Not for general distribution in the United States

Swiss Re Admin Re Limited

€750,000,000 1.375% Notes due May 27, 2023

Issue Price: 99.748%

Swiss Re Admin Re Limited, incorporated under the laws of Jersey (the "**Issuer**") will issue €750,000,000 aggregate principal amount of 1.375% Notes due May 27, 2023 (each a "**Note**" and together, the "**Notes**") on or about May 27, 2016 (the "**Issue Date**"). The terms and conditions applicable to the Notes are set out in the section entitled "*Terms and Conditions of the Notes*" herein (the "**Conditions**").

Each Note will bear interest at the rate of 1.375% per annum from (and including) the Issue Date to (but excluding) May 27, 2023 (the "**Maturity Date**"), payable annually in arrear on each Interest Payment Date, commencing May 27, 2017. Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on the Maturity Date. The Notes may be redeemed prior to the Maturity Date, at the option of the Issuer, in whole but not in part, at their principal amount together with interest accrued to (but excluding) the date of redemption, upon the occurrence of a Tax Event that is continuing. See "*Terms and Conditions of the Notes—Redemption and Purchase—Tax Event.*"

The Notes constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 4 (*Negative Pledge*)) unsecured obligations of the Issuer, ranking *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes shall, save for such exceptions as may be provided by applicable legislation and, subject to Condition 4 (*Negative Pledge*), at all times rank equally with all other present and future direct, unconditional, unsubordinated and unsecured obligations of the Issuer from time to time outstanding.

The Notes will be issued in denominations of €100,000 and integral multiples of €1,000 in excess thereof and will be represented by a permanent registered global certificate (the "**Global Certificate**"), which will be deposited with a common depositary on behalf of Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**") and registered in the name of a nominee for the common depositary for Euroclear and Clearstream, Luxembourg. The provisions governing the exchange of interests in the Global Certificate for definitive Certificates are described in "*Overview of Provisions Relating to the Notes while in Global Form*."

There is currently no public market for the Notes. Application has been made to the Luxembourg Stock Exchange, in its capacity as market operator of the Euro MTF Market under the Luxembourg act relating to prospectuses for securities (loi relative aux prospectus pour valeurs mobilières), and for the Notes to be admitted to the Official List of the Luxembourg Stock Exchange and to be admitted for trading on the Euro MTF Market thereof. There can be no assurance that the Notes offered hereby will be listed and admitted to trade on the Euro MTF Market. The Euro MTF Market of the Luxembourg Stock Exchange is not a regulated market pursuant to the provisions of Directive 2004/39/EC on markets in financial instruments.

See "*Risk Factors*" beginning on page 14 of this Offering Memorandum for a discussion of certain factors that should be considered by prospective investors.

The Notes have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), or the securities laws of any state or other jurisdiction of the United States. The Notes may not be offered, sold or resold within the United States (as defined in Regulation S under the Securities Act ("**Regulation S**")), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state or local securities laws. The Notes are being offered and sold only outside the United States to non-U.S. persons, in compliance with Regulation S. See "*Transfer Restrictions*."

The Notes are expected to be rated A- by Standard & Poor's Credit Market Services Europe Limited. Standard & Poor's Credit Market Services Europe Limited is established in the European Union and is registered under the EU Regulation on credit rating agencies (Regulation (EC) No. 1060/2009), as amended. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

A copy of this Offering Memorandum has been delivered to the Jersey Registrar of Companies in accordance with Article 5 of the Companies (General Provisions) (Jersey) Order 2002 and the Jersey Registrar of Companies has given, and not withdrawn, his consent to its circulation. The Jersey Financial Services Commission (the "**Commission**") has given, and has not withdrawn, its consent under Article 4 of the Control of Borrowing (Jersey) Order 1958 to the issue of the Notes by the Issuer. The Commission is protected by the Control of Borrowing (Jersey) Law 1947 against any liability arising from the discharge of its functions under that law. It must be distinctly understood that, in giving these consents, neither the Jersey Registrar of Companies nor the Commission takes any responsibility for the financial soundness of the Issuer or for the correctness of any statements made, or opinions expressed, with regard to the Issuer. If you are in any doubt about the contents of this Offering Memorandum you should consult your stockbroker, bank manager, solicitor, accountant or other financial adviser. Nothing in this Offering Memorandum or anything communicated to the potential holders of any Notes by or on behalf of the Issuer is intended to constitute or should be construed as advice on the merits of the purchase of, or subscription for, any Notes for the purposes of the Financial Services (Jersey) Law 1998.

Each investor contemplating purchasing the Notes should make its own independent investigation of the Issuer's financial condition and affairs, and its own appraisal of the Issuer's creditworthiness.

Joint Lead Managers

BNP PARIBAS **Barclays** **HSBC** **Lloyds Bank** **RBC Capital Markets**

The date of this Offering Memorandum is May 23, 2016

IMPORTANT INFORMATION

The Issuer accepts responsibility for the information contained in this Offering Memorandum. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Offering Memorandum is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Offering Memorandum is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "*Financial and Other Information Included or Incorporated by Reference in this Offering Memorandum*"). This Offering Memorandum should be read and construed on the basis that such documents are incorporated and form part of the Offering Memorandum.

Save for the Issuer, no other party has separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the BNP Paribas, Barclays Bank PLC, HSBC Bank plc, Lloyds Bank plc and RBC Europe Limited (the "**Joint Lead Managers**") as to the accuracy or completeness of the information contained or incorporated by reference in this Offering Memorandum or any other information provided by the Issuer in connection with the offering of the Notes (the "**Offering**"). No Joint Lead Manager accepts any liability in relation to the information contained or incorporated by reference in this Offering Memorandum or any other information provided by the Issuer in connection with the offering of the Notes or their distribution.

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Offering Memorandum or any other information supplied in connection with the Offering and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Joint Lead Managers.

