically projected over the entire life of the block of business.

3 Structure, amount and quality of Own Funds for each tier at reporting end and previous reporting end dates

As at 31 December 2018, ReAssure MidCo Group had £3,686 million (2017: £3,865 million) of capital resources on a Solvency II basis. A summary of the capital resources, at year end and at the prior year end, split by tier is shown below:

Solvency II Capital & Reserves 31 December 2018 £'000	**Tier 1**	**Tier 2**	**Tier 3**	**Total**
Share capital	73,051	–	–	73,051
Share premium	83,911	–	–	83,911
Reconciliation reserve	2,868,617	–	–	2,868,617
Amount equal to value of deferred tax assets	–	–	103,990	103,390
Surplus funds	556,068	–	–	556,068
Total	3,581,647	–	103,990	3,685,637

Solvency II Capital & Reserves 31 December 2017 £'000	Tier 1	Tier 2	Tier 3	Total
Share capital	73,051	–	–	73,051
Share premium	83,911	–	–	83,911
Reconciliation reserve	3,036,145	–	–	3,036,145
Amount equal to value of deferred tax assets	–	–	–	–
Surplus funds	672,204	–	–	672,204
Total	3,865,311	–	–	3,865,311

The Group has no ancillary Own Funds. The Group has no subordinated or other debt instruments.

4 Analysis of significant changes to Own Funds over the reporting period

Changes in Own Funds over the period are as follows:

Own Fund item £'000	**2018**	2017	Change
Share capital	**73,051**	73,051	–
Share premium	**83,911**	83,911	–
Surplus funds	**556,068**	672,204	(116,136)
Reconciliation reserve	**2,868,617**	3,036,145	(167,528)
Amount equal to value of deferred tax assets	**103,990**	–	103,990
Total	**3,685,637**	3,865,311	(179,674)

The share capital and share premium accounts are unchanged over the reporting period. The decrease in surplus funds arises from the decrease in the with-profit fund surplus assets which reflects the negative environment for investment returns during the year. The key reasons for the changes in the reconciliation reserve are set out in the table below:

Change in reconciliation reserve	£'000
Decrease in retained earnings in year	(176,760)
With Profit fund restrictions applied	113,222
Change in deferred tax asset	(103,990)
Total movement	(167,528)

Aside from the regular emergence of surplus (most notably from unit linked business), the following items were the major positive contributors to retained earnings during the year:

- Income from non-linked investment income; and
- Income from the risk transfer agreement with Legal and General.

These were offset by the impact of an increase in the provision for future Group expenses where a number of changes to assumptions have been made based on an update Group business plan, resulting in the net decrease in retained earnings reported above.

5 Information for each type of basic Own Fund item

ReAssure MidCo Group's capital items have been reviewed separately and classified in accordance with the regulations. The Group's basic Own Funds are primarily categorised as Tier 1 which consists of share capital, share premium, surplus funds and the reconciliation reserve as it meets the following criteria:

- Ranks after all other claims in the event of winding-up proceedings;
- Does not include any features which may cause the insolvency of the insurance or reinsurance undertaking or may accelerate the process of the undertaking becoming insolvent;
- Is immediately available to absorb losses;
- Is not dated;
- Is free from encumbrances; and
- The Group has full flexibility over the distributions on the basic own-fund items.

ReAssure MidCo Group has no tier 2 capital items.

ReAssure MidCo Group has a deferred tax asset in its Solvency II balance sheet. In accordance with the relevant guidance an amount representing the value of deferred tax assets is recorded as tier 3 capital in Own Funds.

6 Eligible amount of Own Funds to cover the MCR and SCR classified by tiers

All of the Group's Tier 1 Own Funds (total Own Funds less the amount equal to the value of deferred tax assets) are eligible to cover the MCR. There are no restrictions on the capital available to cover the SCR and the Group does not exceed any of the test thresholds which would require restrictions to be placed on the availability of Own Funds. The following tables summarises the available capital.

Total available Own Funds to meet the MCR/SCR	**2018 £'000**	2017 £'000
Total Own Funds	**3,685,637**	3,865,311
Total eligible Own Funds to meet the SCR	**3,685,637**	3,865,311
An amount equal to the value of net deferred tax assets	**103,990**	–
Own Funds available to meet the MCR	**3,581,647**	3,865,311

7 Solvency ratio, calculated as eligible Own Funds as a percentage of the SCR

The solvency ratio for the Group as at the year-end was 129% (2017 – 124%).

Section E: Capital management continued

8 Material differences between financial statements equity and excess assets over liabilities solvency value

ReAssure MidCo Group

The ReAssure MidCo Group is not required to produce published Group financial statements and so does not have a published Group financial statements equity. However the only differences between any IFRS valuation and excess assets on a Solvency II basis would be as a result of the valuation differences set out below.

The Technical Provisions under Solvency II would be lower than the Technical Provisions under IFRS. The basis for the calculation of the Solvency II Technical Provisions is set out in the Solvency II legislation and is based on the best estimate principle, with allowance for a Risk Margin. The Technical Provisions in any IFRS financial statements reflect the Solvency I regime where the Technical Provisions are calculated on a prudent basis with built in prudential margins, resulting in a higher total value than for Solvency II except for annuity technical provisions for which Solvency II valuations are used. Full details of the valuation of liabilities can be found in the valuation chapter D2.

Differences arise in the deferred tax provisions between Solvency II and IFRS due mainly to the technical provisions timing differences that arise due to the different methodologies for calculating technical provisions.

In accordance with the Solvency II legislation, the Present Value of In-Force (‘PVIF’) and Deferred Acquisition Costs (‘DAC’), which are intangible assets, would be ascribed a nil value in the Solvency II balance sheet and so would form a reconciling item between the two bases.

ReAssure Limited (solo entity)

ReAssure Limited publishes IFRS financial statements. The reconciliation between equity on an IFRS basis and the excess of assets over liabilities on a Solvency II basis is as follows:

Reconciliation of Solvency II excess assets to IFRS equity	Total £’000
Financial statements equity	2,347,094
Replace IFRS reserves with Solvency II technical provisions	2,687,317
Unallocated divisible surplus	146,605
Changes in deferred tax under SII	(248,609)
Intangible asset with nil value under SII	(663,641)
Current tax timing difference	(862)
Solvency II excess of assets over liabilities	4,267,904

Due to the different methodologies used the Technical Provisions will be lower on a Solvency II basis than on an IFRS basis. There is no risk margin on an IFRS basis. Differences arise in the deferred tax provisions between Solvency II and IFRS due mainly to the technical provisions timing differences that arise due to the different methodologies for calculating technical provisions.

In accordance with the Solvency II legislation, PVIF and DAC, which are intangible assets, would be ascribed a nil value in the Solvency II balance sheet and so form a reconciling item between the two bases.

9 Nature and amount of each basic own-fund item subject to transitional arrangements

No Own Funds items are subject to transitional arrangements.

10 Items deducted from Own Funds and significant restrictions affecting Own Funds availability & transferability

The Group has three ring fenced funds which contain with-profit business. Under Solvency II regulations at a company level the business must restrict the available surplus funds of a ring fenced fund to the extent that those funds are not available to fully absorb losses arising outside that ring fenced fund. As a result, a restriction of £466 million (2017 - £464 million) has been applied in the reconciliation reserve to the surplus arising within the ring fenced with profit funds which reduces the overall company Own Funds.

11 Key elements of the reconciliation reserve

The following table shows the key items making up the reconciliation reserve as at 31 December 2018:

	2018 Total £'000
Excess of assets over liabilities on the SII Balance Sheet	**4,151,634**
Other basic Own Fund items:	
Share capital	**(73,051)**
Share premium	**(83,911)**
Surplus funds	**(556,068)**
Deferred tax	**(103,990)**
Restricted Own Funds due to ring fencing	**(465,996)**
Foreseeable dividend	**-**
Reconciliation reserve	**2,868,618**

	2017 Total £'000
Excess of assets over liabilities on the SII Balance Sheet	5,249,393
Other basic Own fund items:	
Share capital	(73,051)
Share premium	(83,911)
Surplus funds	(672,204)
Deferred tax	-
Restricted Own Funds due to ring fencing	(463,082)
Foreseeable dividend	(921,000)
Reconciliation reserve	3,036,145

The reconciliation reserve represents the excess of assets over liabilities on the Solvency II Balance Sheet, subject to the adjustments outlined above. If other basic Own Funds items are represented specifically within Own Funds they are removed from the reconciliation reserve. This is because otherwise they would be double counted in Own Funds. The items in this category are share capital, share premium, surplus funds and an amount representing the value of deferred tax assets.

The reconciliation reserve is also restricted by the value of any surplus above the capital requirements of the ring fenced funds. This restriction is applied as the surplus within the ring fenced funds is not available to support the liabilities of other funds.

12 Items reducing the reconciliation reserve including foreseeable dividends and own shares held

The reconciliation reserve has not been reduced in respect of any foreseeable dividends (2017 - £921 million). There are no own shares are held by the Group.

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Section E: Capital management continued

13 Total excess assets over liabilities within ring-fenced funds

The Group has three ring fenced with profit funds. Details of the ring fenced funds are as follows:

- With-Profit fund (a 90:10 fund)
- National Mutual With-Profit fund (a 100:0 fund)
- Guardian With-Profit fund (a 90:10 fund).

All the with-profit funds are closed to new business and are in run off with a plan to distribute all the assets of the fund over the life of the remaining policies. The summary position of the with-profit funds is as follows:

Ring Fenced Funds Assets over Liabilities £'000	Excess Assets	WP fund SCR
With Profit fund	**20,403**	10,973
National Mutual fund	**27,127**	27,127
Guardian With Profit fund	**195,151**	112,522

Assets in the ring fenced WP funds support the liabilities and capital requirements of that fund only. Any excess of assets over liabilities and SCR cannot be used to support the SCR of the remaining part as the assets of the ring fenced fund are not available to support that fund.

