Swiss Re

THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION FOR THE

PURPOSES OF ARTICLE 7 OF THE MARKET ABUSE REGULATION (EU)

596/2014.

Further details relating to the contents of this announcement can be obtained from:

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ReAssure Midco Limited

(Previously ReAssure Group Limited)

Annual report and financial statements 2018

Company Registration Number 02970583

Contents

Directors and officers

Board of Directors

Matthew Cuhls	
Brian Dunne	
James Gallagher	
Denise Larnder	(appointed on 01 January 2018)
Philip Long	(resigned 27 June 2018)
Rejean Besner	(appointed 27 June 2018, resigned 21 January 2019)
Ian Patrick	
Michael Yardley	Chairman

Company Secretary
Paul Shakespeare

Registered office
Windsor House
Telford Centre
Telford
Shropshire
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Company registration number
02970583

Strategic report for the year ended 31 December 2018

The directors present their strategic report for ReAssure Midco Limited ("the Company") for the year ended 31 December 2018.

These financial statements, for the year ended 31 December 2018, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU.

Business review and principal activities

The Company is incorporated and domiciled in England and Wales, part of the United Kingdom. It is a private company which is limited by shares. The principal activity of the Company is to provide strategic direction for the ReAssure group of companies ("the Group"), the principal operating entities of which are ReAssure Limited ("RAL") and ReAssure UK Services Limited ("RUKSL"). It acts as the parent undertaking of RAL, which conducts ordinary long-term insurance business in the United Kingdom, namely life assurance, pensions, permanent health and annuities. It also acts as the parent undertaking of RUKSL which is a supplier of management services. The Company aims to deliver growth through selective acquisitions. The Company is part of the Swiss Re group, a worldwide reinsurance and financial services provider.

As part of the wider business strategy to secure capital to fund new acquisitions, in October 2017 it was announced that MS&AD Insurance Group Holdings ("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 of the Company. This agreement to purchase 5% was accompanied by a commitment to invest up to £800m 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 £175m and on the same date a further 8.2% of RJOL for £330m. On 28 February 2018, MS&AD acquired a further 1.8% for £82m, bringing their total stake to 15% and their total investment to £587m. Prior to this deal, SwissRe ReAssure Midco Limited, another intermediate holding company, injected £650m into the Company. On 20 December 2018, it was announced that MS&AD would increase their stake to 25% for another £315m.

This injection of capital enabled the Group to pursue its principal acquisition activities. In December 2017 it agreed to purchase approximately 1.1 million policies from Legal & General for £650m. 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 the Group's position as a leading closed life book consolidator in the UK, with over 3 million owned policies in force. The reinsurance deal effecting the transaction was completed in January 2018, with a Part VII transfer expected during 2019, subject to regulatory approval.

During 2018, Swiss Re announced its intention to explore the potential for an Initial Public Offering ("IPO") of the Group on the London Stock Exchange in 2019. In the event of a successful IPO the Company will no longer be under the direct control of the Swiss Re Group.

The results for the year are set out on page 12. The loss for the year is £105.5m (2017: £1,026.6m profit). Net assets of the Company at 31 December 2018 are £3,252.8m (2017: £4,267.6m).

Key Performance Indicators

The primary financial key performance indicators ("KPIs") are disclosed in the Business review and principal activities section above. The following KPIs are some of the other measures used to monitor and manage risks facing the Company and the Group. Shareholder solvency ratio is an adjusted measure which takes the Group solvency ratio excluding the impact of the with-profit funds. The non-adjusted ratio which represents the regulatory basis would be 129% (2017: 124%). The RAL non-profit fund is comprised of assets backing insurance contract liabilities and surplus shareholder assets in RAL. Own policy counts are in respect of RAL.

	2018	2017
Shareholder solvency ratio – Group	131%	125%
Solvency ratio - RAL (non-profit fund)	146%	162%
Policy count - own policies	2,163,590	2,241,949
Policy count - third-party administered	924,492	1,044,460
Administration complaints per 1,000 policies	0.15	0.13

Capital Management

The Company is responsible for maintaining and managing its own capital, but also manages the capital of the Group. The Company's objectives when managing capital are to safeguard the ability of each entity within the Group to continue as a going concern, such that the Company can continue to provide returns for shareholders and to retain a capital structure that allows it to support its subsidiary companies as required and to take advantage of acquisition opportunities as they arise. In order to maintain or adjust the capital structure the Company may adjust the amount of dividends paid to its shareholders, return capital to shareholders or request capital support from other entities in the Swiss Re Group. In the event of an IPO, the ability to request capital support from Swiss Re entities would not be maintained. In support of these objectives the Company monitors its total equity as shown in the balance sheet on page 14 of the financial statements.

The table below sets out the Group's Solvency II coverage ratio (on a shareholder basis) as at 31 December 2018 on an actual basis and under certain capital stresses:

Solvency II coverage ratio	**131%**
A 1% credit spread widening:	132%
A 25% fall in GBP rates:	134%
A 25% fall in property values:	130%
A 10% change in lapse rates:	129%
A 25% fall in equity markets:	124%
A 40bps fall in interest rates:	126%

The above ratios are based on the Group's current shareholder asset portfolio. Of the £17bn of shareholder assets held by the group's subsidiaries, 93% are debt securities, with short term investments, commercial mortgage loans and other loans being 3%, 3% and 2% respectively. Over 99% of these assets are GBP denominated, and 70% of them are held in the Group's asset matching adjustment portfolio, and around 96% of the portfolio is rated investment grade with a weighted average rating of A-. The Group aims to maintain a strong sector diversity, with the highest individual sector holding at 31 December 2018 being financials at 30%, followed by sovereigns at 24%, utilities at 13%, and cyclical services at 9%.

The Company has historically maintained a target solvency ratio with a suitable buffer whilst paying out excess amounts above that solvency ratio via dividends to its shareholders.

Solvency ratio - ReAssure Limited (non-profit fund)

The Company acts as an investment holding company and has a substantial investment in one life assurance company, RAL, which in turn owns 100% of Ark Life Assurance, an Irish-based subsidiary. The solvency ratio of RAL (representing the amount of capital held above the regulatory minimum capital requirement) is a key measure of the financial health of this investment. Pressure on solvency within RAL may act as an indicator either that capital support might be required from the Company or that the value of its investment could be impaired. The directors are satisfied that at the year-end, and in the period since, RAL held sufficient solvency margin to meet regulatory obligations and operational requirements.

