ReAssure Midco Limited

Annual Report and Financial Statements 2019

Company Registration Number 02970583

Contents

Directors and officers

Board of Directors

Matthew Cuhls	
Brian Dunne	
James Gallagher	
Denise Larnder	
Ian Patrick	(Resigned on 20th December 2019)
Michael Yardley	Chairman
Michael Woodcock	(Appointed on 20th December 2019)
Rejean Besner	(Resigned on 21st January 2019)

Company Secretary
Paul Shakespeare

Registered office
Windsor House
Telford Centre
Telford
Shropshire
TF3 4NB

Company registration number
02970583

Strategic report for the year ended 31 December 2019

The directors present their strategic report for ReAssure Midco Limited ("the Company") for the year ended 31 December 2019.

These financial statements, for the year ended 31 December 2019, 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 act as an intermediate holding company for the Reassure Group ("the Group"), the principal operating entities of which are ReAssure Limited ("RAL") and ReAssure UK Services Limited ("RUKSL"). It acts as the immediate 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 also oversees the Group's defined benefit pension scheme. The Company is part of the Swiss Re group, a worldwide reinsurance and financial services provider.

During 2018, Swiss Re Ltd ("Swiss Re Group") announced its intention to explore the potential for an Initial Public Offering ("IPO") of the Group on the London Stock Exchange in 2019. In readiness for this potential IPO, the Group was restructured, resulting in the Company becoming a subsidiary of a new parent company, ReAssure Group Plc ("RGP"). Additionally, the number of issued shares of the Company was reduced to 730,506,943 (2018: 7,305,069,430) and the nominal value increased to £0.10 (2018: £0.01). However, as a consequence of the fact that the IPO did not progress, the Company remains under the control of the Swiss Re Group.

On 6 December 2019, Swiss Re announced that it had come to an agreement to sell RGP, including its subsidiary undertakings, to Phoenix Group Holdings Plc. The Company remains part of the Swiss Re Group until the transaction closes, which is expected to happen in mid-2020, subject to shareholder and regulatory approvals.

The results for the year are set out on page 12. The profit for the year of £369.5m (2018: £105.5m loss) is mainly due to the reversal of impairment provisions in relation to subsidiary companies of £434.1m. Net assets of the Company at 31 December 2019 are £3,610.7m (2018:£3,252.8m).

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. Note that the solvency and customer focused KPIs reported in prior periods have been replaced with a new set of KPIs. This is a consequence of the restructuring of the Group undertaken in readiness for a potential IPO, as detailed above, which resulted in RGP replacing the Company as the parent company of the Group for Solvency II reporting purposes and the Company now operating only as an intermediate holding company. In its capacity as an intermediate holding company, the Company's principal activities are the oversight of the Group's defined benefit pension scheme and the facilitation of the payment of dividends up from its subsidiaries to the parent company of ReAssure Group (RGP). The new KPIs therefore, are intended to monitor the Company's ability to pay a dividend and the impact of the pension scheme on the amount of dividend payable.

	2019	2018
Value of investment in group undertakings as a percentage of Net Asset Value ("NAV")	96%	91%
Change in value of investment in group undertakings	18%	-28%
Pension related balances* deducted from distributable reserves	£57.9m	£51.3m

*Note that this includes amounts paid into Escrow that are not shown on the Balance Sheet.

Strategic report for the year ended 31 December 2019 (continued)

Key performance indicators (continued)

The KPI results show that the Company is in a strong position to facilitate the payment of a dividend up to its parent company. The fact that the Company's investments in group undertakings comprises such a large proportion of its total NAV represents a potential risk to the payment of dividends, as in the event of a large impairment charge being incurred, the amount of distributable reserves available would reduce by the same amount. However, in the current year, the value of those investments has increased by 18% therefore, having a positive impact on the amount of distributable reserves available. Additionally, pension scheme related balances, at £51.3m represent less than 2% of the total equity of the Company and do not have a significant adverse impact on the amount of distributable reserves available to pay a dividend.