The Group has a single matching adjustment fund from which surplus can only be removed following a profit and loss attribution exercise that is completed at year end. The following table shows the assets and liabilities within the matching adjustment fund:

Matching Adjustment Assets over Liabilities £'000	MA Assets	MA Liabilities
Matching Adjustment Portfolio	**12,393,799**	11,856,332

Surplus in the matching adjustment funds is available to cover both the MCR and the SCR.

14 Extent and reasons for significant restrictions, deductions or encumbrances, including any relating to participations

There are no significant restrictions, deductions or encumbrances relating to Own Funds items. As the Group QRTs are presented on a consolidated basis all participations have been eliminated and assets and liabilities of all participations are fully reflected in the individual line items of the balance sheet.

15 Calculation of Own Funds net of Intra-Group transactions

The Group balance sheet has been presented on a fully consolidated basis, with Intra-Group loans and inter-company balances eliminated on consolidation.

E2: Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR)

1 Value of SCR and MCR

In December 2018, the Group was given approval to use a Partial Internal Model for the calculation of its Group SCR. Under the PIM, the Internal Model is used to determine the capital requirements for the majority of the business and the Standard Formula is only used to determine the capital requirements for the with-profits funds and the economic exposure to the business acquired from Legal & General in 2017.

At 31 December 2018, the SCR for the Group was £2,851,386,000 (2017: £3,122,523,000) and the MCR was £693,307,000 (2017 restated: £783,881,000).

2 Value of SCR split by risk module

The table below shows the composition of the total Group SCR at 31 December 2018, together with the allowance for diversification and the loss absorbing capacity of deferred taxes, split by risk module and also split by that attributable to RAL solo and some additional expense provisions that are allowed for at Group level (Other).

The total Group SCR at 31 December 2018 comprises £2,332,075,000 from business using the Internal Model and £519,311,000 from business using the Standard Formula basis.

The equivalent table as at 31 December 2017 shows the Ark Life solo SCR separately whereas this year the RAL solo Internal Model SCR includes the Ark business on a look through basis.

Risk Module 2018 £'000	RAL solo	Other	Total Group
Market Risk	1,712,028	(13,439)	1,698,589
Life Risk	1,595,202	104,767	1,699,969
Health Risk	–	–	–
Default Risk	251,790	–	251,790
Migration Risk	486,980	–	486,980
Operational Risk	478,015	69,506	547,521
Diversification	(1,599,407)	(91,248)	(1,690,655)
Loss Absorbing Capacity of Technical Provisions	–	–	–
Loss Absorbing Capacity of Deferred Tax	(246,236)	103,428	(142,808)
Net SCR	**2,678,372**	**173,014**	**2,851,386**

The table below shows the composition of the total Group SCR at 31 December 2017, together with the allowance for diversification and the loss absorbing capacity of deferred taxes, split by risk module and also split by that attributable to RAL solo, Ark Life solo and some additional expense provisions that are allowed for at Group level (Other). Each legal entity in the Group applied the Standard Formula to calculate its SCR at 31 December 2017.

The following table follows the presentation of the Standard Formula result set out in the relevant QRT. In particular, as set out below, this initially calculates risks assuming no ring-fencing of funds for the purposes of diversification and no loss absorbing capacity of technical provisions. The with profits funds and the matching adjustment portfolio of RAL are ring-fenced for the purposes of loss calculation. So a further step in the Standard Formula calculation of the SCR is to add back diversification benefit that is not available due to ring-fencing of gains or losses (shown in the table below as "Adjustment due to aggregation").

The loss absorbency capacity of technical provisions is a deduction arising from the with profits funds where risks are reduced by the application of management actions. From 31 December 2018, the with-profits funds remain subject to Standard Formula and are not included in the SCR calculated using the PIM, so no diversification is calculated between these funds and the rest of the solo entity. Furthermore, the PIM incorporates ring-fencing of the matching adjustment portfolio directly into its calculation of diversification so does not require an adjustment due to aggregation. The risks arising from the with-profits funds have been presented above after the application of management actions, so no explicit deduction for loss absorbency of technical provisions is shown.

Risk Module 2018 £'000	RAL solo	Ark Life solo	Other	Total Group
Market Risk	2,734,521	53,532	15,709	2,803,762
Life Risk	1,278,466	70,944	38,694	1,388,104
Health Risk	33,215	5,308	(2,380)	36,143
Default Risk	21,425	6,339	(6,339)	21,425
Diversification	(755,282)	(33,129)	(17,670)	(806,081)
Adjustment due to aggregation	364,275	–	24,102	388,377
Operational Risk	115,696	4,257	4,324	124,277
Loss Absorbing Capacity of Technical Provisions	(629,841)	–	–	(629,841)
Loss Absorbing Capacity of Deferred Tax	(195,939)	(1,528)	(6,176)	(203,643)
Net SCR	2,966,536	105,723	50,264	3,122,523

Section E: Capital management continued

3 Use of simplified calculations

For the parts of the business whose SCR is determined using the Standard Formula, there is no use of simplified calculations for any of the risk modules.

4 Use of undertaking-specific parameters

For the parts of the business whose SCR is determined using the Standard Formula, no undertaking-specific parameters are applied in the Standard Formula calculation.

5 Capital add-on

No capital add-on has been imposed by the regulator on any Group company.

6 Inputs used to calculate the MCR

The Group MCR is equal to the sum of the solo MCRs for ReAssure and Ark.

7 Material changes to SCR and MCR since 31 December 2017

The Group SCR has decreased by £271,137,000 from £3,122,523,000 at 31December 2017 to £2,851,386,000 at 31 December 2018.

This change is mainly attributable to:

- £144,396,000 decrease in Standard Formula SCR due to lower equity risk following falls in equity market values;
- £168,723,000 decrease in Standard Formula SCR due to lower credit spread risk following a rise in credit spreads;
- £104,112,000 increase in Standard Formula SCR from an allowance for mass lapse risk relating to expenses at a Group level, included following industry guidance from EIOPA;
- £97,012,000 increase in Standard Formula SCR due to loss absorbing capacity of deferred tax reducing in response to a newly introduced reserve for Group expenses in the provisions on which company tax is calculated; and
- £140,450,000 decrease on transition from Standard Formula to the Group's PIM at 31 December 2018.

The MCR is the sum of the solo MCRs for ReAssure, Ark Life and any related undertakings, and has decreased by £90,574,000 from £783,881,000 at 31December 2017 to £693,307,000 at 31 December 2018. The MCR has changed during 2018, mainly in line with changes in the SCRs of the two solo companies, and due to the removal of Guardian Assurance as a related undertaking since its deauthorisation in 2018.

8 Loss absorbing capacity of deferred taxes (LACDT)

The LACDT is calculated separately for the non-profit fund and the three with-profit funds. In the case of the NMWPF, the nil shareholder participation in that fund means that no LACDT applies.

The calculation is carried out on both the trading profit calculations and an assessment of the impact of the valuation of the deferred tax assets relating to excess expenses and capital losses is computed.

The LACDT is limited to the lower of the deferred tax liability for trading profits and the corporation tax rate applied to the SCR.

The LACDT includes tax relief arising from the carry back of losses to the year preceding the valuation, capped at the lower of the actual tax paid and a normalised tax amount.

9 Loss absorbing capacity of deferred taxes (LACDT)

The Group calculates its SCR using an accounting consolidation-based method. This method considers the Group as a single entity and allows for diversification between insurance entities (between ReAssure Ltd and Ark Life for example) and between the service company and insurance entities.

The SCR for the Group is calculated by adding together the Internal Model and Standard Formula SCR components. Diversification between these two components is not allowed for.

The Group SCR broken down into its component parts at 31 December 2018 and 31 December 2017 is shown in the tables below:

2018 **£'000s**	**SCR**	**MCR**
ReAssure solo (including Ark solo for SCR)	**2,678,372**	**669,593**
Ark solo (MCR only)	**–**	**23,714**
Other Group entities	**97,012**	**–**
Pension scheme	**124,593**	**–**
Group expenses	**196,791**	**–**
Group diversification	**(245,382)**	**–**
Total ReAssure MidCo Group	**2,851,386**	**693,307**

For 2018, the pension scheme and Group expenses are added at an undiversified level and Group diversification has been calculated across the total. By contrast, for 2017, pension scheme and Group expenses were added at a diversified level with Group diversification shown between ReAssure and Ark. This is a presentational difference only. Previous results have not been restated to reflect this difference.

2017 £'000s	SCR	MCR
ReAssure solo	2,966,536	741,634
Ark solo	105,722	26,431
Removing inter-company loan & Ark Life equity in ReAssure MidCo Group	(43,492)	(10,874)
Group diversification	(19,821)	(4,955)
Pension scheme	59,722	14,930
Group expenses	53,856	13,464
Related undertaking Guardian Assurance		3,251
Total ReAssure MidCo Group	3,122,523	783,881

The Group SCR floor is £693,307,000 at 31 December 2018 (2017 £783,881,000).

E3: Use of the duration-based equity risk sub-module in the calculation of the SCR

No legal entity in the group uses the Standard Formula duration-based equity risk sub-module.

E4: Difference between the standard formula and any internal model used

1. Use of the Partial Internal Model

In December 2018, the Group was given approval to use the PIM to calculate the SCR. The group's PIM results are also widely used to support decision making, including setting the business strategy. The model is used to understand the key risks to the business and is integrated within the Risk Management framework.