Neither this Offering Memorandum nor any other information supplied in connection with the offering of the Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer or any of the Joint Lead Managers that any recipient of this Offering Memorandum or any other information supplied in connection with the Offering should purchase the Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Offering Memorandum nor any other information supplied in connection with the Offering constitutes an offer or invitation by or on behalf of the Issuer or any of the Joint Lead Managers to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Offering Memorandum nor the offering, sale or delivery of the Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Offering of the Notes is correct as of any time subsequent to the date indicated in the document containing the same. The Joint Lead Managers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Notes or to advise any investor in the Notes of any information coming to their attention.

This Offering Memorandum does not constitute an offer to sell or the solicitation of an offer to buy the Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Memorandum and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer and the Joint Lead Managers do not represent that this Offering Memorandum may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Joint Lead Managers which is intended to permit a public offering of the Notes or the distribution of this Offering Memorandum in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Memorandum nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Each purchaser of the Notes must comply with all applicable laws and regulations in force in each jurisdiction in which it purchases, offers or sells the Notes or possesses or distributes this Offering Memorandum, and must obtain any consent, approval or permission required for the purchase, offer or sale by it of the Notes under the laws and regulations in force in any jurisdiction to which it is subject to in which it makes purchases, offers or sales. Persons into whose possession this Offering Memorandum or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Memorandum and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Memorandum and the offer or sale of Notes in certain jurisdictions including the United States; see "*Subscription and Sale.*"

The Notes have not been, and will not be, registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States and may not be offered, sold or resold within the United States (as defined in Regulation S), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state or local securities laws. The Notes are not being offered in the United States or to U.S. persons. The Issuer has not registered, and will not register, as an investment company under the U.S. Investment Company Act of 1940 (the "**Investment Company Act**"), and purchasers of Notes will not have the protections of the Investment Company Act.

There is currently no public market for the Notes. Application has been made to the Luxembourg Stock Exchange, in its capacity as market operator of the Euro MTF Market under the Luxembourg act relating to prospectuses for securities (loi relative aux prospectus pour valeurs mobilières), and for the Notes to be admitted to the Official List of the Luxembourg Stock Exchange and to be admitted for trading on the Euro MTF Market thereof. There can be no assurance that the Notes offered hereby will be listed and admitted to trade on the Euro MTF Market. The Euro MTF Market of the Luxembourg Stock Exchange is not a regulated market pursuant to the provisions of Directive 2004/39/EC on markets in financial instruments.

STABILISATION

IN CONNECTION WITH THE ISSUE OF THE NOTES, BNP PARIBAS AS STABILISING MANAGER (THE STABILISING MANAGER(S)) (OR PERSON(S) ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF A STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 CALENDAR DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 CALENDAR DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE RELEVANT STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

THIS OFFERING MEMORANDUM CONTAINS IMPORTANT INFORMATION WHICH YOU SHOULD READ BEFORE YOU MAKE ANY DECISION WITH RESPECT TO AN INVESTMENT IN THE NOTES.

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INTRODUCTORY NOTE

The Issuer

Swiss Re Admin Re Limited (the "**Issuer**"), formerly known as Guardian Midco Limited, is an indirect subsidiary of Swiss Re Life Capital Ltd ("**SRLC**" and, together with its consolidated subsidiaries, the "**SRLC Group**"), which in turn is a direct subsidiary of Swiss Re Ltd ("**SRL**" and, together with its consolidated subsidiaries, the "**Swiss Re Group**"), the ultimate parent company of the Swiss Re Group. In January 2016, SRLC acquired Guardian Holdings Europe Limited ("**Guardian Holdings**"), since renamed Admin Re Jersey One Limited, and its subsidiaries (the "**Guardian Group**"), which group included the Issuer (the "**Guardian Group Acquisition**").

The Issuer was incorporated as a private limited company in Jersey on 22 July 2011 under the Jersey Companies Law, as amended (the "**Jersey Companies Law**"). The Issuer is registered in Jersey under number 108673. Although it is a private limited company, the Issuer is subject to the Jersey Companies Law as though it were a public company and is required to have its accounts audited and filed.

The Issuer Group

The operations of the Issuer and its consolidated subsidiaries, all of which are wholly owned (the "**Issuer Group**"), encompass the core closed life book business of the Swiss Re Group, and include:

- the historical closed book operations of the Swiss Re Group conducted by the following subsidiaries of Admin Re UK Limited ("**ARUK**"):
    - ReAssure Limited ("**ReAssure**"), a company authorised by the Prudential Regulation Authority (the "**PRA**") and regulated by the PRA and the Financial Conduct Authority (the "**FCA**") as a life assurer and subject to regulatory solvency capital and compliance requirements relating to life assurance companies; and
    - Admin Re UK Services Limited ("**ARUKSL**"), a service company that conducts administration of insurance business for ReAssure and third parties (including Aviva), and is regulated by the FCA; and
- the historical operations of the Guardian Group conducted by the following subsidiaries of Guardian Financial Services Holdings UK Limited ("**Guardian FS Holdings**"), which in turn was held by Guardian Holdings through its subsidiary Guardian Finance Limited, since renamed Swiss Re AR Midco Limited ("**SRAR Midco**"):
    - Guardian Assurance Limited ("**Guardian Assurance**"), a company authorised by the PRA and regulated by the PRA and the FCA as a life assurer and subject to regulatory solvency capital and compliance requirements relating to life assurance companies; and
    - Ark Life Assurance Company Limited ("**Ark Life**"), a company based in Dublin, Ireland, which is authorised and regulated by the Central Bank of Ireland (the "**CBI**") and whose principal activity is the transaction of life assurance and pension business in Ireland.

The Issuer Group excludes Swiss Re Life Capital Management (a management entity that provides services to SRLC) ("**SRLC Management**"), Admin Re UK Finance Limited (which was formed to fund SRLC's operations, including initially to finance the acquisition of HSBC's UK pensions business and fund required capital) ("**ARUK Finance**") and Algemene Levensherverzekering Maatschappij N.V. (which operates within the Dutch market and specialises in the selective underwriting and management of life and accident & health (re)insurance risks, in particular risks associated with death and disability) ("**ALHM**"), each of which forms part of the SRLC Group and is part of the Life Capital Business Unit (collectively, the "**Excluded Life Capital Operations**"). The operations of the Issuer Group also exclude the Non-Consolidated Life Capital Operations (described below) that are reported at the Swiss Re Group level within the Life Capital Business Unit.