Capital management

The Company is responsible for maintaining and managing its own capital, but also supports the management of the capital of its subsidiaries. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to its shareholder, return capital to shareholder or request capital support from other entities in the Swiss Re Group. In support of these objectives, the Company monitors its total equity as shown in the balance sheet on page 14 of the financial statements.

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 Company;
- the need to provide capital to its subsidiaries; and
- other Company loan commitments.

The Company mitigates financial risk by inputting to the Group quarterly capital planning cycle. If the Company is required to provide support for the capital requirements of any subsidiaries within the Group, this is factored into the Company's capital plan. There is also regular communication with ReAssure Group Plc, 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 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 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.

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 27th April 2020 and signed on behalf of the Board:

Paul Shakespeare
Company Secretary
30th April 2020

Directors' report for the year ended 31 December 2019

The directors present their annual report together with the audited financial statements of the Company for the year ended 31 December 2019.

Future outlook

On 11 March 2020, COVID-19 was declared as a pandemic due to the rising rate and scale of infection observed. COVID-19 has caused disruption to businesses and economic activity, which has been reflected in recent fluctuations in UK and global financial markets. The Company is not directly impacted by market movements, but is monitoring the impact of COVID-19 upon its insurance subsidiary, RAL. The investment in RAL represents the largest holding for the Company. At present, RAL's own funds surplus as per Solvency II has not materially decreased as a result of COVID-19 and RAL is expected to continue to meet its capital requirements. Refer to note 1.4 Going Concern for further information.

With continued uncertainty surrounding the trade agreement between the UK and the EU, Brexit represents an on-going risk and, until terms are finally agreed, continues to influence the financial markets. The Company utilises the Group's risk management function to continue to monitor and assess the impact of uncertainty arising from the Brexit process. The Company, as an intermediate holding company, does not carry out any operational activities therefore, Brexit is not expected to impact adversely upon the operations of the Company.

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. However, the IPO did not progress and subsequently Swiss Re announced that it has come to an agreement to sell RGP, including its subsidiary undertakings, to Phoenix Group Holdings Plc. This transaction has not yet completed therefore, the Company remains under the direct 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 £nil (2018: £921.0m) 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 4.

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' report for the year ended 31 December 2019 (continued)

Statement of directors' responsibilities in respect of the financial statements

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 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.

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.

Directors' Confirmations

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.

PShakespeare

On behalf of the Board of Directors

Paul Shakespeare
Company Secretary
30th April 2020

Independent auditors' report to the members of ReAssure Midco Limited

Report on the audit of the financial statements

Opinion

In our opinion, ReAssure Midco Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit 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 2019; 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

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- 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.

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.

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 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the 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 Statement of directors' responsibilities in respect of the financial statements set out on page 9, 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

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

Income Statement

For the year ended 31 December 2019

	Note	2019	2018
		£m	£m
Administrative expenses	3	(70.3)	(52.3)
Operating loss		**(70.3)**	**(52.3)**
Other income		1.4	-
Net investment income/(expense)	4	(2.4)	1,093.3
Reversal of impairment/ (impairment) of subsidiaries	10	425.8	(1,157.1)
Profit/(loss) on ordinary activities before interest and taxation		**354.5**	**(116.1)**
Finance income	5	3.9	0.9
Other finance expense	6	(0.1)	(0.2)
Profit/(loss) on ordinary activities before taxation		**358.3**	**(115.4)**
Tax on profit/(loss) on ordinary activities	9	11.2	9.9
Profit/(loss) for the financial year		369.5	(105.5)

All results derive from continuing operations.