As well as the calculation of the capital requirements within the financial results, other areas where output from the PIM are used include:

- Monitoring solvency capital requirements included in the Quarterly Risk and Solvency reports tabled to the Management Risk and Board Risk Committees;
- Consideration of solvency capital requirements in connection with the year-end dividend decision;
- Own Risk and Solvency Assessment (ORSA), which includes the determination of macro concentration limits used in the PIM (in addition to the calculation of those limits using the Standard Formula);
- Assessment of the capital impact on any new, updated or recaptured reinsurance arrangements;
- Investment strategy; and
- Assessment of the capital impact of new acquisitions.

Section E: Capital management continued

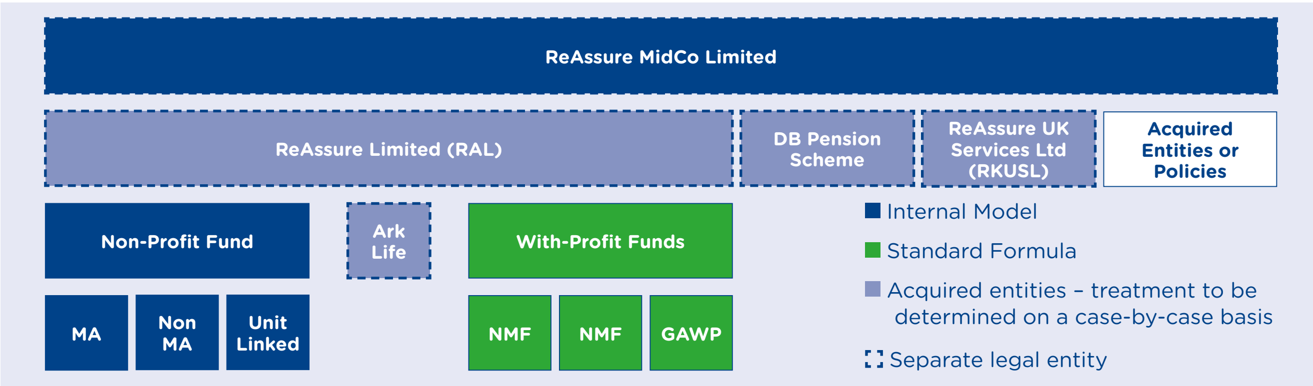
2. Scope of the Internal Model

The material legal entities within scope of the Internal Model component of the SCR calculation are as follows:

- ReAssure MidCo Limited
- Solo ReAssure legal entity (RAL)
- ReAssure UK Services Ltd (RUKSL)
- Solo Ark Life legal entity
- Staff defined benefit pension scheme

ReAssure Limited has three ring-fenced with-profit funds and, within the non-profit fund, economic exposure to the business acquired from Legal & General in 2017. The SCR requirement for these parts of the business is determined using the Standard Formula.

The scope of the Internal Model is summarised in the diagram below.



The main risk categories allowed for in the Internal Model are set out in E4.4.

The Internal Model and Standard Formula capital requirements are integrated together with no allowance for diversification in order to calculate the total SCR for ReAssure MidCo Limited and RAL.

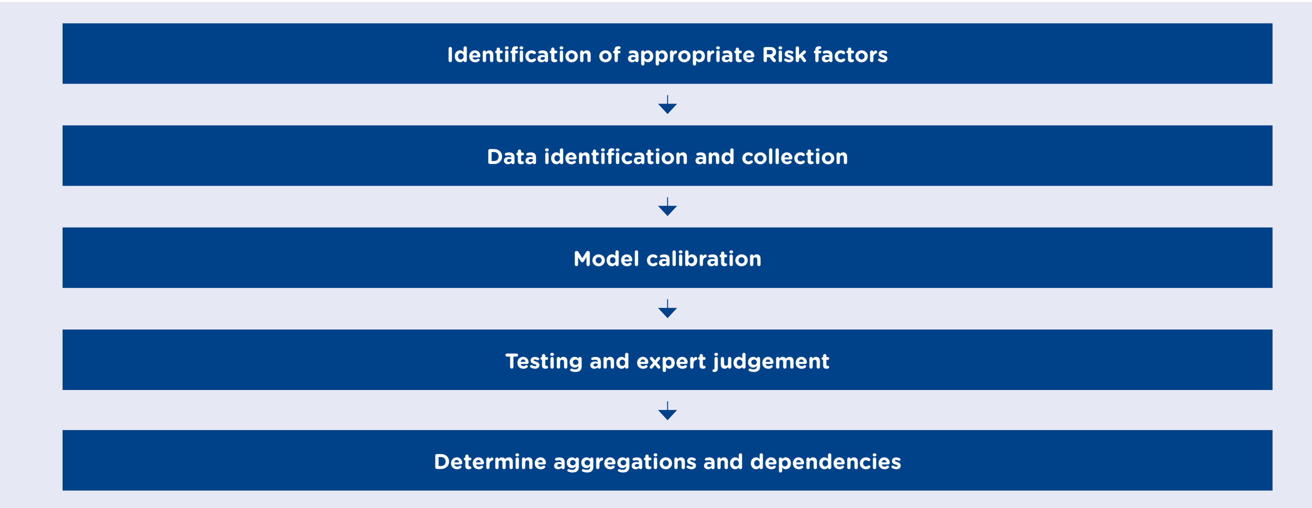
3. Internal Model Methodology

The Internal Model generates multiple realisations of real-world scenarios over one year the underlying risk-factor probability distributions and dependencies. The impact on the Group's basic Own Funds from each scenario is then ranked in order of magnitude to produce the full SCR distribution.

The SCR from the Internal Model uses a smoothed Value-at-Risk measure, centred around the 99.5th worst impact on basic Own Funds.

The calibration process used by the Group is summarised below.

Calibration process



ReAssure balances a number of considerations in the choice of risk factors for use in the internal model. The number of risk factors modelled has to be high enough to appropriately reflect the risk profile of the current business and flexible enough to adapt to changes in the future. Equally, the number of risk factors should not be so large as to result in an overly complex model that is difficult to interpret and manage operationally.

The granularity of risk factors must be supported by quality data. Data quality is assessed for the attributes of accuracy, completeness and appropriateness.

Once the most appropriate data for each risk factor has been chosen the probability distribution for each risk factor is then calibrated. This can be broken down into 3 activities:

- Determining the statistical properties that the distribution should have;
- Choosing the type of distribution that is appropriate to the properties identified; and
- Testing whether the chosen distribution is appropriate.

Expert judgement informed by data analysis is used to select the distributions for each risk factor and to set the parameters of these distributions.

As the Group is exposed to a large number of risks, individual risk factors are aggregated using a correlation structure that reflects the dependencies between them. The aggregate loss distribution is derived by summing the losses arising from each set of correlated risk realisations.

4. Methodology and assumption differences

The main differences between the Standard Formula and Internal Model are as follows:

- The Standard Formula comprises of a prescribed set of risk components, stresses and correlations, whereas under the Internal Model component of the PIM, the Group identifies and selects risk factors that reflect the specific risks that it is materially exposed to, subject to the Solvency II Internal Model requirements.
- Under the Standard Formula, the capital required for each risk is determined formulaically whereas, under the Internal Model, many thousands of simulations of the underlying risk factors are performed and aggregated to form a loss distribution that represents the change in the Group's basic Own Funds across all simulations.
- The Internal Model includes additional risk components that are not present under Standard Formula (e.g. inflation risk).

The table below summarises the principal differences in risk modelling between the Standard Formula and the Internal Model:

Section E: Capital management continued

Risk Component	Principal Differences Between Internal Model and Standard Formula
Market and credit risks	
Interest Rate risk	The Internal Model simulates a range of upward and downward shifts and twists in the risk free yield curve, compared to the prescribed upward and downward shift in interest rates considered by the Standard Formula. The Internal Model decomposes the risk free yield curve into the gilt interest rate and the spread of swaps over gilts.
Equity risk	The Internal Model contains a number of risk factors to represent global stock markets, including dependency assumptions. The Standard Formula uses two types of prescribed equity stresses – Type 1 for listed EEA and OECD markets and Type 2 for other countries and unlisted/alternative equities.
Property risk	Property risk is a small risk for ReAssure and is modelled by a single risk factor. The Standard Formula applies a stress to the value of all immovable property.
Spread risk	The Internal Model simulates a range of credit spread widening and narrowing to corporate bond and similar assets. An allowance is made for the impact of the Matching Adjustment. The Standard Formula applies a credit widening stress to corporate bond type assets.
Concentration risk	There is no explicit allowance for concentration risk in the Internal Model. Instead, concentration risk is implicitly recognised in the default and migration risk calculation. The Standard Formula explicitly assesses concentration risk via a prescribed risk driver.
Currency risk	The Internal Model assesses currency risk using a number of risk factors (including correlation assumptions). The Standard Formula considers the most onerous impact of an upwards and downwards movement in foreign exchange rates.
Inflation risk	The Internal Model explicitly considers inflation via the use of a number of risk factors. In contrast, inflation risk is not a component of the Standard Formula.
Migration risk	The Internal Model considers migration risk by simulation of the financial impact of bond migrations. Migration risk is not an explicit component of the Standard Formula.
Default risk	Under the Internal Model, the default model considers exposure to reinsurance, cash and bond counterparties by simulating the probability of default and the loss given default. Under the Standard Formula, counterparty defaults are assessed under prescribed rules which allows for the probability of default and the loss given default.
Insurance risks	
Mortality risk	Under the Internal Model, mortality risk factors are applied to all protection and savings business and consider the impact of a stress to mortality rates. The Standard Formula applies a prescribed permanent increase in mortality rates to classes of business that are adversely impacted by this stress.
Longevity risk	The Internal Model considers two longevity stresses – a stress to base mortality rates, plus a rate of long term improvement in future mortality rates. This latter is known as a “trend stress”. Under the Standard Formula, only the base mortality rates are stressed.