The Life Capital Business Unit

General. The Issuer Group forms part of the SRLC Group, the assets, liabilities and operations of which, in turn, comprise substantially all of the assets, liabilities and operations of the Life Capital Business Unit (formerly the Admin Re® Business Unit). The Life Capital Business Unit encompasses the operations of Swiss Re's closed life book business in the United States, certain blocks of which have been retained by subsidiaries of Swiss Reinsurance Company Ltd ("**SRZ**"), as well the subsidiaries that conduct Swiss Re's open life book business, which remain subsidiaries of SRZ for the time being (in both cases, as discussed below), and therefore are not within the consolidation scope of the SRLC Group (the "**Non-Consolidated Life Capital Operations**").

Non-Consolidated Life Capital Operations. As part of the Swiss Re Group's strategy to exit the closed life book business in the United States and, after the Swiss Re Group concluded that it could better deploy capital to other parts of the Swiss Re Group, in 2012, SRLC sold the majority of its U.S. operations to Jackson National Life Insurance Company ("**Jackson National**"). At that time, the remaining components of what was then the Admin Re® Business Unit's U.S. business, including the operations conducted by Aurora National Life Assurance Company ("**Aurora**"), were owned by subsidiaries of SRZ. In April 2015, Aurora was sold by Swiss Re Life Health America Inc. (a subsidiary of SRZ).

In connection with the consolidation of operations within the newly formed Life Capital Business Unit (as of 1 January 2016) following the Guardian Group Acquisition, the group open life book business operated through Elips Life AG (which offers life insurance products) and Elips Versicherungen AG (which provides non-life insurance cover) (collectively, "**elipsLife**") and a white-label business established to support the development of primary life and health opportunities with distribution partners such as primary insurers (through iptiQ Life S.A. and iptiQ Insurance S.A. (collectively, "**iptiQ**")) were included within the Life Capital Business Unit but the relevant legal entities remain subsidiaries of Swiss Re Europe Holdings S.A. and, indirect subsidiaries of SRZ. These open life book businesses are part of the Life Capital Business Unit but do not form part of the Issuer Group.

Reporting differences. The results of the Life Capital Business Unit are reported on a segment basis as part of the Swiss Re Group's financial reporting. The historical financial information included within the Life Capital Business Unit reported at the Swiss Re Group level includes an allocation of costs made at the Swiss Re Group level across the principal business units of the Swiss Re Group (the "**Business Units**") and consolidation adjustments that are not applicable to the consolidated financial statements of the SRLC Group. Accordingly, the historical financial information of the SRLC Group differs from the historical financial information of the Life Capital Business Unit as reported at the Swiss Re Group level.

Group Structures; Business

In this Offering Memorandum, we refer to ReAssure, ARUKSL and ARUK, collectively, as the "**Admin Re® Business**" and refer to Guardian Assurance and Ark Life, together with Guardian Companies Services Limited and Guardian FS Holdings, collectively, as the "**Guardian Business**."

In this Offering Memorandum, unless the context otherwise requires and notwithstanding that the Issuer was acquired by the SRLC Group as part of the Guardian Group Acquisition, the terms "**we**," "**us**" and "**our**" refer to the Issuer Group, in respect of periods subsequent to the Guardian Group Acquisition, and to the closed book operations of the Admin Re® Business, in respect of periods prior to the Guardian Group Acquisition.

Each of ReAssure and Guardian Assurance operates long-term business that is subdivided for the purposes of Solvency II reporting. The long-term business includes:

- ring-fenced funds, which are subject to restrictions on transfers of assets in and out of the funds, and include the with-profit funds of ReAssure and Guardian Assurance, and the Matching Adjustment (as defined below) funds of ReAssure and Guardian Assurance; and

- residual funds, which are not ring-fenced.

Ark Life operates a non-ring-fenced fund, which consists of non-linked life and disability business and unit-linked business.