Administration complaints per 1,000 policies

The Company, via a subsidiary, monitors complaint numbers to ensure that policyholders are receiving a high standard of policy administration and so that issues arising can be investigated, and if appropriate, processes and procedures changed to ensure that complaints do not occur again. For own policies, the number of administration complaints received per 1,000 policies was 0.15 for 2018 (2017: 0.13).

Principal risks and uncertainties

The following have been defined as key business risks:

Financial risk is the risk the Company faces as a result of:

• any loan structures in place within the group;

• the need to provide capital to its subsidiaries; and

• other group loan commitments.

The Company mitigates financial risk through a quarterly capital planning cycle. Its main subsidiaries, RAL and RUKSL, also participate in this planning cycle, hence any capital requirements are factored into the Company's capital plan. There is also regular communication with Swiss Re Life Capital Ltd, an intermediate holding company, with regard to loan repayments and capital requirements.

Liquidity risk is the risk that cash may not be available to pay obligations. The Company monitors cash flow and performs variance analysis against actual cash held. The Company manages its liquidity risk by only paying out dividends and making capital repayments once income from its investments has been received and once all expenses have been covered. If there are timing differences between cash inflows and cash outflows then surplus cash is placed only with approved counter-parties or invested in high quality government or corporate bonds.

The Company is not exposed to currency or equity price risk other than through its investment in subsidiaries.

Additionally, as the Group participates in a defined benefit pension scheme, there is a risk that the cash contributions required to fund this scheme increase or decrease due to changes in factors such as investment performance, the rates used to discount liabilities and mortality changes. Any increase in deficit contributions will reduce the Company's cash flow. Decisions on pension scheme funding, asset allocation and benefit promises are taken by management in consultation with the pension scheme trustees and suitably qualified advisors. The board participates in major decisions on the funding and design of the pension schemes.

Expense risk is the risk that expenses may not be well controlled and unplanned increases in expenses may threaten the solvency of the Company. The Company mitigates this risk by having a robust budget and planning cycle as well as monthly variance reports and analysis. These reports are reviewed by relevant executives and cost centre managers and remedial action taken if required.

Approval

This report was approved by the Board of Directors on 14 May 2019 and signed by order of the Board:

Paul Shakespeare
Company Secretary
14 May 2019

Directors' report for the year ended 31 December 2018

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

Future outlook

The Company continues to look for opportunities to acquire further blocks of long-term insurance business. This is consistent with the desire of its ultimate parent company, Swiss Re Ltd, to offer life and pension administration solutions to direct insurance writers.

During 2018, Swiss Re announced its intention to explore the potential for an Initial Public Offering (IPO) of the ReAssure Group on the London Stock Exchange in 2019. In the event of an IPO the Company will no longer be under the control of the Swiss Re Group.

Financial risk management

Principal risks and uncertainties affecting the Company, including financial risks are explained in the strategic report.

Dividends

Dividends of £921.0m (2017: £891.0m) were paid during the year.

Directors

The directors of the Company who were in office during the year and up to the date of signing the financial statements are shown on page 2.

Qualifying third party indemnity provisions

The Company's directors are covered by the Swiss Re Ltd indemnity provision policy, which was in force during the financial year and at the date of signing the financial statements. This indemnifies directors in respect of payments, as well as any costs associated with legal proceedings brought by third parties. Any director who serves or served for the Company is covered to the fullest extent permitted by law and stated in the certificate of incorporation, articles of association, by-laws and other similar constituent documents of the Company. Swiss Re Ltd unconditionally guarantees payment of such sums by the Company.

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the directors are required to:

• select suitable accounting policies and then apply them consistently;

• state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;

• make judgements and accounting estimates that are reasonable and prudent; and

• prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

Independent Auditors

In the case of each director in office at the date the Directors' Report is approved:

- so far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

- they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

PricewaterhouseCoopers LLP have indicated their willingness to be reappointed for another term and appropriate arrangements have been put in place for them to be deemed reappointed as auditors in the absence of an Annual General Meeting.

By order of the Board of Directors

Paul Shakespeare
Company Secretary
14 May 2019

Independent auditors' report to the members of ReAssure Midco Limited (Previously ReAssure Group Limited)

Report on the audit of the financial statements

Opinion

In our opinion, ReAssure Midco Limited (Previously ReAssure Group Limited) 's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

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

Reporting on other information

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

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

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

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

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' responsibilities statement set out on page 8, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Philip Watson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
May 2019

Income Statement

For the year ended 31 December 2018

	Note	2018	2017
		£m	£m
Administrative expenses	4	(52.3)	(28.1)
Operating Loss		**(52.3)**	**(28.1)**
Net investment (expense)/income	3	(63.8)	1,057.0
(Loss)/Profit on ordinary activities before interest and taxation		**(116.1)**	**1,028.9**
Interest Income	5	0.9	0.8
Other finance income and expense	6	(0.2)	(1.1)
(Loss)/Profit on ordinary activities before taxation		**(115.4)**	**1,028.6**
Tax on (loss)/profit on ordinary activities	9	9.9	(2.0)
(Loss)/profit for the financial year		**(105.5)**	**1,026.6**

All results derive from continuing operations.

Statement of Comprehensive Income

For the year ended 31 December 2018

	Note	2018 £m	2017 £m
(Loss)/Profit for the financial year		**(105.5)**	**1,026.6**
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Actuarial gain on defined benefit pension schemes	**15**	23.4	32.7
Movement in related deferred tax	**12**	(11.8)	(5.5)
Total other comprehensive income		**11.6**	**27.2**
Total comprehensive (loss)/income for the year		**(93.9)**	**1,053.8**

Balance Sheet

As at 31 December 2018

	Note	2018 £m	2017 £m
Non-current assets			
Investment in group undertakings	**25**	2,952.8	4,100.1
Debt securities		38.2	13.6
Deferred tax asset	**12**	-	7.8
		2,991.0	**4,121.5**
Current assets			
Current tax asset		9.9	-
Other receivables	**13**	19.7	7.1
Cash and cash equivalents	**14**	259.4	178.7
		289.0	**185.8**
Total Assets		**3,280.0**	**4,307.3**
Non-current liabilities			
Deferred tax liability	**12**	(4.0)	-
Pension scheme liability		(1.8)	(10.4)
		(5.8)	**(10.4)**
Current liabilities			
Current tax liability		(0.4)	(2.0)
Trade and other payables	**16**	(21.0)	(27.3)
Total liabilities		**(27.2)**	**(39.7)**
Net Assets		**3,252.8**	**4,267.6**
Equity			
Share Capital	**17**	73.1	73.1
Share Premium		83.9	83.9
Other Reserves	**18**	1,360.8	1,360.8
Retained Earnings		1,735.0	2,749.8
Total Equity		**3,252.8**	**4,267.6**