Risk Component	Principal Differences Between Internal Model and Standard Formula
Insurance risks continued	
Disability – morbidity risk	The Internal Model applies disability/morbidity stresses to all protection and savings business that are exposed to these risks. A similar approach is adopted by the Standard Formula.
Lapse risk	The Internal Model considers two types of lapse stress – a stress to base lapse rates plus a one-off shock lapse. Specific consideration is given to policies with valuable options (for example Guaranteed Annuity Options, or GAOs). The Standard Formula uses the most onerous of a number of prescribed stresses (including one mass lapse scenario).
Expense risk	The Internal Model applies an expense stress to the cost base (including potential one-off increases in expenses). No explicit allowance is made for expense inflation, which is considered as part of inflation risk. The Standard Formula applies a stress which combines expense levels and future expense inflation.
Operational risks	
Operational risk	The Internal Model considers potential losses from a number of operational risk categories (for example, fraud, operational failures, etc.) using a frequency and severity approach. These losses are then combined using a dependency approach. The Standard Formula applies a single factor based stress to premium income.

5. Internal Model Data

The key data used in the Internal Model comprises the following types:

- Financial market data – the calibration of financial market risk factors uses external data (e.g. MSCI equity indices, Merrill Lynch corporate bond indices, etc.);
- Historic policy claims experience data – comprises a number of years of historic actual claims recorded on the Group's in-force book of business;
- Historic lapse experience data – comprises a number of years of historic lapse experience split into a number of types of policy;
- Internal asset data;
- Liability and policy data;
- Operational risk data; and
- Other data that does not fall into the categories above (e.g. national mortality tables that describe general population mortality experience and internal loss experience data used to inform the calibrations for the operational risk module).

E5: Non-compliance with the MCR and the non-compliance with the SCR

The Group complied with the Solvency Capital Requirement and the Minimum Capital Requirement throughout 2018.

E6: Any other information

There is no other material information to be presented.

Section F: Other information

In this section:

F1: Glossary

Acronym	Meaning
ALM	Asset Liability Modelling
AMC	Annual Management Charge
API	Annual Performance Incentive
Ark Life	Ark Life Assurance Company dac
AVM	Alternative Valuation Method
BEL	Best Estimate Liability
BLAGAB	Basic Life Assurance and General Annuity Business
CBI	Central Bank of Ireland
DTA	Deferred Tax Asset
DTL	Deferred Tax Liability
ERIP	Equity Release Income Plan
FA 2012	Finance Act 2012
FCA	Financial Conduct Authority
GAL	Guardian Assurance Limited
GAO TUR	Guaranteed Annuity Option Take-Up Rate
GIA	Group Internal Audit
GAWPF	Guardian Assurance With-Profit Fund (a 90:10 with-profit fund of ReAssure Limited)
ICA	Individual Capital Assessment
ICAS	Individual Capital Adequacy Standards
IGRs	Intra Group Retrocessions
IFRS	International Financial Reporting Standards
LACDT	Loss Absorbing Capacity of Deferred Tax
LP	Liquidity Premium
LPP	Leadership Performance Plan
MA	Matching Adjustment
MCR	Minimum Capital Requirement
NMWPF	National Mutual Fund (a 100:0 with-profit fund of ReAssure Limited)
OIEC	Open Ended Investment Company
PIM	Partial Internal Model
PPFM	Policy and Practice of Financial Management
PRA	Prudential Regulation Authority
PVIF	Present Value of In-Force
QMP	Quoted Market Price
QRT	Quantitative Reporting Template
ReAssure MidCo Group	The Solvency II Group headed by ReAssure MidCo Group Limited
RAGL	ReAssure Group Limited
RAL	ReAssure Limited
RFF	Ring Fenced Fund
RLL	ReAssure Life Limited (Note Guardian Assurance was renamed ReAssure Life Limited before subsequently being renamed back to Guardian Assurance).
RSU	Restricted Share Units
RGA	RGA Global Reinsurance Company Limited
SCR	Solvency Capital Requirement
SI	Solvency I
SII	Solvency II
TP	Technical Provisions
UDS	Unallocated Divisible Surplus
UL	Unit-Linked
VA	Volatility Adjustment
VAI	Value Alignment Incentive
WP	With-Profit
WPF	With-Profit Fund (a 90:10 with-profit fund of ReAssure Limited)
the Group	The Solvency II Group headed by ReAssure MidCoGroup Limited

Section F: Glossary continued

F2: SFCR QRT Templates

Group – ReAssure MidCo Limited, Solo – ReAssure Limited)

ReAssure MidCo Limited

Balance sheet (S.02.01.02)

		£000s
		Solvency II value
Assets		C0010
Goodwill	R0010	
Deferred acquisition costs	R0020	
Intangible assets	R0030	0
Deferred tax assets	R0040	103,990
Pension benefit surplus	R0050	15,151
Property, plant & equipment held for own use	R0060	14,764
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	19,735,384
Property (other than for own use)	R0080	332,078
Holdings in related undertakings, including participations	R0090	3,304
Equities	R0100	410,522
Equities - listed	R0110	410,522
Equities - unlisted	R0120	0
Bonds	R0130	17,739,530
Government Bonds	R0140	5,276,953
Corporate Bonds	R0150	12,389,935
Structured notes	R0160	58,562
Collateralised securities	R0170	14,080
Collective Investments Undertakings	R0180	1,237,189
Derivatives	R0190	12,761
Deposits other than cash equivalents	R0200	0
Other investments	R0210	0
Assets held for index-linked and unit-linked contracts	R0220	20,093,816
Loans and mortgages	R0230	1,178,247
Loans on policies	R0240	4,028
Loans and mortgages to individuals	R0250	440
Other loans and mortgages	R0260	1,173,779
Reinsurance recoverables from:	R0270	951,993
Non-life and health similar to non-life	R0280	0
Non-life excluding health	R0290	0
Health similar to non-life	R0300	0
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	951,993
Health similar to life	R0320	26,213
Life excluding health and index-linked and unit-linked	R0330	925,780
Life index-linked and unit-linked	R0340	0
Deposits to cedants	R0350	0
Insurance and intermediaries receivables	R0360	20,603
Reinsurance receivables	R0370	150,153
Receivables (trade, not insurance)	R0380	244,450
Own shares (held directly)	R0390	0
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	0
Cash and cash equivalents	R0410	61,432
Any other assets, not elsewhere shown	R0420	1,286
Total assets	R0500	42,571,270

ReAssure MidCo Limited

Balance sheet (S.02.01.02)

		£000s
		Solvency II value
Liabilities		C0010
Technical provisions – non-life	**R0510**	0
Technical provisions – non-life (excluding health)	**R0520**	0
Technical provisions calculated as a whole	**R0530**	0
Best Estimate	**R0540**	0
Risk margin	**R0550**	0
Technical provisions - health (similar to non-life)	**R0560**	0
Technical provisions calculated as a whole	**R0570**	0
Best Estimate	**R0580**	0
Risk margin	**R0590**	0
Technical provisions - life (excluding index-linked and unit-linked)	**R0600**	17,841,574
Technical provisions - health (similar to life)	**R0610**	271,248
Technical provisions calculated as a whole	**R0620**	14,919
Best Estimate	**R0630**	241,816
Risk margin	**R0640**	14,513
Technical provisions – life (excluding health and index-linked and unit-linked)	**R0650**	17,570,326
Technical provisions calculated as a whole	**R0660**	0
Best Estimate	**R0670**	16,979,438
Risk margin	**R0680**	590,888
Technical provisions – index-linked and unit-linked	**R0690**	19,335,093
Technical provisions calculated as a whole	**R0700**	19,928,523
Best Estimate	**R0710**	(709,037)
Risk margin	**R0720**	115,607
Other technical provisions	**R0730**	
Contingent liabilities	**R0740**	0
Provisions other than technical provisions	**R0750**	19,764
Pension benefit obligations	**R0760**	1,778
Deposits from reinsurers	**R0770**	103,855
Deferred tax liabilities	**R0780**	249,709
Derivatives	**R0790**	110,447
Debts owed to credit institutions	**R0800**	21,003
Financial liabilities other than debts owed to credit institutions	**R0810**	0
Insurance & intermediaries payables	**R0820**	264,761
Reinsurance payables	**R0830**	126,932
Payables (trade, not insurance)	**R0840**	342,976
Subordinated liabilities	**R0850**	0
Subordinated liabilities not in Basic Own Funds	**R0860**	0
Subordinated liabilities in Basic Own Funds	**R0870**	0
Any other liabilities, not elsewhere shown	**R0880**	1,745
Total liabilities	**R0900**	38,419,636
Excess of assets over liabilities	**R1000**	4,151,634

Section F: Glossary continued

ReAssure MidCo Limited

Premiums, claims and expenses by line of business (S.05.01.02) (Life business only as no non-life).

		Line of Business for: life insurance obligations						Life reinsurance obligations		
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	Total
		C0210	**C0220**	**C0230**	**C0240**	**C0250**	**C0260**	**C0270**	**C0280**	**C0300**
Premiums written		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Gross	**R1410**	41,234	6,199	411,265	344,866	0	0	34	1,188	804,786
Reinsurers' share	**R1420**	4,447	0	161	398,451	0	0	0	0	403,060
Net	**R1500**	36,786	6,199	411,104	(53,585)	0	0	34	1,188	401,726
Premiums earned										
Gross	**R1510**	41,234	6,199	411,265	344,866	0	0	34	1,188	804,786
Reinsurers' share	**R1520**	4,447	0	161	398,451	0	0	0	0	403,060
Net	**R1600**	36,786	6,199	411,104	(53,585)	0	0	34	1,188	401,726
Claims incurred										
Gross	**R1610**	85,268	274,973	1,884,353	1,370,378	0	0	93	24,791	3,639,856
Reinsurers' share	**R1620**	5,875	0	263	455,953	0	0	0	0	462,090
Net	**R1700**	79,393	274,973	1,884,090	914,425	0	0	93	24,791	3,177,765
Changes in other technical provisions										
Gross	**R1710**	0	0	0	0	0	0	0	0	0
Reinsurers' share	**R1720**	0	0	0	0	0	0	0	0	0
Net	**R1800**	0	0	0	0	0	0	0	0	0
Expenses incurred	**R1900**	1,992	9,007	41,160	72,101	0	0	0	0	124,260
Other expenses	**R2500**									65,458
Total expenses	**R2600**									189,718

ReAssure MidCo Limited

Premiums, claims and expenses by country (S.05.02.01) (Life business only as no non-life).