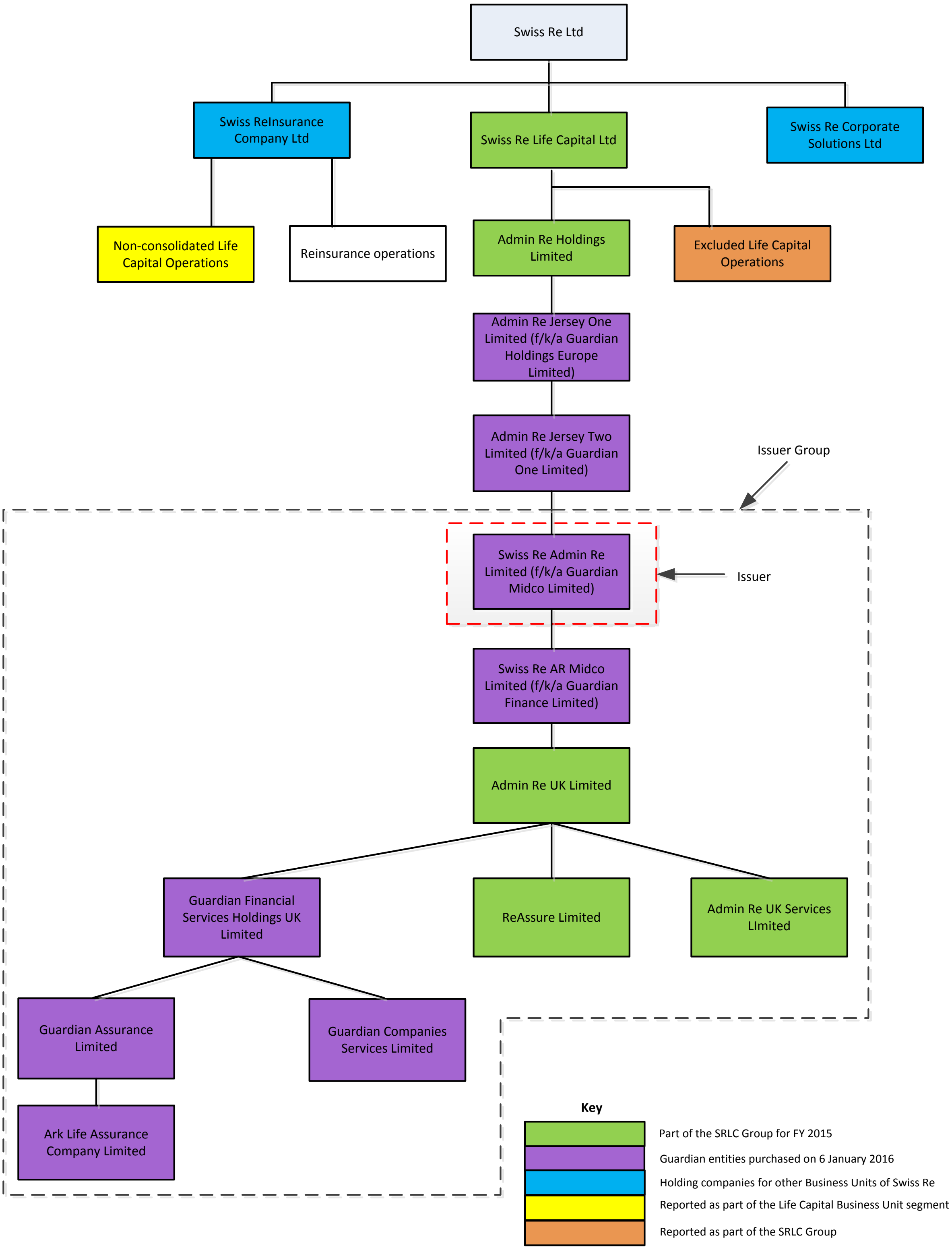
Each of these funds has different attributes and benefits to policyholders and its shareholders (directly, ARUK (in the case of ReAssure), Guardian FS Holdings (in the case of Guardian Assurance) and Guardian Assurance (in the case of Ark Life), and ultimately for the benefit of the Issuer Group (collectively, for purposes of descriptions of cash flow from these funds, the "**shareholder**")).

Funds are tied to policyholder objectives, which informs the type of policy they hold. These can include:

- A non-profit, or non-participating, policy, where the policyholder does not participate in the profits of the life insurance company. The value of non-profit life and pensions products is either linked directly to the performance of the underlying assets or is guaranteed by the insurer. Policies of the former type are typically "unit-linked" products where policyholder funds are linked to an underlying investment product or fund (unit-linked business tends to relate to pensions, but can also include index-linked annuities). For such policies, the policyholder bears all of the investment risk.

- A with-profit, or participating, policy, where the policyholder participates in the profits of the life assurance company.

The following schematic shows the key entities that comprise the Issuer Group in the context of the SRLC Group, the Life Capital Business Unit and the broader Swiss Re Group, but does not reflect any of the funds.



The Notes are being issued by the Issuer, and none of SRL, SRLC or any other person is providing any guarantee in respect of the Notes. Each person in whose name a Note is registered in the register of holders of the Notes (a "**Noteholder**"), will have recourse to the Issuer only and will not have any recourse against SRL, SRLC or their other directly or indirectly held subsidiaries.

FINANCIAL AND OTHER INFORMATION INCLUDED OR INCORPORATED BY REFERENCE IN THIS OFFERING MEMORANDUM

The following financial statements are included or incorporated by reference into this Offering Memorandum as indicated:

- the audited consolidated financial statements of the SRLC Group as of and for the years ended 31 December 2014 and 2015, which were prepared in accordance with generally accepted accounting principles in the United States ("**U.S. GAAP**") (the "**SRLC Group Financial Statements**") and are included in this Offering Memorandum;

- the audited consolidated financial statements of Guardian Holdings as of and for the years ended 31 December 2014 and 2015, which were prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("**IFRS**") and are included in this Offering Memorandum (the "**Guardian Holdings Financial Statements**"); and

- the audited financial statements of the Issuer as of and for the years ended 31 December 2015 and 2014, which were prepared in accordance with IFRS and the Jersey Companies Law, are incorporated by reference in this Offering Memorandum and are available on the website of the Swiss Re Group at http://www.swissre.com/investors/debt (the "**Issuer Financial Statements**").

No other information contained on the Swiss Re Group website, or on any other website, is incorporated herein by reference in this Offering Memorandum.

This Offering Memorandum also includes unaudited condensed pro forma financial information as of and for the year ended 31 December 2015 to illustrate the combination of the Admin Re® Business and the Guardian Business and the novation of the existing Bilateral Credit Facility and the Revolving Credit Facility (as defined herein) (collectively, the "**Issuer Group Formation**"), as well as the Offering, which has been prepared based on:

- income statement and balance sheet information for the operations of the SRLC Group excluding the Excluded Life Capital Operations as of and for the year ended 31 December 2015, and a reconciliation of that information to the consolidated income statement and balance sheet of the SRLC Group as of and for the year ended 31 December 2015;

- consolidated income statement and balance sheet information of Guardian Holdings as of and for the year ended 31 December 2015 presented in U.S. GAAP and derived from Guardian Holdings' income statement and balance sheet as of and for the year ended 31 December 2015 prepared in accordance with IFRS; and

- pro forma adjustments to give effect to the Issuer Group Formation and the Offering (and the use of the net proceeds thereof as set forth in "*Use of Proceeds*") as if they had occurred for income statement purposes on 1 January 2015 and for balance sheet purposes on 31 December 2015.

Where we include income statement and balance sheet data as of and for the year ended 31 December 2015 in the discussion of our business, the data are derived from the foregoing pro forma financial information and are described as presented on a pro forma basis.

The SRLC Group Financial Statements were audited by PricewaterhouseCoopers AG, Birchstrasse 160, CH-8050 Zurich, Switzerland, as independent auditors, and the Guardian Holdings Financial Statements and the Issuer Financial Statements were audited by Ernst & Young, LLP, 25 Churchill Place, Canary Wharf, London E14 5EY, United Kingdom, as independent auditors. The Issuer Financial Statements were prepared on an unconsolidated basis, and the Guardian Holdings Financial Statements were prepared on a consolidated basis consistent with IFRS 10 (*Consolidated Financial Statements*). The Issuer was included within the scope of the Guardian Holdings Financial Statements.