Statement of Comprehensive Income

For the year ended 31 December 2019

	Note	2019 £m	2018 £m
Profit/(loss) for the financial year		**369.5**	**(105.5)**
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss:			
Actuarial (loss)/gain on defined benefit pension schemes	15	(16.0)	23.4
Movement in related deferred tax	12	4.4	(11.8)
Total other comprehensive (loss)/income		**(11.6)**	**11.6**
Total comprehensive income/(loss) for the year		**357.9**	**(93.9)**

Balance Sheet

As at 31 December 2019

	Note	2019 £m	2018 £m
Non-current assets			
Investment in group undertakings	10	3,476.5	2,952.8
Debt securities	11	59.1	38.2
Deferred tax asset	12	0.2	-
		3,535.8	**2,991.0**
Current assets			
Current tax asset		20.5	9.9
Other receivables	13	31.6	4.5
Net pension surplus	15	0.6	15.2
Cash and cash equivalents	14	34.6	259.4
		87.3	**289.0**
Total assets		**3,623.1**	**3,280.0**
Non-current liabilities			
Deferred tax liability	12	-	(4.0)
Pension scheme liability	15	(2.0)	(1.8)
		(2.0)	**(5.8)**
Current liabilities			
Current tax liability		-	(0.4)
Trade and other payables	16	(10.4)	(21.0)
Total liabilities		**(12.4)**	**(27.2)**
Net assets		**3,610.7**	**3,252.8**
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		2,092.9	1,735.0
Total equity		**3,610.7**	**3,252.8**

The financial statements of ReAssure Midco Limited, (registered number 02970583) were approved by the Board of Directors and authorised for issue on 27th April 2020 and signed on its behalf by:

Michael Woodcock
Director
30th April 2020

Statement of Changes in Equity

For the year ended 31 December 2019

	Attributable to owners of the Company				
	Share capital	Share premium	Other reserves	Retained earnings	Total equity
	£m	£m	£m	£m	£m
1 January 2019	73.1	83.9	1,360.8	1,735.0	**3,252.8**
Profit for the financial year	-	-	-	369.5	**369.5**
Other comprehensive expense for the year	-	-	-	(11.6)	**(11.6)**
Total comprehensive income for the year	-	-	-	**357.9**	**357.9**
At 31 December 2019	**73.1**	**83.9**	**1,360.8**	**2,092.9**	**3,610.7**

For the year ended 31 December 2018

	Attributable to owners of the Company				
	Share capital	Share premium	Other reserves	Retained earnings	Total equity
	£m	£m	£m	£m	£m
1 January 2018	73.1	83.9	1,360.8	2,749.8	**4,267.6**
Loss for the financial year	-	-	-	(105.5)	**(105.5)**
Other comprehensive income for the year	-	-	-	11.7	**11.7**
Total comprehensive expense for the year	-	-	-	**(93.8)**	**(93.8)**
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**

Statement of Cash Flows

For the year ended 31 December 2019

	Note	2019 £m	2018 £m
Net cash used in operating activities	19	(106.5)	(58.4)
Cash flows from investing activities			
Interest received		3.9	0.9
Dividends received from subsidiary undertaking		-	1,093.0
Realised (losses)/gains on short term investments		(1.0)	0.2
Net disposal of financial assets		(23.2)	(24.0)
Subscription of shares		(98.0)	(10.0)
Net cash flows (used by)/generated from investing activities		**(118.3)**	**1,060.1**
Net cash used in financing activities			
Dividends paid		-	(921.0)
Net cash flows used in financing activities		**-**	**(921.0)**
Net increase in cash and cash equivalents		**(224.8)**	**80.7**
Cash and cash equivalents at the beginning of the year		259.4	178.7
Cash and cash equivalents at the end of the year		**34.6**	**259.4**

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 the preceding year.

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

There are no new standards, amendments and policies not yet adopted by the Company.

1.2 New and amended standards and interpretations

The Company has applied the following new standard, IFRS 16 'Leases'.

IFRS 16 'Leases' addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on 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 does not have an impact on the financial statements of the Company. No contracts held by the Company have been identified as meeting the definition of a lease as per IFRS 16 'Leases' and therefore, no leases have been accounted for in the balance sheet.

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 has adequate resources to continue

Notes to the Financial Statements (continued)

1. Accounting Policies (continued)

1.4 Going concern (continued)

in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements.