The financial statements of ReAssure Midco Limited (formerly ReAssure Group Limited), (registered number 02970583) were approved by the Board of Directors and authorised for issue on 14 May 2019 and signed on its behalf by:

Matthew Cuhls
Director
14 May 2019

Statement of Changes in Equity

For the year ended 31 December 2018

	Attributable to owners of the Company				
	Share capital £m	**Share premium £m**	**Other reserves £m**	**Retained earnings £m**	**Total equity £m**
1 January 2018	73.1	83.9	1,360.8	2,749.8	**4,267.6**
(Loss)/Profit for the financial year	-	-	-	(105.5)	**(105.5)**
Other comprehensive income for the year	-	-	-	11.7	**11.7**
Total comprehensive (expense)/income for the year	**-**	**-**	**-**	**(93.8)**	**(93.8)**
Capital contribution	-	-	-	-	**-**
Dividends paid during the year	-	-	-	(921.0)	**(921.0)**
At 31 December 2018	**73.1**	**83.9**	**1,360.8**	**1,735.0**	**3,252.8**

For year ended 31 December 2017

	Attributable to owners of the Company				
	Share capital £m	**Share premium £m**	**Other reserves £m**	**Retained earnings £m**	**Total equity £m**
1 January 2017	73.1	83.9	710.8	2,587.0	**3,454.8**
(Loss)/Profit for the financial year	**-**	**-**	**-**	1,026.6	**1,026.6**
Other comprehensive income for the year	-	-	-	27.2	**27.2**
Total comprehensive (expense)/income for the year	**-**	**-**	**-**	**1,053.8**	**1,053.8**
Capital contribution	-	-	650.0	-	**650.0**
Dividends paid during the year	-	-	-	(891.0)	**(891.0)**
At 31 December 2017	**73.1**	**83.9**	**1,360.8**	**2,749.8**	**4,267.6**

Statement of Cash Flows

For the year ended 31 December 2018

	Note	2018 £m	2017 £m
Net cash used in operating activities	**19**	**(58.4)**	**(76.4)**
Cash flows from investing activities			
Interest received		0.9	1.0
Dividends received from subsidiary undertaking		1,093.0	1,044.0
Realised gains/(losses) on short term investments		0.2	(0.1)
Capital contribution from parent undertaking		-	650.0
Net disposal of financial assets		(24.0)	-
Subscription of shares		(10.0)	(40.0)
Capital contribution made to subsidiary undertaking		-	(650.0)
Net cash flows (used by) / generated from investing activities		**1,060.1**	**1,004.9**
Net cash used in financing activities			
Dividends paid		(921.0)	(891.0)
Net cash flows used in financing activities		**(921.0)**	**(891.0)**
Net increase in cash and cash equivalents		**80.7**	**37.5**
Cash and cash equivalents at the beginning of the year		178.7	141.2
Cash and cash equivalents at the end of the year		**259.4**	**178.7**

Notes to the Financial Statements

1. Accounting Policies

The principal accounting policies are summarised below. The accounting policies have been applied consistently throughout the year and preceding year.

1.1 New standards, amendments and policies not yet adopted by the Company

IFRS 16 'Leases' addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces IAS 17 'Leases', and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2019 and is not expected to have a material impact on the financial statements of the Company.

1.2 New and amended standards and interpretations

The Company has applied the following new and revised IFRSs:

IFRS 9 Financial Instruments

IFRS 15 Revenue from Contracts with Customers

1.2.1 IFRS 9 Financial Instruments
The Company has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting. The Company did not early adopt any of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Company elected not to restate comparative figures. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. There are no differences arising from the adoption of IFRS 9 which affect retained earnings as of 1 January 2018.

Consequently, the amendments to IFRS 7: 'Financial Instruments: Disclosures' have also only been applied to the current period. The comparative period note disclosures are unchanged from the prior year. There would be no change to the prior year disclosures should IFRS 7 be applied retrospectively.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Company. Further details of the specific IFRS 9 accounting policies applied in the current period (as well as the previous IAS 39 accounting policies applied in the comparative period) are described in more detail in note 1.2.1a below.

a) Classification of Financial Assets and Financial Liabilities
The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

	IAS 39		IFRS 9	
	Classification	**Carrying amount**	**Classification**	**Carrying amount**
Financial assets		£m		£m
Debt securities	FVTPL (designated)	13.6	FVTPL (designated)	13.6

Other assets and receivables	Loans and receivables	7.1	Amortised cost	7.1
Cash and cash equivalents	Loans and receivables	178.7	Amortised cost	178.7
Total financial assets		**199.4**		**199.4**
Financial liabilities				
Other payables (excluding tax)	Amortised cost	29.3	Amortised cost	29.3
Total financial liabilities		**29.3**		**29.3**

The application of the accounting policies on the classification of financial instruments under IFRS 9 resulted in the reclassifications set out in the table above and explained below.

Debt securities
Debt securities are held to meet the pension scheme liability. These assets have therefore been designated as financial assets at FVTPL under IFRS 9.

Other assets and receivables
The IAS 39 category, Loans and receivables, required assets to be measured at amortised cost and therefore the change in category in the adoption of IFRS 9 does not in fact result in a change of measurement.

b) Reconciliation of statement of financial position balances from IAS 39 to lFRS 9
The Company performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics. Please refer to note 1.8 for more detailed information regarding the new classification requirements of IFRS 9.

There were no changes to the measurement categories and therefore no changes to the carrying amounts of financial assets upon transition to IFRS 9 on 1 January 2018.

Under the IAS 39 incurred loss model the prior period closing impairment allowance was £nil. The new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018 was also £nil.