Following the Offering, the Issuer intends to publish annual and semi-annual consolidated financial statements for the Issuer Group, which will be available on the website of the Swiss Re Group. As the Issuer is deemed the acquiror for financial reporting purposes, while the Issuer Group's consolidated financial statements as of and for the six months ending 30 June 2016 and as of and for the year ending 31 December 2016 will reflect the

Guardian Business and the Admin Re® Business, the comparative information as of and for the six months ended 30 June 2015 and as of and for the year ended 31 December 2015 that will be included in those financial statements will reflect the Guardian Business and not the Admin Re® Business.

We use non-GAAP financial measures in our external financial reporting. These measures are not prepared in accordance with U.S. GAAP or any other comprehensive set of accounting rules or principles, and should not be viewed as substitutes for measures prepared in accordance with U.S. GAAP. Moreover, these may be different from, or otherwise inconsistent with, similarly named non-GAAP or non-IFRS financial measures used by other companies. These measures have inherent limitations, are not required to be uniformly applied and are not audited. We also use and present in this Offering Memorandum, various performance measures, including:

- *Gross cash generation,* which is the change in excess capital over and above the target capital position, with the target capital being the minimum statutory capital plus the additional capital required by SRLC's capital management policy. Gross cash generation is not intended to equate directly to dividends paid to our shareholder, as it also represents sources for the servicing and repayment of our debt as well as future investments and acquisitions. Separately, we have also presented in this Offering Memorandum an estimated gross cash generation figure for the Guardian Business for the year ended 31 December 2015, which has been prepared by us on the same basis as our gross cash generation figures.

- *Return on equity*, which is net income as a percentage of average shareholder's equity and is calculated by dividing annualised net income attributable to common shareholder by average common shareholder's equity.

- *Return on investment*, which is the annualized investment operating income as a percentage of average invested assets. Invested assets include investments, securities in transit, financial liabilities and exclude cash and cash equivalents, securities lending, repurchase activity, policy loans and certain group items.

References in this Offering Memorandum to "**2014**" and "**2015**" are to fiscal years ended 31 December 2014 and 2015, respectively.

References in this Offering Memorandum to "**U.S. dollars**," "**USD**" and "**$**" are to the lawful currency of the United States, references to "**euro**" or to "**€**" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended, references to "**GBP**" "**£**," "**pound sterling**" or "**sterling**" are to the lawful currency of the United Kingdom and references to "**Swiss francs**" and "**CHF**" are to the lawful currency of Switzerland.

SOURCES OF INFORMATION

Except where we otherwise attribute market or market share data to another source, all market and market share data included in this Offering Memorandum are our own estimates. These estimates are based upon our experience in the insurance industry and our familiarity with the global insurance market.

Information that has been sourced from third parties has been accurately reproduced and, as far as we are aware and are able to ascertain from information published by such third parties, no facts have been omitted that would render the reproduced information inaccurate or misleading.

CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS

Certain statements contained in this Offering Memorandum, including any information in respect of our strategy, market position, plans or future financial or operating performance after giving effect to the Guardian Group Acquisition, are forward-looking. These statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to a historical fact or current fact. Forward-looking statements typically are identified by words or phrases such as "anticipate," "assume," "believe," "continue," "estimate," "expect," "foresee," "intend," "may increase" and "may fluctuate" and similar expressions or by future or conditional verbs such as "will," "should," "would" and "could." These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results of operations, financial condition, solvency ratios, liquidity or capital positions or prospects to be materially different from any future results of operations, financial condition, solvency ratios, liquidity or capital positions or prospects expressed or implied by such statements. Any forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this Offering Memorandum. Among the key factors that have a direct bearing on our results of operations, financial condition, solvency ratios, liquidity or capital positions or prospects are:

- instability affecting the global financial system and developments related thereto;
- deterioration in economic conditions in the United Kingdom or, more broadly, in global economic conditions;
- our ability to maintain sufficient liquidity and access to capital and funding;
- the effect of market conditions, including the global equity and credit markets, and the level and volatility of interest rates, credit spreads, equity prices, currency values and other market indices, on our investment assets;
- changes in our investment result as a result of changes in our investment policy or the changed composition of our investment assets, and the impact of the timing of any such changes relative to changes in market conditions;
- possible inability to realise amounts on sales of securities on our balance sheet equivalent to their mark-to-market values recorded for accounting purposes;
- mortality, morbidity, longevity and persistency rates;
- policy renewal and lapse rates;
- uncertainties in estimating reserves;
- extraordinary events affecting our counterparties;
- current, pending and future legislation and regulation affecting us, and interpretations of legislation or regulations by regulators, particularly in respect of minimum capital requirements;
- legal actions or regulatory investigations or actions, including those in respect of industry requirements or business conduct rules of general applicability;
- changes in accounting standards;
- significant investments, acquisitions or dispositions, and any delays, unexpected costs or other issues experienced in connection with any such transactions and, in particular, our ability to integrate the Guardian Group successfully and obtain the expected operational, capital and asset management synergies, benefits of scale and other expected benefits of the Guardian Group Acquisition;
- changing levels of competition; and
- operational factors, including the efficacy of risk management and other internal procedures in managing the foregoing risks.

See "*Risk Factors*" for additional details.

These factors are not exhaustive. Because these factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements made by or on our behalf, you should not place undue reliance on any of these forward-looking statements. Further, any forward-looking statement speaks only as of the date of this Offering Memorandum. Except as may be required by applicable law, stock exchange rules or regulations, we expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. New factors emerge from time to time, and it is not possible to predict which will arise. In addition, we cannot assess the effect of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those described in any forward-looking statement.