		Home Country	Total Top 5 and home country	Top 5 countries (by amount of gross premiums written) - life obligations				
	R1400			(IE) Ireland				
		C0220	C0280	C0230	C0230	C0230	C0230	C0230
Premiums written		£000s	£000s	£000s	£000s	£000s	£000s	£000s
Gross	R1410	715,759	804,786	89,027				
Reinsurers' share	R1420	363,744	403,060	39,315				
Net	R1500	352,015	401,726	49,711				
Premiums earned								
Gross	R1510	715,759	804,786	89,027				
Reinsurers' share	R1520	363,744	403,060	39,315				
Net	R1600	352,015	401,726	49,711				
Claims incurred								
Gross	R1610	3,431,381	3,639,856	208,474				
Reinsurers' share	R1620	428,429	462,090	33,661				
Net	R1700	3,002,952	3,177,765	174,813				
Changes in other technical provisions								
Gross	R1710	0	0	0				
Reinsurers' share	R1720	0	0	0				
Net	R1800	0	0	0				
Expenses incurred	R1900	110,075	124,260	14,185				
Other expenses	R2500		65,458					
Total expenses	R2600		189,718					

Section F: Glossary continued

ReAssure MidCo Limited

Impact of long term guarantees and transitional measures (S.22.01.22).

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0210	**C0220**	**C0230**		**C0240**
		£000s	£000s	£000s		£000s
Technical provisions	**R0100**	37,176,667	772,293	0	98,550	1,254,284
Basic own funds	**R0110**	3,685,638	(657,614)	0	(61,187)	(1,089,368)
Eligible own funds to meet Solvency Capital Requirement	**R0120**	3,685,638	(657,614)	0	(61,187)	(1,089,368)
Solvency Capital Requirement	**R0210**	2,851,386	100,536	0	16,775	1,642,412

ReAssure MidCo Limited
Own funds (S.23.01.22).

Basic own funds before deduction for participations in other financial sector		Total C0010	Tier 1 - unrestricted C0020	Tier 1 - restricted C0030	Tier 2 C0040	Tier 3 C0050
		£000s	£000s	£000s		£000s
Ordinary share capital (gross of own shares)	R0010	73,051	73,051			
Non-available called but not paid in ordinary share capital at group level	R0020	0	0			
Share premium account related to ordinary share capital	R0030	83,911	83,911		0	
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040	0	0			
Subordinated mutual member accounts	R0050	0				
Non-available subordinated mutual member accounts at group level	R0060	0				
Surplus funds	R0070	556,068	556,068			
Non-available surplus funds at group level	R0080	0	0			
Preference shares	R0090	0				
Non-available preference shares at group level	R0100	0				
Share premium account related to preference shares	R0110	0				
Non-available share premium account related to preference shares at group level	R0120	0				
Reconciliation reserve	R0130	2,868,617	2,868,617			
Subordinated liabilities	R0140	0		0	0	0
Non-available subordinated liabilities at group level	R0150	0				
An amount equal to the value of net deferred tax assets	R0160	103,990				103,990
The amount equal to the value of net deferred tax assets not available at the group level	R0170	0				
Other items approved by supervisory authority as basic own funds not specified above	R0180	0				
Non available own funds related to other own funds items approved by supervisory authority	R0190	0				
Minority interests (if not reported as part of a specific own fund item)	R0200	0				
Non-available minority interests at group level	R0210	0				
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220					
Deductions						
Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities	R0230					
whereof deducted according to art 228 of the Directive 2009/138/EC	R0240					
Deductions for participations where there is non-availability of information (Article 229)	R0250					
Deduction for participations included by using D&A when a combination of methods is used	R0260					
Total of non-available own fund items	R0270					
Total deductions	R0280					
Total basic own funds after deductions	R0290	3,685,638	3,581,647	0	0	103,990
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
		£000s	£000s	£000s		£000s
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Non available ancillary own funds at group level	R0380					
Other ancillary own funds	R0390					

Section F: Glossary continued

ReAssure MidCo Limited continued

Own funds (S.23.01.22).

Total ancillary own funds	**R0400**					
Own funds of other financial sectors						
Reconciliation reserve	**R0410**					
Institutions for occupational retirement provision	**R0420**					
Non regulated entities carrying out financial activities	**R0430**					
Total own funds of other financial sectors	**R0440**					
Own funds when using the D&A, exclusively or in combination of method 1						
Own funds aggregated when using the D&A and combination of method	**R0450**					
Own funds aggregated when using the D&A and combination of method net of IGT	**R0460**					
Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	**R0520**	3,685,638	3,581,647	0	0	103,990
Total available own funds to meet the minimum consolidated group SCR	**R0530**	3,581,647	3,581,647			
Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	**R0560**	3,685,638	3,581,647	0	0	103,990
Total eligible own funds to meet the minimum consolidated group SCR	**R0570**	3,581,647	3,581,647	0	0	
Minimum consolidated Group SCR	**R0610**	693,307				
Ratio of Eligible own funds to Minimum Consolidated Group SCR	**R0650**	5.1660				
Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&A)	**R0660**	3,685,638	3,581,647			
Group SCR	**R0680**	2,851,386				
Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A	**R0690**	1.2926				

Reconciliation reserve		
Excess of assets over liabilities	**R0700**	4,151,634
Own shares (held directly and indirectly)	**R0710**	
Foreseeable dividends, distributions and charges	**R0720**	0
Other basic own fund items	**R0730**	817,020
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	**R0740**	465,996
Other non available own funds	**R0750**	
Reconciliation reserve before deduction for participations in other financial sector	**R0760**	2,868,617
Expected profits		
Expected profits included in future premiums (EPIFP) - Life business	**R0770**	1,131,986
Expected profits included in future premiums (EPIFP) - Non- life business	**R0780**	0
Total Expected profits included in future premiums (EPIFP)	**R0790**	1,131,986

ReAssure MidCo Limited

Solvency Capital Requirement - for undertakings using the standard formula and partial internal model (S25.02.22).

Unique number of component	Components description	Calculation of the Solvency Capital Requirement	Amount modelled	USP	Simplifications
C0010	**C0020**	**C0030**	**C0070**	**C0080**	**C0090**
102001	Interest Rate Risk – Up	38,109	0		
10320I	Interest Rate Risk – Rates Up Biting	679,470	679,470		
10400I	Equity Risk	959,571	396,965		
10600I	Property Risk	100,598	11,687		
10700I	Spread Risk	222,072	0		
10710I	Spread Risk – Bonds	2,194,628	2,194,628		
10720I	Migration Risk – Bonds	489,196	489,196		
10730I	Default Risk – Bonds	216,306	216,306		
1075AI	Spread Risk – Loans	372,221	372,221		
1075BI	Migration Risk – Loans	22,757	22,757		
1075CI	Default Risk – Loans	29,399	29,399		
107601	Liability change due to matching adjustments	(1,584,512)	(1,584,512)		
10799I	Diversification within Spread Risk	(31,210)	(31,210)		
10900I	Currency Risk	213,373	94,293		
11000I	Inflation Risk	145,983	145,983		
19900I	Diversification within market risk	(1,330,459)	(1,160,556)		
20100I	Type 1 Counterparty Risk	17,601	3,735		
30100I	Mortality Risk	76,162	45,936		
30200I	Longevity Risk	39,417	0		
30210I	Longevity Risk – Base Parameter	452,992	452,992		
30220I	Longevity Risk – Trend	1,010,280	1,010,280		
30250I	Longevity Risk – Proportion Married	98,600	98,600		
30299I	Diversification within Longevity Risk	(337,883)	(337,883)		
30300I	Disability-Morbidity Risk	24,883	24,883		
30400I	Mass Lapse Risk	603,340	392,732		
30510I	Other lapse risk – lapse parameter	228,836	228,836		
30599I	Diversification within lapse risk	(172,602)	(172,602)		
30600I	Expense Risk	196,335	170,844		
30800I	Life Catastrophe Risk	3,145	0		
399201	Diversification within life underwriting risk	(493,692)	(451,143)		
40300I	Health Disability – Morbidity Risk	18,090	18,090		
70100I	Operational Risk	547,521	528,313		
80200I	Loss-absorbing capacity of technical provisions	(479,446)	0		
80300I	Loss-absorbing capacity of deferred tax	(137,505)	(132,904)		
10310P	Interest Rate Risk – Rates Down Biting	119,355	119,355		
10400P	Equity Risk	68,654	68,654		
10710P	Spread Risk – Bonds	16,913	16,913		
10900P	Currency Risk	32,156	32,156		
11000P	Inflation Risk	32,156	32,156		
30210P	Longevity Risk – Base Parameter	8,146	8,146		
30220P	Longevity Risk – Trend	56,134	56,134		
30299P	Diversification within Longevity Risk	(5,574)	(5,574)		
80300P	Loss-absorbing capacity of deferred tax	(5,303)	(5,303)		

Section F: Glossary continued

ReAssure MidCo Limited continued

Solvency Capital Requirement - for undertakings using the standard formula and partial internal model (S25.02.22)