1.2.2 IFRS 15 'Revenue from contracts with customers'

IFRS 15 Revenue from Contracts with Customers supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. IFRS 15 requires entities to take all relevant facts and circumstances into consideration when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The adoption of IFRS 15 did not result in a material change on the current or prior year reported results and position of the Company, as the Company has no revenue-generating contracts which required changes to be made to the Company's existing accounting policies.

1.3 Basis of Preparation

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain properties, financial instruments and insurance and investment contract liabilities that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of consideration given in exchange for goods and services.. A going concern basis has been applied in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and adopted by the European Union (EU) and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions which are in scope of IFRS 16 and measurements that have some similarities to fair value but are not fair value, such as value in use in IAS 36.

The Company is included in the consolidated financial statements of Swiss Re Ltd which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 401 of the Companies Act 2006 and IFRS 10 Consolidated Financial Statements, paragraph 4(a).

The principal accounting policies adopted are set out below.

1.4 Going Concern

In assessing whether the Company is a going concern the directors have taken into account the guidance issued by the Financial Reporting Council in April 2016. The Company's main subsidiaries, RAL and RUKSL, helped the Company to successfully deliver its growth focused business plan over the past 12 months. The directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the wider ReAssure group have adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements.

1.5 Investment income and expenses

Investment income includes interest, rental income, fair value gains and losses on financial assets and gains on the realisation of investments and related expenses.

1.5.1 Interest

For interest-bearing assets, interest is recognised as it accrues and is calculated using the effective interest rate method. The effective interest rate is defined as the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument (or, when appropriate, a shorter period) to the net carrying amount of the financial asset or financial liability. Fees and commissions that are an integral part of the effective yield of the financial assets or liabilities are recognised as an adjustment to the effective interest rate of the instrument.

1.5.2 Fair value gains and losses on financial assets

Fair values gains and losses comprise both realised and unrealised gains and losses.

Realised gains and losses recorded in the income statement include gains and losses on the disposal of financial assets and liabilities.

Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price or if they have been previously valued, their valuation at the last balance sheet date. The movement in unrealised gains and losses recognised in the year also includes the reversal of unrealised gains and losses recognised in prior years in respect of investment disposals in the current year.

1.5.3 Gains on the realisation of investments and related expenses

Realised investment gains and losses are calculated as the difference between net sales proceeds and their original cost. Related expenses are accounted for on an accruals basis.

Shares in subsidiary undertakings are accounted for under the historical cost convention. At each balance sheet date, the company performs an assessment of the estimated realisable value of each investment in a subsidiary. Where the estimated realisable value is less than the carrying value, the investment is impaired.

The impairment, which is calculated as the difference between the carrying value and the estimated realisable value, is charged to the income statement. Where an investment in a subsidiary has previously been impaired and a subsequent estimation of that investment's realisable value is higher than the impaired carrying value, the previous impairment is reversed through the income statement. The maximum value for this is that of the original historical cost.

1.6 Current income tax

Current tax comprises tax payable on current period profits, adjusted for non-tax deductible or non-taxable items, and any adjustments to tax payable in respect of previous periods. Current tax is recognised in the income statement unless it relates to items which are recognised in other comprehensive income.

1.7 Deferred income tax

Deferred tax is calculated on differences between the accounting value of assets and liabilities and their respective tax values. Deferred tax is also recognised in respect of unused tax losses to the extent that it is probable that future taxable profits will arise against which the profits can be utilised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity.

Deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled, based on tax rates (and laws) that have been enacted or are substantively enacted at the end of the reporting period.

1.8 Financial Investments

Initial recognition and measurement
Financial assets and financial liabilities are recognised on the trade date when the Company becomes a party to the contractual provisions of the instrument and are classified for accounting purposes depending on the characteristics of the instruments and the purpose for which they were purchased.

At initial recognition, the Company measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability-not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, as described in note 19 which results in an accounting loss being recognised in profit or loss.

Measurement methods

Amortised cost and effective interest rate
The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that-initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. When the Company revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

1.8.1 Financial Assets

a) Classification

From 1 January 2018, the Company has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVTPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost.

The classification requirements for debt instruments are described below:

Debt instruments
Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.
Classification and subsequent measurement of debt instruments depend on:

(i) the Company's business model for managing the asset; and
(ii) the cash flow characteristics of the asset

Based on these factors, the Company classifies its debt instruments into one of the following three measurement categories:

- <u>Amortised cost</u>: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in Note 2.1 (iii). Interest income from these financial assets is included in 'Finance income' using the effective interest rate method.

- <u>Fair value through other comprehensive income (“FVOCI”)</u>: Financial assets that are held for collection of contractual cash flows and to sell, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net Investment income'. Interest income from these financial assets would be included in 'Interest Income' using the effective interest rate method.

- <u>Fair value through profit or loss (“FVTPL”)</u>: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement within ‘Fair value gains/losses on financial instruments’, Interest Income from these financial assets is included in 'Finance income' using the effective interest rate method.

At 31 December 2018 the Company did not hold any assets measured at FVOCI.

Business model: the business model reflects how the Company manages the assets in order to generate cash flows. That is, whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered by the Company in determining the business model for a Company of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. For example, the Company's business model for the Government bonds is to hold to collect contractual cash flows.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Company assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic fending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

The Company reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

The Company has designated certain debt investments as at FVTPL on initial recognition, with their performance evaluated on a fair value basis in order to more closely match the accounting for any related liabilities.

b) Subsequent measurement and gains and losses

Financial assets at FVTPL	Measured at fair value. Net gains and losses, including any interest or dividend income and foreign exchange gains and losses, are recognized in profit or loss.
Financial assets at amortised cost	Measured at amortised cost using the effective interest method. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on de-recognition is also recognized in profit or loss

c) Impairment

IFRS 9 introduces a new impairment model based on expected credit losses (ECL) that are estimated by considering current conditions and available forward-looking information. IFRS 9 sets out a general approach to impairment, however, for simple, short-term financial assets this general approach is overly complicated and so a simplified approach was also introduced.

The Company has chosen to adopt the simplified approach for short-term receivables measured at amortised cost. Note 20 provides more detail of how the expected credit loss is measured.

1.8.2 Financial Liabilities

a) Classification

In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost.

b) Measurement

Subsequent measurement

Financial liabilities are measured at amortised cost using the effective interest method. Interest expenses and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on de-recognition is also recognised in profit or loss.