SUMMARY

This summary highlights selected information from this Offering Memorandum. It is not complete and does not contain all of the information that you should consider before investing in the Notes. This summary should be read in conjunction with, and is qualified in its entirety by, the more detailed information included or incorporated by reference in this Offering Memorandum, including the financial statements that are included or incorporated by reference into this Offering Memorandum and the related notes. You should read carefully the entire Offering Memorandum to understand our business, the nature and terms of the Notes and the other considerations that are important to your decision to invest in the Notes, including the risks discussed under "Risk Factors." In addition, certain statements include forward looking information that involves risks and uncertainties. See "Cautionary Note on Forward-Looking Statements."

The Issuer

The Issuer is incorporated under the laws of Jersey. The Issuer is an indirect subsidiary of SRLC, which in turn is a direct subsidiary of SRL, the ultimate parent company of the Swiss Re Group. See "*Introductory Note – The Issuer*."

Overview of the Issuer Group

We form a core part of the Swiss Re Group. Our business involves the acquisition and management of closed books of in-force life and health insurance business, including pensions business ("**closed books**"), providing us with a range of products that include long-term life and pension products, permanent health insurance and critical illness products, and retirement annuities.

We acquire portfolios through acquisition of entire lines of business (and a subsequent transfer of the business to us in the United Kingdom under Part VII of the Financial Services and Markets Act 2000, as amended ("**FSMA**") (a "**Part VII Transfer**")) or the entire share capital of (or a majority stake in) life insurance companies, or through reinsurance. We typically assume responsibility for administering the underlying policies in such portfolios until they reach maturity, are surrendered or an insured event occurs resulting in the termination of the policies. In addition, we write a nominal amount of new business on a passive basis normally for existing customers that request "top-ups" of current contracts or who need to move to an alternative product type to access certain product features.

Our principal sources of revenues are fee income on unit-linked products, premiums on existing policies, investment income and fee income on third-party administration services we provide. We seek to maximise our future profits through a combination of efficient management of existing policies, the acquisition of additional books of business priced on the basis of economic value and consolidation of such new business with our existing business to achieve capital, cost, operational and incidental tax synergies. We also aim to focus on operational excellence through the continuous improvement of our scalable operating platform, which includes focusing on transformation and management actions, including business efficiency and cost reductions.

For the year ended 31 December 2015, we had, on a pro forma basis (See *"Unaudited Condensed Pro Forma Financial Information"*):

- premiums earned of $223 million;
- fee income of $361 million;
- total revenues of $3,196 million; and
- net income attributable to common shareholder of $646 million.

Our business is subject to shifting demographic trends, regulatory changes, and varying financial returns which prompt insurers and others to sell or otherwise reinsure their legacy life insurance portfolios to third parties, thereby reducing administrative costs for their legacy systems, releasing capital and monetising future cash flow from non-core portfolios. See "*Our Business—Industry Overview—Closed Book Transactions; Characteristics of Closed Books.*" We position ourselves to help insurers and others respond to a changing regulatory environment and market conditions by acquiring their closed or non-core in-force life insurance portfolios; these insurers can exit either from a single line of business or the whole market.

We have developed market-leading experience in the acquisition of closed books, including the complexities of policy conversion, regulatory approval and effective on-going policy management. We administer acquired books of business predominantly as a single business via our proprietary information technology ("**IT**") system.

From the perspective of the Swiss Re Group, we represent a source of cash generation, diversification and complementary client solutions. Our ability to acquire and manage closed books provides complementary risk and capital management solutions to clients of the other Business Units within the Swiss Re Group, enhancing the Swiss Re Group product and service offering. We draw upon our experience gained through the Swiss Re Group's traditional reinsurance business to provide our counterparties with attractive solutions. Additionally, our annuity liabilities provide longevity risk, which acts as a natural hedge to mortality risk that dominates the core business of the Swiss Re Group's Life & Health reinsurance business. Our life and pensions risk exposure provides diversification benefits to the Swiss Re Group, helping to counterbalance property & casualty business written.

We began operations in the United States in the mid-1990s, prior to setting up our UK business in 2003 through the acquisition of the closed book of business of Zurich Life Assurance Company, one of the then-named Zurich Financial Services' UK-based life assurance businesses. Since then, we have completed a further 11 transactions in the United Kingdom, where we have added approximately seven million policies, including our acquisition of the Guardian Group and HSBC Life (UK) Limited's ("**HSBC**") UK pensions business, which has expanded our presence within the UK life insurance industry (see *"Our Business—History*"). In 2011, we rebranded our UK life assurance company, ReAssure. Today, we operate principally in the United Kingdom.

The Guardian Group Acquisition closed on 6 January 2016. The Guardian Group is a UK-based consolidator of closed books and includes Guardian Assurance, which is regulated by the PRA and FCA, and Ark Life, which is based in Ireland and regulated by the CBI. The consideration for the Guardian Group Acquisition was £1.6 billion and was funded through cash on hand from the Swiss Re Group and borrowings that have been novated to the Issuer.

The Guardian Group adds a portfolio consisting of over 900,000 annuity, life insurance and pension policies in the United Kingdom and Ireland (of which approximately 637,000 are in the UK and 263,000 are in Ireland), increasing our overall number of policies by 25% to more than four million policies (of which approximately three million were managed in-house and approximately one million were administered on behalf of Aviva (which owns these policies)), and extends our position as an established market leader in the closed life assurance market in the United Kingdom.

The Guardian Group Acquisition represented an attractive opportunity to acquire illiquid assets (approximately 4.7% of the Guardian Group's asset portfolio as of 31 December 2015 was allocated to illiquid assets, based on the non-profit and shareholder asset portfolio of £10.3 billion and combined infrastructure and commercial mortgage loans or bonds of £484 million) and related hedging arrangements and provided an attractive opportunity to develop our mature credit portfolio (approximately 73% of the Guardian Group's non-profit and shareholder asset portfolio as of 31 December 2015 was allocated to investment grade credit assets). It also has provided us with attractive diversification in terms of reserves (between pensions and annuities) and portfolio composition (achieving greater scale and a more balanced portfolio) through the addition of a large block of annuities (approximately 72% of the UK policies acquired were annuity policies).

The following tables set forth the impact on diversification of the Guardian Group Acquisition.