Following the end of the financial year, the COVID-19 pandemic has had a significant adverse impact on the performance of global financial markets. The Company is not directly impacted by market movements but is continuing to monitor the situation as it develops, particularly the impact of COVID-19 upon its insurance subsidiary, RAL. The investment in RAL represents the largest holding for the Company. At present, RAL's own funds surplus as per Solvency II has not materially decreased as a result of COVID-19 and RAL is expected to continue to meet its capital requirements. Additionally, the Company has a letter of support for the next 12 months from the parent company of the ReAssure Group (RGP) therefore, at present there are no indicators that the pandemic presents a risk to the going concern status of the Company.

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.

1.5.4 Investment in subsidiary undertakings

Investments in subsidiary undertakings on the Company balance sheet are stated at cost less impairment.

The carrying amounts of investments in subsidiary undertakings are reviewed at each reporting date to determine whether there is any evidence of impairment. If any indication of impairment exists, the asset's recoverable amount is estimated.

Notes to the Financial Statements (continued)

1. Accounting Policies (continued)

1.5.4 Investment in subsidiary (continued)

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

An impairment loss is recognised in the income statement if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

1.6 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 20, 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.

Notes to the Financial Statements (continued)

1. Accounting Policies (continued)

1.8 Financial investments (continued)

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:

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

- Fair value through other comprehensive income ("FVOCI"): Financial assets that are held for collection of contractual cash flows and 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.

Notes to the Financial Statements (continued)

1. Accounting Policies (continued)

1.8 Financial investments (continued)

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

At 31 December 2019 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 lending 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 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 recognised 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 recognised in profit or loss. Any gain or loss on de-recognition is also recognised in profit or loss

c) Impairment

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

Notes to the Financial Statements (continued)

1. Accounting Policies (continued)

1.8 Financial investments (continued)

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 Cash and cash equivalents

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

1.10 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.

Notes to the Financial Statements (continued)

1. Accounting Policies (continued)

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.

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) Investment in group undertakings

Assets that are subject to impairment are reviewed for 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.

ii) 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.

iii) 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.

Notes to the Financial Statements (continued)

2. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (continued)

iv) 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.

3. Administration Expenses

	2019	2018
	£m	£m
Administration expenses	70.3	52.3

Administration expenses relate to costs recharged from other entities within the Group, primarily in relation to the Group's core integration delivery capability, which is maintained to support the integration of newly acquired books of business. These recharges are received from a related subsidiary company through Management Services Agreements by way of a monthly service charge. Administration expenses have increased since the prior year mainly due to the recharge of project integration costs from RUKSL, relating to the preparation for the migration of policies from L&G to RAL.

4. Net Investment Income/(Expense)

	2019	2018
	£m	£m
Dividends received from subsidiary undertakings	-	1,093.0
Unrealised (losses)/gains on short term investments	(0.9)	0.1
Realised (losses)/gains from financial investments	(1.5)	0.2
	(2.4)	**1093.3**

5. Finance Income

	2019	2018
	£m	£m
Interest income from financial investments	3.9	0.9

6. Other Finance Expense

	2019	2018
	£m	£m
Net interest expense on net defined pension benefit asset	(0.1)	(0.2)

Notes to the Financial Statements (continued)

7. Auditors' Remuneration

The analysis of auditors' remuneration is as follows:

	2019 £m	2018 £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
Total audit fees	**0.1**	**0.8**
Non-audit services:		
Audit related assurance services	-	0.9
Other assurance services	-	0.4
Total non-audit fees	-	**1.3**
Total fees	**0.1**	**2.1**

2018 audit related services include the audit of regulatory returns, and the review of reporting to the group's parent, which includes audit of embedded value reporting. Following the restructure, as stated in the strategic report, ReAssure Group Plc report the total fees for the Group for 2019. No other fees were paid or payable to the Company's auditors for 2019.

All audit and non-audit fees are borne by ReAssure UK Services Limited, a subsidiary undertaking.

8. Management Remuneration

No staff are employed by the Company (2018: none), all activities relating to the Company are performed by staff employed by another company within the Swiss Re group, ReAssure UK Services Limited. There are no recharges payable by the Company for these activities and hence it is not possible to determine the related employee costs. These are disclosed in full within the consolidated accounts of ReAssure Group Plc.