Calculation of Solvency Capital Requirement		**C0100**
Total undiversified components	**R0110**	4,808,088
Diversification	**R0060**	(1,956,702)
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	**R0160**	0
Solvency capital requirement, excluding capital add-on	**R0200**	2,851,386
Capital add-ons already set	**R0210**	0
Solvency capital requirement for undertakings under consolidated method	**R0220**	2,851,386
Other information on SCR		
Amount/estimate of the overall loss-absorbing capacity of technical provisions	**R0300**	(479,446)
Amount/estimate of the overall loss-absorbing capacity of deferred taxes	**R0310**	(142,808)
Capital requirement for duration-based equity risk sub-module	**R0400**	0
Total amount of Notional Solvency Capital Requirements for remaining part	**R0410**	1,267,683
Total amount of Notional Solvency Capital Requirements for ring fenced funds	**R0420**	150,623
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	**R0430**	1,433,080
Diversification effects due to RFF nSCR aggregation for article 304	**R0440**	
Minimum consolidated group solvency capital requirement	**R0470**	693,307
Information on other entities		
Capital requirement for other financial sectors (Non-insurance capital requirements)	**R0500**	0
Capital requirement for other financial sectors (Non-insurance capital requirements) - Credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies	**R0510**	0
Capital requirement for other financial sectors (Non-insurance capital requirements) - Institutions for occupational retirement provisions	**R0520**	0
Capital requirement for other financial sectors (Non-insurance capital requirements) - Capital requirement for non-regulated entities carrying out financial activities	**R0530**	0
Capital requirement for non-controlled participation requirements	**R0540**	0
Capital requirement for residual undertakings	**R0550**	0
Overall SCR		
SCR for undertakings included via D and A	**R0560**	0
Solvency Capital Requirement	**R0570**	2,851,386

ReAssure MidCo Limited

Undertakings in the scope of the group (S.32.01.22)

							Criteria of Influence				Criteria of influence		Inclusion in the scope of group supervision		Group solvency calculation
Country	Identification code of the undertaking	Legal name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory Authority	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	YES/NO	Date of decision if art. 214 is applied	Method used and under method 1, treatment of the undertaking
(GB) United Kingdom	LEI/213800288SWHO9SYPM36	G Financial Services Ltd	(99) Other	Limited by shares	(2) Non-mutual		1.000000	1.000000	1.000000	Centalised risk management	(1) Dominant	1.000000	(1) Included in the scope		(3) Method 1: Adjusted equity method
(GB) United Kingdom	LEI/2138003URY7NYBK77767	G Trustees Limited	(99) Other	Limited by shares	(2) Non-mutual		1.000000	1.000000	1.000000	Centalised risk management	(1) Dominant	1.000000	(1) Included in the scope		(3) Method 1: Adjusted equity method
(GB) United Kingdom	LEI/2138006XCBKUGVOLOT84	ReAssure Trustees Ltd	(99) Other	Limited by shares	(2) Non-mutual		1.000000	1.000000	1.000000	Centalised risk management	(1) Dominant	1.000000	(1) Included in the scope		(3) Method 1: Adjusted equity method
(GB) United Kingdom	LEI/2138008XWGP2LK6Z9532	ReAssure Pension Trustees Limited	(99) Other	Limited by shares	(2) Non-mutual		1.000000	1.000000	1.000000	Centalised risk management	(1) Dominant	1.000000	(1) Included in the scope		(3) Method 1: Adjusted equity method
(GB) United Kingdom	LEI/2138009JDIENFDLD9M78	Namulas Pension Trustees Limited	(99) Other	Limited by shares	(2) Non-mutual	Financial Conduct Authority (FCA)	1.000000	1.000000	1.000000	Centalised risk management	(1) Dominant	1.000000	(1) Included in the scope		(1) Method 1: Full consolidation
(GB) United Kingdom	LEI/2138009SCXYSOTLSXH75	NM Life Trustees Limited	(99) Other	Limited by shares	(2) Non-mutual		1.000000	1.000000	1.000000	Centalised risk management	(1) Dominant	1.000000	(1) Included in the scope		(3) Method 1: Adjusted equity method
(GB) United Kingdom	LEI/213800BOL8WLP4I7SA44	ReAssure Nominees Limited	(99) Other	Limited by shares	(2) Non-mutual		1.000000	1.000000	1.000000	Centalised risk management	(1) Dominant	1.000000	(1) Included in the scope		(3) Method 1: Adjusted equity method
(GB) United Kingdom	LEI/213800G9IQ6CXE3IY637	ReAssure FS Limited	(99) Other	Limited by shares	(2) Non-mutual		1.000000	1.000000	1.000000	Centalised risk management	(1) Dominant	1.000000	(1) Included in the scope		(3) Method 1: Adjusted equity method
(GB) United Kingdom	LEI/213800GYRULRXGODMH68	ReAssure UK Life Assurance Company Limited	(99) Other	Limited by shares	(2) Non-mutual		1.000000	1.000000	1.000000	Centalised risk management	(1) Dominant	1.000000	(1) Included in the scope		(3) Method 1: Adjusted equity method
(GB) United Kingdom	LEI/213800JRB5W4GNWQU717	ReAssure MidCo Limited	(6) Mixed-activity insurance holding company as defined in Article 212(1) (g) of Directive 2009/138/EC	Limited by shares	(2) Non-mutual								(1) Included in the scope		(1) Method 1: Full consolidation
(GB) United Kingdom	LEI/213800JSKEG8KHZF9G80	BL Telford Limited	(99) Other	Limited by shares	(2) Non-mutual		1.000000	1.000000	1.000000	Centalised risk management	(1) Dominant	1.000000	(1) Included in the scope		(3) Method 1: Adjusted equity method
(GB) United Kingdom	LEI/213800L9MD2TYUF2M658	G Assurance & Pensions Services Ltd	(99) Other	Limited by shares	(2) Non-mutual		1.000000	1.000000	1.000000	Centalised risk management	(1) Dominant	1.000000	(1) Included in the scope		(3) Method 1: Adjusted equity method

Section F: Glossary continued

ReAssure MidCo Limited continued

Undertakings in the scope of the group (S.32.01.22)

							Criteria of Influence				Criteria of influence		Inclusion in the scope of group supervision		Group solvency calculation
Country	Identification code of the undertaking	Legal name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory Authority	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	YES/NO	Date of decision if art. 214 is applied	Method used and under method 1, treatment of the undertaking
(GB) United Kingdom	LEI/213800LU36TP1TUUMI19	G Life H Limited	(99) Other	Limited by shares	(2) Non-mutual		1.000000	1.000000	1.000000	Centalised risk management	(1) Dominant	1.000000	(1) Included in the scope		(3) Method 1: Adjusted equity method
(GB) United Kingdom	LEI/213800MTFCWA4G695463	NM Pensions Limited	(99) Other	Limited by shares	(2) Non-mutual		1.000000	1.000000	1.000000	Centalised risk management	(1) Dominant	1.000000	(1) Included in the scope		(3) Method 1: Adjusted equity method
(GB) United Kingdom	LEI/213800RKSNN1SLFPXO64	ERIP Limited Partnership	(99) Other	Limited by partnership	(2) Non-mutual		1.000000	1.000000	1.000000	Centalised risk management	(1) Dominant	1.000000	(1) Included in the scope		(1) Method 1: Full consolidation
(GB) United Kingdom	LEI/213800TVW97G2S3WAH16	ReAssure Life Limited	(99) Other	Limited by shares	(2) Non-mutual		1.000000	1.000000	1.000000	Centalised risk management	(1) Dominant	1.000000	(1) Included in the scope		(3) Method 1: Adjusted equity method
(GB) United Kingdom	LEI/213800UW8CON9XG6EY13	ReAssure FSH UK Limited	(5) Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC	Limited by shares	(2) Non-mutual		1.000000	1.000000	1.000000	Centalised risk management	(1) Dominant	1.000000	(1) Included in the scope		(1) Method 1: Full consolidation
(GB) United Kingdom	LEI/213800UZNVRPALQEDZ61	ReAssure PM Limited	(99) Other	Limited by shares	(2) Non-mutual		1.000000	1.000000	1.000000	Centalised risk management	(1) Dominant	1.000000	(1) Included in the scope		(3) Method 1: Adjusted equity method
(GB) United Kingdom	LEI/213800V2138XI4IYEZ47	ReAssure UK Services Limited	(10) Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Limited by Shares	(2) Non-mutual	Financial Conduct Authority (FCA)	1.000000	1.000000	1.000000	Centalised risk management	(1) Dominant	1.000000	(1) Included in the scope		(1) Method 1: Full consolidation
(GB) United Kingdom	LEI/213800WOC9UMRNV45O46	ReAssure Companies Service Limited	(10) Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Limited by shares	(2) Non-mutual		1.000000	1.000000	1.000000	Centalised risk management	(1) Dominant	1.000000	(1) Included in the scope		(1) Method 1: Full consolidation
(GB) United Kingdom	LEI/213800WYM9VABFBW4H22	ReAssure LL Limited	(99) Other	Limited by shares	(2) Non-mutual		1.000000	1.000000	1.000000	Centalised risk management	(1) Dominant	1.000000	(1) Included in the scope		(3) Method 1: Adjusted equity method
(GB) United Kingdom	LEI/213800ZFL26XQ7UIFU39	Gresham Life Assurance Society Limited	(99) Other	Limited by shares	(2) Non-mutual		1.000000	1.000000	1.000000	Centalised risk management	(1) Dominant	1.000000	(1) Included in the scope		(3) Method 1: Adjusted equity method
(GB) United Kingdom	LEI/5493004S4OGUNITLEY46	ERIP General Partner Limited	(99) Other	Limited by shares	(2) Non-mutual		0.800000	1.000000	0.800000	Centalised risk management	(1) Dominant	1.000000	(1) Included in the scope		(3) Method 1: Adjusted equity method
(GB) United Kingdom	LEI/BQYCTFWOEM1JRDE6F109	ReAssure Limited	(1) Life insurance undertaking	Limited by Shares	(2) Non-mutual	Prudential regulation authority (PRA)	1.000000	1.000000	1.000000	None	(1) Dominant	1.000000	(1) Included in the scope		(1) Method 1: Full consolidation
(IE) Ireland	LEI/Q88N5RCPNGIJG1ZE0765	Ark Life Assurance Company dac* (Ireland)	(1) Life insurance undertaking	Limited by shares	(2) Non-mutual	Central Bank of Ireland (CBI)	1.000000	1.000000	1.000000	Centalised risk management	(1) Dominant	1.000000	(1) Included in the scope		(1) Method 1: Full consolidation

Solo – ReAssure Limited

Balance Sheet (S.02.01.02).