1.9 <u>Cash and cash equivalents</u>

Cash and cash equivalents comprise cash balances, short-term deposits with an original maturity term of three months or less at the date of placement and other short-term highly liquid investments, which are held for cash management purposes. The carrying amount of these assets approximates to their fair values.

1.10 Interest payable

Interest payable is charged to the income statement on an accruals basis.

1.11 Retirement benefits

The Company operates one defined benefit pension scheme, the ReAssure Staff Pension Scheme, which is closed to future accruals. The Company follows the provisions on IAS 19 Employee Benefits in accounting for the scheme. The cost of providing benefits is determined using the projected unit credit valuation method.

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

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

1.12 Events after the balance sheet date

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

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

2. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of the Company's accounting policies, which are described in note 1, the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

2.1 Estimates

i) Valuation of investments

The fair value of an asset is the price that would be received in a sale of that asset in an orderly transaction between market participants at the measurement date. The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used which therefore involves the use of estimates. These estimates include assessments of time value, investment returns, credit risk and volatility factors and are determined using available market data and management's judgement, if necessary.

IFRS 13 Fair value measurement categorises valuation methodologies into a three level hierarchy. The most critical assumptions are the unobservable inputs within Level 3 valuations. The Company does not have investments with Level 3 valuations.

ii) Investment in group undertakings

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Investment in subsidiaries are valued at cost less impairment per IAS/IFRS requirements. The carrying value of the company's investment in ReAssure Limited has been assessed for impairment with reference to the Solvency II valuation of the underlying business. The non-profit fund capital value, excluding transitional measures, has been used in the impairment review on the investment.

iii) Measurement of the expected credit loss ("ECL") allowance

The measurement of impairment losses under IFRS 9 across relevant financial assets requires judgement, in particular for the estimation of the amount and timing of future cash flows when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by the outcome of modelled ECL scenarios and the relevant inputs used.

iv) Pension benefits

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation. Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 15.

3. Net investment (expense)/income

	2018 £m	2017 £m
Dividends received from subsidiary undertakings	1,093.0	1,044.0
(Impairment) / reversal of impairment of subsidiaries	(1,157.3)	13.1
Unrealised gains on short term investments	0.1	-
Realised gains/(losses) from financial investments	0.2	(0.1)
	(63.8)	**1,057.0**

4. Administration Expenses

	2018 £m	2017 £m
Administration expenses	52.3	28.1

5. Interest Income

	2018 £m	2017 £m
Interest income from financial investments	0.9	0.8

6. Other finance income and expense

	2018	2017
	£m	£m
Net interest expense on net defined pension benefit asset	(0.2)	(1.1)

7. Auditors' remuneration

The analysis of auditors' remuneration is as follows:

	2018	2017
	£m	£m
Audit Services:		
Fees payable for the audit of the Company’s annual financial statements	0.1	0.1
Fees payable to the Company's auditors for other services		
The audit of the Company's subsidiaries	0.7	0.6
Total Audit Fees	**0.8**	**0.7**
Non-audit services:		
Audit related assurance services	0.9	1.4
Other assurance services	0.4	-
Total non-audit fees	**1.3**	**1.4**
Total fees	**2.1**	**2.1**

Audit related assurance services include the audit of regulatory returns, and the review of reporting to the group's parent company which includes audit of embedded value reporting.

Auditors' remuneration is borne by ReAssure UK Services Limited ("RUKSL"), a subsidiary undertaking.

8. Staff costs

Directors of the Company, together with those employees filling a senior management position, are considered to meet the definition of key management. Some directors of the Company are also directors of other group undertakings. No apportionment has been made between their time spent on company business and other group business. There are no employees within the company.

The aggregate emoluments of 14 members of key management (2017: 14), 12 of which are remunerated by RUKSL and are shown in the table below. A further 2 directors are remunerated by Swiss Re and their services are considered to be part of their role at Swiss Re. It is not possible to split their remuneration between Companies.

No compensation was paid out for loss of office during the year.

There are 4 key management personnel (2017: 4) who benefit from payments made by the Company into the defined contribution pension scheme.

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

	2018	2017
	£m	£m
In respect of the highest paid director:		
Emoluments	0.5	0.5

9. Tax on (loss)/profit on ordinary activities

a) Tax charge to the income statement

	2018	2017
	£m	£m
Current taxation		
UK corporation tax	6.6	(0.4)
Adjustments in respect of prior periods	3.3	(1.6)
Total current tax credit for the year	9.9	(2.0)
Tax credit/(charge) on profit on ordinary activities	**9.9**	**(2.0)**

b) Reconciliation of tax charge on profit attributable to shareholders

The tax assessed for the year is lower (2017: lower) than the standard rate of corporation tax in the UK of 19.00% (2017: 19.25%). The differences are explained below:

	2018	2017
	£m	£m
(Loss)/profit before tax	(115.4)	1,028.6
Tax on profit at 19.00% (2017: 19.25%)	21.9	(198.0)
Effects of:		
Non-taxable dividend income	207.6	201.0
Amounts written off investments	(219.9)	2.5
Permanent disallowable items	(0.4)	-
Transfer pricing adjustments	(2.6)	(5.5)
Adjustments in respect of prior years	3.3	(1.6)
Other	0.0	(0.4)
Total tax credit/(charge) for the year	**9.9**	**(2.0)**

c) Factors affecting the current and future tax charges

A reduction to the corporation tax rate (reducing the rate to 17%) for the year commencing 1 April 2020, was enacted in 2016. Accordingly, the relevant deferred tax balances have been measured at 17%.

10. Investments in group undertakings

	2018	2017
	£m	£m
Cost		
At 1 January	4,203.0	3,513.0
Subscription for shares (i)	10.0	40.0
Capital contribution (ii)	-	650.0
31 December	**4,213.0**	**4,203.0**
Provision for impairment		
At 1 January	102.9	116.0
Reversal for the year (iii)	-	(40.3)
Impairment for the year (iv)	1,157.3	27.2
At 31 December	**1,260.2**	**102.9**
Net Book Value	**2,952.8**	**4,100.1**

(i) In the year ended 31 December 2018, the company subscribed for 10,000,000 (2017: 40,000,000) £1 ordinary shares in its subsidiary ReAssure UK Services Limited.

(ii) In the prior year ReAssure announced the purchase of 1.1 million life assurance policies from Legal and General (L&G) for £650 million, including with-profit, unit-linked and savings products. ReAssure Group Limited received a capital contribution from its parent company, Swiss Re ReAssure Midco Limited which is offset by a corresponding increase to the value of investments in subsidiary, with the funds flowing down the group chain to ReAssure Limited.