The directors of the Company are also directors of other undertakings within the Swiss Re group and are remunerated by ReAssure UK Services Limited (2018: same). It has not been deemed possible to separate the time spent on Company business from other Group business, and hence no apportionment has been made. Remuneration is disclosed in full within the consolidated accounts of ReAssure Group Plc.

Notes to the Financial Statements (continued)

9. Tax on Profit/(Loss) on Ordinary Activities

a) Tax charge to the income statement

	2019	**2018**
	£m	**£m**
Current taxation		
UK corporation tax	11.0	6.6
Adjustments in respect of prior periods	0.5	3.3
Total current tax credit for the year	11.5	9.9
Deferred taxation	(0.3)	-
Tax credit on profit/(loss) on ordinary activities	**11.2**	**9.9**

b) Reconciliation of tax charge on profit attributable to shareholders

The tax assessed for the year is lower (2018: lower) than the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%). *The differences are explained below:*

	2019	**2018**
	£m	**£m**
Profit/(loss) before tax	358.3	(115.4)
Tax on profit at 19.00% (2018: 19.00%)	(68.1)	21.9
Effects of:		
Non-taxable dividend income	-	207.6
Amounts written off investments	80.9	(219.9)
Permanent disallowable items	(2.0)	(0.4)
Transfer pricing adjustments	(0.4)	(2.6)
Adjustments in respect of prior years	0.5	3.3
Other	0.3	-
Total tax credit for the year	**11.2**	**9.9**

c) Factors affecting the current and future tax charges

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

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

Notes to the Financial Statements (continued)

10. Investment in Group Undertakings

	2019	2018
	£m	£m
Cost		
At 1 January	4,213.0	4,203.0
Subscription for shares (i)	98.0	10.0
31 December	**4,311.0**	**4,213.0**
Provision for impairment		
At 1 January	1,260.2	102.9
Reversal for the year (ii)	(434.1)	-
Impairment for the year (iii)	8.4	1,157.3
At 31 December	**834.5**	**1,260.2**
Net book value	**3,476.5**	**2,952.8**

(i) In the year ended 31 December 2019, the Company subscribed for 98,000,000 £1 ordinary shares in its subsidiary ReAssure Limited (2018: 10,000,000 £1 ordinary shares in its subsidiary ReAssure UK Services Limited).

(ii) In the current year, a review of the net asset and solvency position of ReAssure Limited identified a £434.1m reversal of provision for impairment.

(iii) In the current year the Company identified an £8.4m provision for impairment via a review of the net asset position of ReAssure UK Services Limited. In the prior year, a review of the net asset and solvency positions for ReAssure Limited and ReAssure UK Services Limited resulted in these investments being impaired by £1,144.2m and £13.1m respectively.

11. Debt Securities

	2019	2018
	£m	£m
Debt securities at fair value through profit or loss	59.1	38.2

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.

Notes to the Financial Statements (continued)

11. Debt Securities (continued)

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

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

As at 31 December 2019, the aggregate difference yet to be recognised in profit or loss in relation to the above was £nil (2018: £nil).

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

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

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

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.

Notes to the Financial Statements (continued)

11. Debt Securities (continued)

- 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 2019 and 31 December 2018.

Assets as at 31 December 2019	**Level 1**	**Level 2**	**Level 3**	**Total balance**
	£m	**£m**	**£m**	**£m**
Financial assets at fair value through profit and loss:				
Debt securities	-	59.1	-	59.1
	-	**59.1**	**-**	**59.1**

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**

Financial assets designated at FVTPL

Debt securities have been designated as at FVTPL in order to more closely match the accounting for any related liabilities. At 31 December 2019, the maximum exposure to credit risk of these financial assets was their carrying amount of £59.1m (2018: £38.2m). 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

	2019	**2018**
	£m	**£m**
Net deferred tax asset/(liability) opening balance	(4.0)	7.8
Adjustments in respect of prior years	1.7	(7.8)
Tax charged to income statement	(0.2)	-
Tax credited/(charged) to equity	2.7	(4.0)
Net deferred tax asset/(liability) closing balance	**0.2**	**(4.0)**

Notes to the Financial Statements (continued)

12. Deferred Tax (continued)

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.