		£000s Solvency II value
Assets		**C0010**
Goodwill	**R0010**	–
Deferred acquisition costs	**R0020**	–
Intangible assets	**R0030**	0
Deferred tax assets	**R0040**	1,660
Pension benefit surplus	**R0050**	0
Property, plant & equipment held for own use	**R0060**	3,675
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	19,565,356
Property (other than for own use)	**R0080**	220,513
Holdings in related undertakings, including participations	**R0090**	453,396
Equities	**R0100**	410,522
Equities - listed	**R0110**	410,522
Equities - unlisted	**R0120**	0
Bonds	**R0130**	17,280,675
Government Bonds	**R0140**	4,818,098
Corporate Bonds	**R0150**	12,389,935
Structured notes	**R0160**	58,562
Collateralised securities	**R0170**	14,080
Collective Investments Undertakings	**R0180**	1,187,489
Derivatives	**R0190**	12,761
Deposits other than cash equivalents	**R0200**	0
Other investments	**R0210**	0
Assets held for index-linked and unit-linked contracts	**R0220**	18,544,490
Loans and mortgages	**R0230**	1,178,247
Loans on policies	**R0240**	4,028
Loans and mortgages to individuals	**R0250**	440
Other loans and mortgages	**R0260**	1,173,779
Reinsurance recoverables from:	**R0270**	588,859
Non-life and health similar to non-life	**R0280**	0
Non-life excluding health	**R0290**	0
Health similar to non-life	**R0300**	0
Life and health similar to life, excluding health and index-linked and unit-linked	**R0310**	588,859
Health similar to life	**R0320**	3,600
Life excluding health and index-linked and unit-linked	**R0330**	585,259
Life index-linked and unit-linked	**R0340**	0
Deposits to cedants	**R0350**	0
Insurance and intermediaries receivables	**R0360**	20,537
Reinsurance receivables	**R0370**	146,786
Receivables (trade, not insurance)	**R0380**	191,204
Own shares (held directly)	**R0390**	0
Amounts due in respect of own fund items or initial fund called up but not yet paid in	**R0400**	0
Cash and cash equivalents	**R0410**	42,080
Any other assets, not elsewhere shown	**R0420**	1,098
Total assets	**R0500**	40,283,992

Section F: Glossary continued

Solo – ReAssure Limited

Balance Sheet (S.02.01.02)

		£000s
		Solvency II value
Liabilities		**C0010**
Technical provisions – non-life	**R0510**	0
Technical provisions – non-life (excluding health)	**R0520**	0
Technical provisions calculated as a whole	**R0530**	0
Best Estimate	**R0540**	0
Risk margin	**R0550**	0
Technical provisions - health (similar to non-life)	**R0560**	0
Technical provisions calculated as a whole	**R0570**	0
Best Estimate	**R0580**	0
Risk margin	**R0590**	0
Technical provisions - life (excluding index-linked and unit-linked)	**R0600**	17,174,768
Technical provisions - health (similar to life)	**R0610**	248,342
Technical provisions calculated as a whole	**R0620**	14,919
Best Estimate	**R0630**	221,559
Risk margin	**R0640**	11,864
Technical provisions – life (excluding health and index-linked and unit-linked)	**R0650**	16,926,426
Technical provisions calculated as a whole	**R0660**	0
Best Estimate	**R0670**	16,358,830
Risk margin	**R0680**	567,596
Technical provisions – index-linked and unit-linked	**R0690**	17,524,031
Technical provisions calculated as a whole	**R0700**	18,394,543
Best Estimate	**R0710**	(971,539)
Risk margin	**R0720**	101,026
Other technical provisions	**R0730**	
Contingent liabilities	**R0740**	0
Provisions other than technical provisions	**R0750**	11,798
Pension benefit obligations	**R0760**	0
Deposits from reinsurers	**R0770**	103,855
Deferred tax liabilities	**R0780**	238,993
Derivatives	**R0790**	12,489
Debts owed to credit institutions	**R0800**	1,145
Financial liabilities other than debts owed to credit institutions	**R0810**	0
Insurance & intermediaries payables	**R0820**	264,454
Reinsurance payables	**R0830**	122,005
Payables (trade, not insurance)	**R0840**	560,806
Subordinated liabilities	**R0850**	0
Subordinated liabilities not in Basic Own Funds	**R0860**	0
Subordinated liabilities in Basic Own Funds	**R0870**	0
Any other liabilities, not elsewhere shown	**R0880**	1,745
Total liabilities	**R0900**	36,016,088
Excess of assets over liabilities	**R1000**	4,267,904

Solo – ReAssure Limited

Premiums, claims and expenses by line of business.

(LIFE ONLY (S.05.01.02)		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	Total
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
		Line of Business for: life insurance obligations						Life reinsurance obligations		
		C0210	**C0220**	**C0230**	**C0240**	**C0250**	**C0260**	**C0270**	**C0280**	**C0300**
Premiums written										
Gross	**R1410**	33,986	6,199	374,460	299,505	0	0	34	1,188	715,372
Reinsurers' share	**R1420**	0	0	0	363,491	0	0	0	0	363,491
Net	**R1500**	33,986	6,199	374,460	(63,986)	0	0	34	1,188	351,881
Premiums earned										
Gross	**R1510**	33,986	6,199	374,460	299,505	0	0	34	1,188	715,372
Reinsurers' share	**R1520**	0	0	0	363,491	0	0	0	0	363,491
Net	**R1600**	33,986	6,199	374,460	(63,986)	0	0	34	1,188	351,881
Claims incurred										
Gross	**R1610**	79,981	274,973	1,710,973	1,340,552	0	0	93	24,791	3,431,362
Reinsurers' share	**R1620**	1,089	0	0	427,319	0	0	0	0	428,408
Net	**R1700**	78,892	274,973	1,710,973	913,232	0	0	93	24,791	3,002,954
Changes in other technical provisions										
Gross	**R1710**	0	0	0	0	0	0	0	0	0
Reinsurers' share	**R1720**	0	0	0	0	0	0	0	0	0
Net	**R1800**	0	0	0	0	0	0	0	0	0
Expenses incurred	**R1900**	1,042	6,048	36,954	66,028	0	0	0	0	110,072
Other expenses	**R2500**									53,249
Total expenses	**R2600**									163,321

Section F: Glossary continued

Solo – ReAssure Limited

Premiums, claims and expenses by country

(LIFE ONLY) (S.05.02.01)		Home Country	Total Top 5 and home country	Top 5 countries (by amount of gross premiums written) - life obligations				
		£000s	£000s					
	R1400							
		C0220	**C0280**	**C0230**	**C0230**	**C0230**	**C0230**	**C0230**
Premiums written								
Gross	**R1410**	715,372	715,372					
Reinsurers' share	**R1420**	363,491	363,491					
Net	**R1500**	351,881	351,881					
Premiums earned								
Gross	**R1510**	715,372	715,372					
Reinsurers' share	**R1520**	363,491	363,491					
Net	**R1600**	351,881	351,881					
Claims incurred								
Gross	**R1610**	3,431,362	3,431,362					
Reinsurers' share	**R1620**	428,408	428,408					
Net	**R1700**	3,002,954	3,002,954					
Changes in other technical provisions								
Gross	**R1710**	0	0					
Reinsurers' share	**R1720**	0	0					
Net	**R1800**	0	0					
Expenses incurred	**R1900**	110,072	110,072					
Other expenses	**R2500**		53,249					
Total expenses	**R2600**		163,321					

Solo – ReAssure Limited

Life and Health SLT Technical Provisions (S12.01.02)

		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
			Index-linked and unit-linked insurance			Other life insurance		Other life insurance				Health insurance (direct business)					
		Insurance with profit participation		Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, incl. Unit-Linked)		Contracts without options and guarantees	Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	**Total (Health similar to life insurance)**
		C0020	**C0030**	**C0040**	**C0050**	**C0060**	**C0070**	**C0080**	**C0090**	**C0100**	**C0150**	**C0160**	**C0170**	**C0180**	**C0190**	**C0200**	**C0210**
Technical provisions calculated as a whole	**R0010**	0	18,353,805			0			0	40,738	18,394,543	14,919			0	0	14,919
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	**R0020**	0	0			0			0	0	0	0			0	0	0
Technical provisions calculated as a sum of BE and RM Best Estimate																	
Gross Best Estimate	**R0030**	2,936,484		(984,898)	13,360		13,278,102	795,710	0	(595,268)	15,443,490		221,247	0	0	312	221,559
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0080**	2,805		0	0		582,918	0	0	(464)	585,259		3,600	0	0	0	3,600
Best estimate minus recoverables from reinsurance/SPV and Finite Re - total	**R0090**	2,933,679		(984,898)	13,360		12,695,184	795,710	0	(594,803)	14,858,231		217,647	0	0	312	217,959
Risk margin	**R0100**	34,543	201,825			1,032,569			0	103,513	1,372,450	24,130			0	0	24,130
Amount of the transitional on Technical Provisions																	
Technical provisions calculated as a whole	**R0110**	0	0			0			0	0	0	0			0	0	0
Best Estimate	**R0120**	(1,027)		0	0		(105)	(4)	0	(55,063)	(56,199)		0	0	0	0	0
Risk margin	**R0130**	(13,659)	(100,799)			(485,857)			0	(103,513)	(703,828)	(12,266)			0	0	(12,266)
Technical provisions – total	**R0200**	2,956,341	17,483,293			14,620,415			0	(609,593)	34,450,456	248,030			0	312	248,342

Section F: Glossary continued

Solo – ReAssure Limited

Impact of long term guarantees and transitional measures (S22.01.21).