(iii) In the prior year, following the capital contribution from the parent company and the acquisition of the L&G policies, the directors considered that the remaining provision of £40.3m previously raised against the Company's investment in ReAssure Limited should be written back. A further provision of £27.2m was recognised against the investment in ReAssure UK Services Limited.

(iv) In the current year, a review of the net asset and solvency positions for ReAssure Limited and ReAssure UK Services Limited has resulted in these investments being impaired by £1,144.2m and £13.1m respectively.

a) Subsidiary undertakings

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

Company	**Principal activity**	**Holding**
Direct subsidiaries		
ReAssure Limited	Long-term insurance	100%
ReAssure UK Services Limited	Management service company	100%
ERIP General Partner Limited	Management service company	80%
ReAssure FSH UK Limited	Management service company	100%
G Life H Limited	Intermediate holding company	100%
BL Telford Limited	Non-trading	100%
Reassure UK Life Assurance Limited	Non-trading	100%
Reassure Life Limited	Non-trading	100%
NM Life Trustees Limited	Non-trading	100%
NM Pensions Limited	Non-trading	100%

ReAssure Pension Trustees Limited	Dormant	100%
Indirect subsidiaries		
Ark Life Assurance Company dac (Ireland)	Long-term insurance	100%
ReAssure Companies Services Limited	Management service company	100%
ERIP Limited Partnership	Real estate management	99.5%
G Assurance & Pension Services Limited	Non-trading	100%
ReAssure Linked Life Limited	Non-trading	100%
ReAssure Pensions Management Limited	Non-trading	100%
Namulas Pension Trustees Limited	Dormant	100%
Gresham Life Assurance Society Limited	Dormant	100%
ReAssure Trustees Limited	Dormant	100%
G Financial Services Limited	Dormant	100%
G Trustees Limited	Dormant	100%
ReAssure Nominees Limited	Dormant	100%
ReAssure FS Limited	Dormant	100%

The registered office of Ark Life Assurance Company dac is 3rd Floor, College Park House, Nassau Street, Dublin 2, Ireland. The registered office of the remaining subsidiaries is Windsor House, Telford Centre, Telford, Shropshire, TF3 4NB.

11. Debt securities

	2018	2017
	£m	£m
Debt securities at fair value through profit or loss	38.2	13.6

a) Carrying value by measurement category

The carrying value in the above relates to the amounts recorded in the consolidated financial statements.

b) Determination of fair values and fair value hierarchy

Valuation models

The Company measures the fair value of an instrument using the quoted price in an active market for that instrument whenever one is available. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Company measures assets and long positions at the bid price and liabilities and short positions at the ask price.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximize the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Company determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between its fair value and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument, but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

As at 31 December 2018, the aggregate difference yet to be recognised in profit or loss in relation to the above was £nil (2017: £nil).

The Company uses widely recognized valuation models to determine the fair value of common and simple financial instruments – e.g. interest rate and currency swaps – that use only observable market data and require little management judgment and estimation. Observable prices or model inputs are usually available in the market for listed debt and equity securities. The availability of observable market prices and model inputs reduces the need for management judgment and estimation, and reduces the uncertainty associated with determining fair value. The availability of observable market prices and inputs varies depending on the products and markets, and is prone to changes based on specific events and general conditions in the financial markets.

Fair value estimates obtained from models are adjusted for any other factors – e.g. liquidity risk or model uncertainties – to the extent that the Company believes that a third party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risks of the Company entity and the counterparty, where appropriate.

Model inputs and values are calibrated against historical data and published forecasts and, where possible, against current or recent observed transactions in different instruments and against broker quotes. This calibration process is inherently subjective and it yields ranges of possible inputs and estimates of fair value, and management uses judgment to select the most appropriate point in the range.

Financial instruments measured at fair value

Fair value hierarchy
The following table analyses financial instruments measured at fair value at the reporting date by the level of the fair value hierarchy into which the fair value measurement is categorised. The fair values include any deferred differences between the transaction price and the fair value on initial recognition when the fair value is based on a valuation technique that uses unobservable inputs.

Financial instruments held at fair value in the balance sheet are analysed against the fair value measurement hierarchy, as follows:

• Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Level 1 inputs are the most persuasive evidence of fair value and are to be used whenever possible.

• Level 2 inputs are market-based inputs that are directly or indirectly observable but not considered level 1 quoted prices. Level 2 inputs consist of (i) quoted prices for similar assets or liabilities in active markets; (ii) quoted prices for identical assets or liabilities in non-active markets (e.g. markets which have few transactions and prices that are not current or price quotations vary substantially); (iii) inputs other than quoted prices that are observable (e.g. interest rates, yield curves, volatilities, prepayment speeds, credit risk and default rates); and (iv) inputs that are derived from or corroborated by observable market data

.• Level 3 inputs are unobservable inputs. These inputs reflect the Company's own assumptions about market pricing using the best internal and external information available.

Transfers occur between the different levels within the fair value hierarchy when management determines that the valuation methodology meets the definition above.

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

Assets as at 31 December 2018	**Level 1**	**Level 2**	**Level 3**	**Total balance**
	£m	**£m**	**£m**	**£m**
Financial assets at fair value through profit and loss:				
Debt Securities	-	38.2	-	**38.2**
	-	38.2	-	**38.2**

Assets as at 31 December 2017	**Level 1**	**Level 2**	**Level 3**	**Total balance**
	£m	**£m**	**£m**	**£m**
Financial assets at fair value through profit and loss:				
Debt Securities	-	13.6	-	**13.6**
	-	13.6	-	**13.6**

Financial assets designated at FVTPL

Debt securities have been designated as at FVTPL in order to more closely match the accounting for any related liabilities. At 31 December 2018, the maximum exposure to credit risk of these financial assets was their carrying amount of £38.2m (2017: £13.6m). The credit risk of these financial assets has not been hedged by the use of credit derivatives or similar instruments.

No changes in fair value relating to the credit risk have been recognised for these investments.