By statutory reserves

The following table sets forth a breakdown, as of 31 December 2014 and 2015, of reserves of ReAssure, Guardian Assurance and Ark Life by type of business on a Solvency I – Pillar I basis. Intangible assets are not permitted in the Pillar I assessment under the Solvency I framework. The reserves are presented in GBP, net of internal and external reinsurance arrangements.

	ReAssure		**Guardian Assurance**		**Ark Life**		**Total**	
	As of 31 December							
	2014	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**
	(GBP in thousands)							
Unit-linked business[(1)]	14,250,953	17,551,495	1,994,432	1,782,651	1,541,610	1,504,194	17,786,995	20,838,340
Index-linked business[(2)]	892,054	771,873	146,395	140,280	702,860	575,079	1,741,309	1,487,232
With-profit business	1,080,887	992,977	1,779,485	1,546,028	-	-	2,860,372	2,539,005
Non-profit/non-linked business..........................	7,273,676	6,629,968	8,376,729	8,066,346	15,223	15,270	15,665,628	14,711,584
Third-party administration services	-	-	-	-	-	-	-	-
Total	**23,497,570**	**25,946,313**	**12,297,041**	**11,535,305**	**2,259,692**	**2,094,543**	**38,054,303**	**39,576,161**

(1) Includes non-unit-linked liabilities that are attributable to the index-linked business
(2) Includes non-index linked liabilities that are attributable to the index-linked business.

By policies

The following table sets forth a breakdown of policies showing policies administered by us in-house (including policies administered on behalf of Aviva, which owns these policies) and by third parties, which include (i) in the case of the Admin Re® Business, policies for which the administration is outsourced to HCL Insurance BPO Services ("**HCL**"), our historical third-party administrator; and (ii) in the case of the Guardian Group, Capita and Diligenta in the UK and Irish Life Financial Services ("**Irish Life**") in Ireland.

Type of policy	**Admin Re® Business**	**Guardian Assurance**	**Ark Life**	**Issuer Group**
	As of 31 December 2015			
Unit-linked/savings business[(1)]	1,234,724	106,516	107,113	1,448,353
Annuities[(2)]......................................	359,853	469,095	-	828,948
Term or protection[(3)]	298,203	32,337	112,532	443,072
Third-party administration services	1,267,348	-	-	1,267,348
Total	**3,160,128**	**607,948**	**219,645**	**3,987,712**

(1) Includes non-unit-linked liabilities that are attributable to the index-linked business and non-index linked liabilities that are attributable to the index-linked business.
(2) Includes annuities in payment and deferred annuities.
(3) Includes term and protection policies.

As of 31 December 2015, our UK portfolio included approximately 3.8 million policies, 84% of which (approximately 3.2 million policies) were owned by ReAssure (2.7 million of which were managed in-house, and 0.5 million of which were managed by third-party administrators), and 33% of the policies were administered on behalf of Aviva (which owns these policies). As at the same date, our Irish portfolio included approximately 0.2 million policies (six of which were managed in-house and the remainder of which were managed by a third-party administrator).

Asset management is generally outsourced, with approximately £19.3 billion of unit-linked and with-profit assets managed principally by Aberdeen Asset Management Limited and HSBC Global Asset Management, as of 31 December 2015, and the non-profit and shareholder assets managed by the Swiss Re Group and its external investment managers.

We are headquartered in London, with our major operations located in Telford, Hitchin, Norwich, Lytham and Dublin.

Overview of the Issuer Group Structure

Our key operating subsidiaries are:

- ***ReAssure***, a company authorised by the PRA and regulated by the PRA and the FCA as a life assurer and subject to regulatory solvency capital and compliance requirements relating to life assurance companies;

- ***ARUKSL***, a service company that conducts administration of insurance business for ReAssure and third parties (including Aviva), and is regulated by the FCA;

- ***Guardian Assurance***, a company authorised by the PRA and regulated by the PRA and the FCA as a life assurer and subject to regulatory solvency capital and compliance requirements relating to life assurance companies;

- ***Ark Life***, a company based in Dublin, Ireland, authorised and regulated by the CBI and whose principal activity is the transaction of life assurance and pension business in Ireland; and

- ***Guardian Companies Services Limited***, a UK resident service company with an Irish branch, which conducts administration of insurance business for Guardian Assurance.

Neither the Issuer nor SRAR Midco is authorised or regulated by the PRA or the FCA. The Issuer is also not subject to Swiss insurance regulations and is not authorised or regulated by the Swiss Financial Market Supervisory Authority FINMA ("**FINMA**"), in each case, on a standalone basis but, as a subsidiary of SRL, the Issuer is subject to insurance group supervision (*Gruppenaufsicht*) in the context of FINMA's oversight of the Swiss Re Group. See "*Regulation—General*."

The Issuer Group also includes ARUK, an intermediate holding company and the top company in the European Economic Area ("**EEA**"), for which we report group Solvency II tests to the PRA.

The Guardian Group is being consolidated into the Issuer Group, including via a Part VII Transfer of Guardian Assurance's long-term insurance business into ReAssure, which is expected to complete by the end of 2017 and is subject to regulatory approval. Ark Life will continue to operate as a standalone entity.

Each of ReAssure and Guardian Assurance operates long-term business that is subdivided for the purposes of Solvency II reporting. The long-term business includes:

- ring-fenced funds, which are subject to restrictions on transfers of assets in and out of the funds, and include the with-profit funds of ReAssure and Guardian Assurance, and the Matching Adjustment funds of ReAssure and Guardian Assurance; and

- residual funds, which are not ring-fenced.

Ark Life operates a non-ring-fenced fund, which consists of non-linked life and disability business and unit-linked business.

Each of these funds has different attributes and benefits to policyholders and its shareholder.

ReAssure and Guardian Assurance's funds are required under PRA regulations to maintain sufficient capital and have defined investment criteria for financial assets and valuation methodologies for insurance liabilities. Ark Life's fund is required under CBI regulations to maintain sufficient capital and has defined investment criteria for financial assets and valuation methodologies for insurance liabilities. See "*Our Business—The Admin Re® Business*" and "*Our Business—The Guardian Business*" for further detail about our funds.