		£000s	£000s	£000s	£000s	£000s
		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	**C0030**	**C0050**	**C0070**	**C0090**
Technical provisions	**R0010**	34,698,798	35,471,092	0	98,550	1,254,284
Basic own funds	**R0020**	3,901,316	3,243,701	0	(61,187)	(1,087,168)
Eligible own funds to meet Solvency Capital Requirement	**R0050**	3,901,316	3,243,701	0	(61,187)	(1,087,168)
Solvency Capital Requirement	**R0090**	2,678,372	2,776,709	0	16,775	1,644,612
Eligible own funds to meet Minimum Capital Requirement	**R0100**	3,899,656	3,242,042	0	(61,187)	(1,129,230)
Minimum Capital Requirement	**R0110**	669,593	694,177	0	4,194	411,153

Solo - ReAssure Limited
Own funds (S.23.01.01)

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		£000s	£000s	£000s		£000s
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35		*C0010*	*C0020*	*C0030*	*C0040*	*C0050*
Ordinary share capital (gross of own shares)	**R0010**	288,977	288,977			
Share premium account related to ordinary share capital	**R0030**	133,966	133,966		0	
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	**R0040**	0	0			
Subordinated mutual member accounts	**R0050**					
Surplus funds	**R0070**	556,068	556,068			
Preference shares	**R0090**					
Share premium account related to preference shares	**R0110**					
Reconciliation reserve	**R0130**	2,920,645	2,920,645			
Subordinated liabilities	**R0140**			0	0	0
An amount equal to the value of net deferred tax assets	**R0160**	1,660				1,660
Other own fund items approved by the supervisory authority as basic own funds not specified above	**R0180**					
Own funds from the financial statements that shall not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that shall not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	**R0220**					
Deductions						
Deductions for participations in financial and credit institutions	**R0230**	0				
Total basic own funds after deductions	***R0290***	3,901,316	3,899,656	0	*0*	1,660
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	**R0300**					

Section F: Glossary continued

Solo – ReAssure Limited continued

Own funds (S.23.01.01)

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	**R0310**					
Unpaid and uncalled preference shares callable on demand	**R0320**					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	**R0330**					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	**R0340**					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	**R0350**					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	**R0360**					
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	**R0370**					
Other ancillary own funds	***R0390***					
Total ancillary own funds	**R0400**					
Available and eligible own funds						
Total available own funds to meet the SCR	**R0500**	3,901,316	3,899,656	0	0	1,660
Total available own funds to meet the MCR	**R0510**	3,899,656	3,899,656	0	0	
Total eligible own funds to meet the SCR	**R0540**	3,901,316	3,899,656	0	0	1,660
Total eligible own funds to meet the MCR	**R0550**	3,899,656	3,899,656	0	0	
SCR	**R0580**	2,678,372				
MCR	**R0600**	669,593				
Ratio of Eligible own funds to SCR	**R0620**	1.456599				
Ratio of Eligible own funds to MCR	**R0640**	5.823919				

Reconciliation reserve		
Excess of assets over liabilities	**R0700**	4,267,904
Own shares (held directly and indirectly)	**R0710**	0

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Foreseeable dividends, distributions and charges	**R0720**	0				
Other basic own fund items	**R0730**	980,671				
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	**R0740**	366,588				
Reconciliation reserve	**R0760**	2,920,645				
Expected profits						
Expected profits included in future premiums (EPIFP) - Life business	**R0770**	1,113,120				
Expected profits included in future premiums (EPIFP) - Non-life business	**R0780**					
Total EPIFP	**R0790**	1,113,120				

Section F: Glossary continued

Solo – ReAssure Limited

Solvency Capital Requirement - for undertakings using the standard formula and partial internal model (S25.02.01)

Unique number of component	Components description	Calculation of the Solvency Capital Requirement	Amount modelled	USP	Simplifications
C0010	C0020	C0030	C0070	C0080	C0090
10200I	Interest Rate Risk – Up	38,109	0		
10320I	Interest Rate Risk – Rates Up Biting	577,372	577,372		
10400I	Equity Risk	959,571	396,965		
10600I	Property Risk	100,598	11,687		
10700I	Spread Risk	222,072	0		
10710I	Spread Risk – Bonds	2,194,628	2,194,628		
10720I	Migration Risk - Bonds	489,196	489,196		
10730I	Default Risk – Bonds	216,306	216,306		
1075AI	Spread Risk – Loans	372,221	372,221		
1075BI	Migration Risk – Loans	22,757	22,757		
1075CI	Default Risk – Loans	29,399	29,399		
10760I	Liability change due to matching adjustment	(1,584,512)	(1,584,512)		
10799I	Diversification within Spread Risk	(31,210)	(31,210)		
10900I	Currency Risk	213,373	94,293		
11000I	Inflation Risk	65,365	65,365		
19900I	Diversification within market risk	(1,031,950)	(862,047)		
20100I	Type 1 Counterparty Risk	17,601	3,735		
30100I	Mortality Risk	76,162	45,936		
30200I	Longevity Risk	39,417	0		
30210I	Longevity Risk – Base Parameter	452,992	452,992		
30220I	Longevity Risk – Trend	1,010,280	1,010,280		
30250I	Longevity Risk – Proportion Married	98,600	98,600		
30299I	Diversification within Longevity Risk	(337,883)	(337,883)		
30300I	Disability-Morbidity Risk	24,883	24,883		
30400I	Mass Lapse Risk	603,340	392,732		
30510I	Other lapse risk – lapse parameter	228,836	228,836		
30599I	Diversification within lapse risk	(172,602)	(172,602)		
30600I	Expense Risk	43,448	17,957		
30800I	Life Catastrophe Risk	3,145	0		
39920I	Diversification within life underwriting risk	(493,692)	(451,143)		
40300I	Health Disability – Morbidity Risk	18,090	18,090		
40400I	Health SLT – Mass Lapse Risk	0	0		
70100I	Operational Risk	478,016	458,808		
80200I	Loss-absorbing capacity of technical provisions	(479,446)	0		
80300I	Loss-absorbing capacity of deferred tax	(246,236)	(241,635)		

Solo – ReAssure Limited continued

Solvency Capital Requirement - for undertakings using the standard formula and partial internal model (S25.02.01).

Calculation of Solvency Capital Requirement		C0100
Total undiversified components	R0110	4,180,139
Diversification	R0060	(1,711,238)
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	0
Solvency capital requirement, excluding capital add-on	R0200	2,678,372
Capital add-ons already set	R0210	0
Solvency Capital Requirement	R0220	2,678,372

Other information on SCR		
Amount/estimate of the overall loss-absorbing capacity of technical provisions	R0300	(479,446)
Amount/estimate of the overall loss-absorbing capacity of deferred taxes	R0310	(246,236)
Capital requirement for duration-based equity risk sub-module	R0400	0
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	1,094,670
Total amount of Notional Solvency Capital Requirements for ring fenced funds (other than those related to business operated in accordance with Art. 4 of Directive 2003/41/EC (transitional))	R0420	150,623
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	1,433,080
Diversification effects due to RFF nSCR aggregation for article 304	R0440	0

Solo – ReAssure Limited

Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity (S.28.01.01).

Linear formula component for non-life insurance and reinsurance obligations

		£000s
		C0010
MCRNL Result	R0010	0

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole £000s	Net (of reinsurance) written premiums in the last 12 months £000s
		C0020	C0030
Medical expense insurance and proportional reinsurance	R0020	0	0
Income protection insurance and proportional reinsurance	R0030	0	0
Workers' compensation insurance and proportional reinsurance	R0040	0	0
Motor vehicle liability insurance and proportional reinsurance	R0050	0	0
Other motor insurance and proportional reinsurance	R0060	0	0
Marine, aviation and transport insurance and proportional reinsurance	R0070	0	0
Fire and other damage to property insurance and proportional reinsurance	R0080	0	0
General liability insurance and proportional reinsurance	R0090	0	0
Credit and suretyship insurance and proportional reinsurance	R0100	0	0
Legal expenses insurance and proportional reinsurance	R0110	0	0
Assistance and proportional reinsurance	R0120	0	0
Miscellaneous financial loss insurance and proportional reinsurance	R0130	0	0
Non-proportional health reinsurance	R0140	0	0
Non-proportional casualty reinsurance	R0150	0	0
Non-proportional marine, aviation and transport reinsurance	R0160	0	0
Non-proportional property reinsurance	R0170	0	0

Linear formula component for life insurance and reinsurance obligations

		C0040
MCRL Result	R0200	388,158

		C0050	C0060
Obligations with profit participation – guaranteed benefits	R0210	1,404,884	
Obligations with profit participation – future discretionary benefits	R0220	1,564,275	
Index-linked and unit-linked insurance obligations	R0230	17,423,005	
Other life (re)insurance and health (re)insurance obligations	R0240	13,723,773	
Total capital at risk for all life (re)insurance obligations	R0250		9,287,727

Overall MCR calculation		C0070
Linear MCR	R0300	388,158
SCR	R0310	2,678,372
MCR cap	R0320	1,205,268
MCR floor	R0330	669,593
Combined MCR	R0340	669,593
Absolute floor of the MCR	R0350	3,288
Minimum Capital Requirement	R0400	669,593

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