Factors affecting the current and future tax charges

A reduction to the deferred asset rate (reducing the rate to 17%) for the year commencing 1 April 2020, was enacted in 2016.

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

13. Other Receivables

	2019	2018
	£m	£m
Amounts owed by group undertakings	30.6	4.1
Pension scheme surplus	0.6	15.2
Other debtors	1.0	0.4
	32.2	**19.7**

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

14. Cash and Cash Equivalents

	2019	2018
	£m	£m
Cash	29.6	7.7
Cash equivalents	5.0	251.7
	34.6	**259.4**

Cash comprises cash at bank. 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.

Notes to the Financial Statements (continued)

15. Retirement Benefit Schemes (continued)

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

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

	2019	**2018**
Discount rate	2.0%	2.9%
Inflation rate	3.2%	3.4%
Rate of increase in salaries	3.2%	3.4%
Rate of increase in pensions	3.2%	3.4%
Rate of increase in deferred benefits during deferment	2.2%	2.4%

	2019	**2018**
Mortality		
Longevity at age 60 for current pensioners		
- Men	28.4 years	28.6 years
- Women	29.8 years	30.1 years
Longevity at age 60 for future pensioners currently aged 45		
- Men	29.6 years	29.9 years
- Women	31.2 years	31.5 years

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:

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

Notes to the Financial Statements (continued)

15. Retirement Benefit Schemes (continued)

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	Asset/(liability) recognised on balance sheet
	£m	£m	£m
At 1 January 2019	383.9	(368.8)	15.1
Current service cost	-	(0.7)	(0.7)
Interest income/(cost)	11.0	(10.5)	0.5
Total amounts recognised in income statement	**11.0**	**(11.2)**	**(0.2)**
Actuarial gain	-	(52.3)	(52.3)
Return on scheme assets less than discount rates	36.3	-	36.3
Total remeasurement in other comprehensive income	**36.3**	**(52.3)**	**(16.0)**
Contributions paid by employer	1.9	-	1.9
Benefits paid	(10.7)	11.6	0.9
Administrative expenses	(0.7)	-	(0.7)
Income tax charge on the pension surplus of 35%	-	(0.3)	(0.3)
At 31 December 2019	**421.7**	**(421.0)**	**0.7**

	Fair value of scheme assets	Present value of obligation	Asset/(liability) recognised on balance sheet
	£m	£m	£m
At 1 January 2018	409.2	(417.8)	(8.6)
Current service cost	-	(1.0)	(1.0)
Past service cost	-	(0.4)	(0.4)
Interest income/(cost)	10.5	(10.7)	(0.2)
Total amounts recognised in income statement	**10.5**	**(12.1)**	**(1.6)**
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	1.9	-	1.9
Benefits paid	(13.3)	14.3	1.0
Administrative expenses	(1.0)	-	(1.0)
At 31 December 2018	**383.9**	**(368.8)**	**15.1**

Notes to the Financial Statements (continued)

15. Retirement Benefit Schemes (continued)

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%	Increase/decrease by 2.0%
RPI inflation*	Increase/decrease by 0.1%	Increase/decrease by 2.0%
Long term trend in future mortality improvements	Increase/decrease by 0.25% pa	Increase/decrease by 1.2%

* 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.

Notes to the Financial Statements (continued)

15. Retirement Benefit Schemes (continued)

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:

	2019	2018
	£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	Present value of obligation	Liability recognised on balance sheet
	£m	£m	£m
At 1 January 2019	0.4	(2.1)	(1.7)
Actuarial gain taken to other comprehensive income	-	(0.3)	(0.3)
At 31 December 2019	**0.4**	**(2.4)**	**(2.0)**

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

16. Trade and Other Payables

	2019	2018
	£m	£m
Amounts owed to group undertakings	(10.3)	(15.9)
Other creditors including tax	(0.1)	(5.1)
	(10.4)	**(21.0)**

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.