12. Deferred tax

	2018	**2017**
	£m	**£m**
Net deferred tax asset opening balance	7.8	13.3
Adjustments in respect of prior years	(7.8)	-
Tax (charged)/credited to equity	(4.0)	(5.5)
Net deferred tax (liability)/asset closing balance	**(4.0)**	**7.8**

The deferred tax asset relates to the pension scheme and arises from the movement in OCI over the year. The pension scheme is expected to be fully financed by the business and as the OCI loss is reduced a tax deduction can be claimed. Accordingly it is appropriate to recognise a deferred tax asset in relation to the OCI movement.

Deferred tax assets are recognised only when projections indicate that it is more likely than not that timing differences will reverse or losses will be relieved within the group.

13. Other receivables

	2018	**2017**
	£m	**£m**
Other debtors	15.6	0.2
Amounts owed by group undertakings	4.1	6.9
	19.7	**7.1**

These balances are receivable within one year from the balance sheet date.

14. Cash and cash equivalents

	2018	2017
	£m	£m
Cash at bank and in hand	259.4	178.7
	259.4	**178.7**

Cash comprises cash at bank and cash in hand. Cash equivalents comprise bank deposits and highly liquid short-term investments. There are no amounts included in the cash and cash equivalents balances that are not readily available.

15. Retirement benefit schemes

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

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

Future funding requirements are determined by the outcome of the triennial scheme valuation which was last performed at 31 December 2017.

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

	2018	2017
Discount rate	2.9%	2.6%
Inflation rate	3.4%	3.4%
Rate of increase in salaries	3.4%	3.4%
Rate of increase in pensions	3.4%	3.4%
Rate of increase in deferred benefits during deferment	2.4%	2.4%

	2018	2017
Mortality		
Longevity at age 60 for current pensioners		
- Men	28.6 years	28.9 years
- Women	30.1 years	30.4 years
Longevity at age 60 for future pensioners currently aged 45		
- Men	29.9 years	30.3 years
- Women	31.5 years	31.8 years

a) ReAssure Staff Pension Scheme

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

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

There were no contributions made in respect of current service for the current and prior years. The Company agrees to cover those expenses incurred by the scheme and the cost of the death-in-service benefits for those members of the scheme who are entitled only to those benefits. In March 2018, the Company paid an augmentation premium of £0.988m in respect of linked deferred members.

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

	2018	**2017**
	£m	**£m**
Equities	137.4	149.0
Bonds	151.3	162.5
Gilts	73.7	91.2
Other	21.5	6.5
	383.9	**409.2**

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

The table below details the movements in the pension assets and liabilities recorded through the income statement and OCI:

	Fair value of scheme assets	Present value of obligation	(Liability)/Asset recognised on balance sheet
	£m	£m	£m
At 1 January 2018	409.2	(417.8)	(8.6)
Current service cost	-	(1.0)	(1.0)
Past service costs	-	(0.4)	(0.4)
Interest income/(cost)	10.5	(10.7)	(0.2)
Administrative expenses	(1.0)	-	(1.0)
Total amounts recognised in income statement	**9.5**	**(12.1)**	**(2.6)**
Actuarial gain	-	46.8	46.8
Return on scheme assets less than discount rates	(23.4)	-	(23.4)
Total remeasurement in other comprehensive income	**(23.4)**	**46.8**	**23.4**
Contributions paid by employer	2.0	-	2.0
Benefits paid	(13.3)	14.2	0.9
At 31 December 2018	**383.9**	**(368.8)**	**15.1**

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

Assumption	Change in Assumption	Impact on scheme liabilities
Discount rate	Increase/decrease by 0.1%	Decrease/increase by 2%
RPI inflation*	Increase/decrease by 0.1%	Decrease/increase by 2%

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

Risks and risk management

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

i) Asset volatility

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

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

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

ii) Inflation risk

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

iii) Life expectancy

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

b) Private retirement trust

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

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

	2018	2017
	£m	£m
Equities	0.3	0.3
Other	0.1	0.1
	0.4	**0.4**

The equity investments which are held in scheme assets are quoted and are valued at the bid price at 31 December. The table below details the movements in the pension assets and liabilities recorded through the income statement and OCI relating to the private retirement trust.

	Fair value of scheme assets £m	Present value of obligation £m	Liability recognised on balance sheet £m
At 1 January 2018	0.4	(2.2)	(1.8)
Actuarial gain taken to other comprehensive income	-	0.1	0.1
At 31 December 2018	**0.4**	**(2.1)**	**(1.7)**

16. Other payables

	2018 £m	2017 £m
Other creditors including tax	(5.1)	(4.5)
Amounts owed to group undertakings	(15.9)	(22.8)
	(21.0)	**(27.3)**

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

17. Share capital

	2018 £m	2017 £m
Issued and fully paid		
7,305,069,423 (2017: 7,305,069,423) ordinary shares of £0.01 each	73.1	73.1

18. Other reserves

	2018 £m	2017 £m
Other Reserves	1,360.8	1,360.8

There has been no change to Other Reserves in the current year. In the prior year the Company received a capital contribution of £650m from its parent company Swiss Re ReAssure Midco Limited to fund the purchase of approximately 1.1m life assurance policies from L&G, including with-profit, unit-linked and savings products.

19. Cash flows used in operating activities

	2018	2017
	£m	£m
Operating loss	(52.3)	(28.5)
Adjustments for:		
Adjustment for pension funding	(0.5)	(0.9)
(Decrease) in deferred tax asset	-	(5.5)
Income taxes paid	(1.6)	9.9
(Increase) /decrease in receivables	2.8	0.8
(Decrease) in payables	(6.3)	(52.2)
Fair value loss / (gains) on financial assets	(0.5)	-
Net cash used in operating activities	**(58.4)**	**(76.4)**

20. Management of financial risk

The Company's activities are limited to the holding of investments in Group companies, and securing capital to fund new acquisitions. The Company is therefore exposed to liquidity risk, credit risk and expense risk. The Company is not exposed to currency or equity price risk other than through its investment in subsidiaries. The risk management approach of the Company is to seek to minimise the potential adverse impact of these risks on the financial performance.

The following section discusses the Company's risk management policies. The measurement of ECL under IFRS 9 uses the information and approaches that the Company uses to manage credit risk, though certain adjustments are made in order to comply with the requirements of IFRS 9. The approach taken for IFRS 9 measurement purposes is discussed separately in note 1.2.1.

Credit risk

Credit risk is the risk that the Company will suffer loss from the failure of a third party to discharge its obligations to the Company. In addition, the solvency of the Company may be impacted by a widening in credit spreads or by credit downgrades under its portfolio of fixed-interest securities and money-market deposits.