Notes to the Financial Statements (continued)

17. Share Capital

	2019 £m	2018 £m
Issued and fully paid		
730,506,943 (2018: 7,305,069,423) ordinary shares of £0.10 (2018: £0.01) each	73.1	73.1

In May 2019, as part of the restructuring work undertaken in readiness for a potential IPO, the number of issued shares of the Company was reduced to 730,506,943 and the nominal value increased to £0.10.

18. Other Reserves

	2019 £m	2018 £m
Other reserves	1,360.8	1,360.8

There has been no change to other reserves in the current year.

19. Cash Flows used in Operating Activities

	2019 £m	2018 £m
Operating loss	(70.3)	(52.3)
Adjustments for:		
Adjustment for pension funding	(1.3)	(0.5)
Income taxes paid	-	(1.6)
(Increase)/decrease in receivables	(26.7)	2.8
Increase/(decrease) in payables	(10.6)	(6.3)
Fair value losses/(gains) on financial assets	2.4	(0.5)
Net cash used in operating activities	**(106.5)**	**(58.4)**

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. On behalf of the Company, the Group's risk management function adopts an approach which seeks to minimise the potential adverse impact of these risks on the financial performance.

The following section discusses the Group's risk management function policies. The measurement of ECL under IFRS 9 uses the information and approaches that the Company uses to manage credit risk, though certain adjustments are made in order to comply with the requirements of IFRS 9.

Credit risk

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

Notes to the Financial Statements (continued)

20. Management of Financial Risk (continued)

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 2019 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 (2018: £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 realising security (if any is held); or
- The financial asset is more than 90 days past due.

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

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

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

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 £32.2m (2018: £19.7m).

Notes to the Financial Statements (continued)

20. Management of Financial Risk (continued)

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):

	2019	2018
	£m	£m
Financial assets designated at fair value		
Debt securities	59.1	38.2

vi) Loss allowance

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

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

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 (2018: 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.

Notes to the Financial Statements (continued)

20. Management of Financial Risk (continued)

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.

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

	2019	2018
	£m	£m
Amounts recognised as distributions to equity holders in the year:		
Final dividend	-	921.0
Total dividends paid in the year	**-**	**921.0**

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

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 ReAssure Group plc, incorporated in England and Wales.

The parent company of the largest group in which the results of the Company are consolidated is that of Swiss Re Limited, the ultimate and controlling parent undertaking. The consolidated financial statements of Swiss Re Limited may be obtained on www.swissre.com or from its registered office at Mythenquai 50/60, PO Box 8022, Zurich, Switzerland.

The parent Company of the smallest group in which the results of the Company are consolidated is that of ReAssure Group plc, the immediate parent undertaking. The consolidated financial statements of ReAssure Group plc may be obtained on www.reassure.co.uk or from its registered office at Windsor House, Telford Centre, Telford, Shropshire, TF3 4NB.

Notes to the Financial Statements (continued)

23. Related Parties (continued)

b) Services received from related parties

	2019	2018
	£m	£m
Subsidiaries	122.3	34.6
Other subsidiary undertakings of Swiss Re Ltd	3.5	14.2
	125.8	**48.8**

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

	2019	2018
	£m	£m
Subsidiaries	(33.5)	(6.8)
Other subsidiary undertakings of Swiss Re Ltd	(1.5)	1.9
	(35.0)	**(4.9)**

24. Post Balance Sheet Events

On 11 March 2020, COVID-19 was declared as a pandemic due to the rising rate and scale of infection observed. COVID-19 has caused disruption to businesses and economic activity, which has been reflected in recent fluctuations in UK and global financial markets. The Company is not directly impacted by market movements, but is monitoring the impact of COVID-19 upon its insurance subsidiary, RAL. The investment in RAL represents the largest holding for the Company. At present, RAL's own funds surplus as per Solvency II has not materially decreased as a result of COVID-19 and RAL is expected to continue to meet its capital requirements.

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