The board determines the risk appetite for the business. The risk is controlled by setting appropriate limits for counterparty exposures and communicating them to those who are responsible for complying with them.

The Company was most exposed to credit risk on debt securities and money market investments, and cash and cash equivalents. Debt securities and money market investments mainly comprised government bonds and short term bank deposits.

i) Credit risk measurement

The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for short-term receivables which are receivable on demand with no significant financing component. In accordance with paragraph 5.5.15 of IFRS 9, the loss allowance for such trade receivables is always measured at an amount equal to lifetime ECLs.

To measure the ECLs, receivables have been grouped based on shared credit risk characteristics. For each group, historical loss rates have been considered and applied using forward-looking information.

At 31 December 2018 the Company held intercompany and other receivables which were subject to the above impairment review. The loss allowance provision for these receivables at this date was £nil (2017: £nil).

The key judgements and assumptions adopted by the Company in addressing the requirements of the standard are discussed below.

ii) Definition of default and change in the risk of default

The Company considers a financial asset to be in default when:

- The borrower is unlikely to pay its debt obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any is held); or
- The financial asset is more than 90 days past due.

In assessing whether a borrower is in default, the Company considers indicators that are:

- Qualitative: e.g. breaches of covenant and other indicators of financial distress;
- Quantitative: e.g. overdue status and non-payment of another obligation of the same issuer to the Company; and
- Based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

iii) Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The Company determines the ECLs on intercompany receivables by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Accordingly, the credit risk profile of these assets is presented based on their past due status in terms of the provision matrix.

iv) Maximum exposure to credit risk – Financial instruments subject to impairment

The gross carrying amount of intercompany and other receivables, reflecting the maximum exposure to credit risk, is £19.7m (2017: £7.1m).

v) Maximum exposure to credit risk – Financial instruments not subject to impairment

The following table contains an analysis of the maximum credit risk exposure from financial assets not subject to impairment (i.e., FVTPL):

	2018	2017
	£m	£m
Financial assets designated at fair value		
Debt securities	38.2	13.6

vi) Loss allowance

The loss allowance recognized in the period could be impacted by a variety of factors, as described below:

- Additional allowances for new financial instruments recognized during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in historical loss rates and forward-looking estimates;
- Foreign exchange translations for assets denominated in foreign currencies and other movements; and
- Financial assets derecognized during the period and write-offs of allowances related to assets that were written off during the period.

a) Fixed interest securities

The Group manages the credit risk arising from fixed-interest securities by placing limits on the exposure to a single counterparty and to any particular industry or geographical segment. These limits are set out in the ReAssure Group Investment Guidelines. All assets must have a credit rating assigned to them. Where an asset is rated by one or more External Credit Assessment Institutions, the lowest rating is used. For bonds that do not carry an external rating the investment manager provides an internal rating.

There were no losses incurred as a result of defaults during the year (2017: no losses).

b) Money market deposits

The Group holds money-market deposits with approved counterparties and sets limits on counterparty exposure on an individual and aggregate counterparty basis. Credit risk is determined and monitored on a daily basis using short-term credit agency ratings.

Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations. The Company monitors cash flow and performs variance analysis against actual cash held. The Company manages its liquidity risk by only paying out dividends and making capital repayments once income from its investments has been received and once all expenses have been covered. If there are timing differences between cash inflows and cash outflows then surplus cash is placed only with approved counter-parties or invested in high quality government or corporate bonds.
With-profits contracts can be surrendered before maturity for a cash surrender value. ReAssure Limited manages this risk by investing in liquid assets such as gilts and equities. Furthermore, assets such as corporate bonds provide additional liquidity. Subject to regulatory limits, a Market Value Adjustment can be applied to policy values on surrender to help manage liquidity however these would only be used in the most severe liquidity stresses.

Additionally as the Company participates in a defined benefit pension scheme, there is a risk that the cash contributions required to fund this scheme increase or decrease due to changes in factors such as investment performance, the rates used to discount liabilities and mortality changes. Any increase in deficit contributions will reduce the Company's cash flow. Decisions on pension scheme funding, asset allocation and benefit promises are taken by management in consultation with the pension scheme trustees and suitably qualified advisors. The board participates in major decisions on the funding and design of the pension schemes.
The table below shows the cash flows arising from the financial assets of the Group. As noted above the fixed income portfolio is held mainly to cover the liabilities arising from the annuity business and is matched by mean duration to the liabilities that arise from that business. All amounts disclosed represent undiscounted cash flows.

21. Contingent liabilities

Liabilities may arise in respect of claims that are contingent on factors such as the interpretation of contracts, regulatory action or Ombudsman rulings. It is not possible to predict the incidence, timing or financial impact of these events with any certainty, but the Company is not aware of any significant liabilities in this regard.

22. Dividends

	2018	2017
	£m	£m
Amounts recognised as distributions to equity holders in the year:		
Final dividend	921.0	891.0
Total dividends paid in the year	**921.0**	**891.0**

During 2018, an ordinary dividend of £921.0m was paid in respect of the year ended 31 December 2017 (2017: £891.0m in respect of the year ended 31 December 2016).

23. Related parties

Transactions between the Company and its associates are disclosed below.

a) Immediate and ultimate parent undertaking

The Company is incorporated and domiciled in England and Wales. The immediate parent company is Swiss Re ReAssure Midco Ltd, incorporated in Jersey.

Swiss Re Ltd is the ultimate and controlling parent undertaking of the Company. The consolidated financial statements of Swiss Re Ltd may be obtained on www.swissre.com or from its registered office at Mythenquai 50/60, PO Box 8022, Zurich, Switzerland.

b) Services received from related parties

	2018	2017
	£m	£m
Subsidiaries	34.6	6.8
Other subsidiary undertakings of Swiss Re Ltd	14.2	-
	48.8	**6.8**

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

	2018	2017
	£m	£m
Subsidiaries	(6.8)	(6.4)
Other subsidiary undertakings of Swiss Re Ltd	1.9	2.4
	(4.9)	**(4.0)**

24. Post Balance Sheet Events

On 21st February 2019, a notice of change of name by resolution was submitted by the Company to change its name from ReAssure Group Limited to ReAssure Midco Limited.

The directors of the Company noted no other significant events after the balance sheet date which require disclosing.