Our Strengths

In preparation for becoming the principal component of a separate Business Unit within the Swiss Re Group, commencing in 2011 we upgraded core actuarial, finance, and IT capabilities and systems within our UK-based service company, ARUKSL, boosting the efficiency and effectiveness of our portfolio administration and risk management. Providing high-quality customer service to each individual policyholder in a portfolio of acquired businesses, while at the same time complying with regulation and achieving the cost efficiency of large-scale integration, can present significant operational challenges for life assurers. A dedicated service company with clear evaluation procedures helps in our efforts to ensure that all these critical targets are fully met and generate long-term value from the integration and management of acquired closed books.

We benefit from the following strengths:

Long-standing, trusted relationships with key stakeholders, supported by our being a part of Swiss Re. We emphasise consistent service for our policyholders and treating our customers fairly ("**TCF**"), and benefit from being a constituent part of a leading global (re)insurer group, with a reputation for integrity and extensive, longstanding interactive relationships with our key regulators. We benefit from access to a number of integration solutions that can be tailored to the characteristics of business acquired through Part VII Transfers or through reinsurance, or the acquisition of companies through share acquisitions (the recent example of the latter being the Guardian Group Acquisition), and which can accommodate the needs of the sellers of portfolios. We believe that this enables us to maintain existing relationships with sellers and leverage our strengths to build new relationships with sellers.

Track record of undertaking transactions of significant size. We have a market-leading track record, with over 10 completed transactions (reinsurance and stock acquisitions) in the United Kingdom during the past 12 years. The Guardian Group Acquisition represents the most recent addition to this track record. We continue to focus on the UK market, as we believe we are well positioned due to our extensive experience and sector-leading platform in this market. We also see opportunities in the United Kingdom as a result of regulatory changes that are impacting the views of insurers as to the attractiveness of certain products, changes in systems and technology that incentivise institutions to address legacy operational challenges and trends in reallocation of capital among insurers as they seek growth and profitability in other markets. We have demonstrated our ability to seamlessly manage transitions, as highlighted by the absence of any discernible impact on persistency rates following portfolio transfers, and we believe we are well positioned to integrate the Guardian Group.

Scalable experience across a broad range of risks. We have developed a wide range of experience across a broad range of risks. Through the wide array of portfolios and companies we have acquired, over time we have built up extensive experience across life, health, investment, pension and, to a lesser extent, protection products. This experience spans across non-profit, unit-linked and with-profit contracts. We intend to continue to seek to enlarge our existing business, diversify our portfolio and maximise operating and capital synergies, in order to grow further. We believe that our scale, together with our experience, enables us to develop and refine our assumptions (which take into account past risk experience as well as future expectations) and reserves, to realise synergies from previous acquisitions and to focus on improving outcomes for policyholders of closed books. In addition, we believe that we are able to leverage our scale and experience to take advantage of significant value creation opportunities, including the opportunity to use our financial and actuarial experience, know-how as well as legal, human resource and IT expertise in managing risks, maintaining existing relationships with sellers of portfolios, building new relationships and delivering consistent service.

Differentiated, broad administration platform. In recent years we have undertaken a number of initiatives to improve operational performance, including the improvement of our IT architecture and systems and the tools that support them. Our key initiatives include continued investment in our core proprietary "Alpha" administration platform, which we believe positions us well to consolidate and administer a substantial majority of life and pension products that have been acquired through acquisitions; the platform covers virtually all life and pension products available in the UK market, incorporating more than 25,000 product variants, and consolidates many of the complex tasks behind business integration. It is a client-focused, flexible and scalable administration system that provides us with economies of scale, simplified and generic processes, unit valuations, allocations and with-profit calculations.

Over the last 12 years, we have successfully migrated more than five million policies onto our Alpha platform from 25 significant policy administration systems, often resolving significant IT issues that presented challenges to the sellers. By focusing on the United Kingdom for further acquisitions, we continue to reduce complexity and take advantage of a changing market, capturing economies of scale. All of these benefits are ultimately made possible by our Alpha platform and skills in business integration.

We expect to leverage the Guardian Group's intellectual property and processes together with the existing scalable platform to create additional value for the benefit of policyholders, while we migrate the majority of existing policies (approximately 650,000 policies) onto our Alpha platform (expected by the end of 2017).

Visibility on our cash flows over the long-term due to the well-seasoned nature of our portfolios. Over the last 12 years, we have acquired a number of portfolios of closed books, each of which had its own set of products, business processes, data and IT architecture. As a closed book consolidator, we have sought to consolidate each of these books, and will generally continue to seek to consolidate future books (including the majority of policies that we expect to acquire pursuant to the Guardian Group Acquisition), onto a single platform. Closed books generally provide predictable fund maturity and liability profiles, generating expected stable long-term cash flows resulting in a cash generative business, which supports payments of principal and interest on our indebtedness and distributions to our shareholder. In the past four years, ARUK paid dividends to SRLC of £319 million (2012), £219 million (2013), £313 million (2014) and £151 million (2015), the last of which was lower than in prior years due principally both to uncertainties around our Solvency II position at the time of payment and to the payment of £24.8 million in dividends from ReAssure to ARUKFL (of which £12.6 million was paid from ARUKFL to SRLC), which amount would otherwise have been paid directly to SRLC. The 2016 dividend is expected to be declared during the second quarter of 2016.

As a consolidator of closed books, we generally do not need to hold material levels of capital to support the writing of new business. The largest part of our cost base is recurring expenses (which tend to be more predictable in nature than non-recurring expenses). In addition, by acquiring closed books, we lower our operational risks relating to the administration of policies, relative to writing new policies. Moreover, as policies run-off, excess capital supporting these liabilities can be released to the shareholder.

Access to capital and funding. In addition to access to capital and funding we have raised in the capital markets or lending markets, or may in the future be able to raise, including from third-party investors, we have access to capital and funding from the Swiss Re Group, which could be available to us to fund portfolio acquisitions. The Guardian Group Acquisition was funded in part through cash on hand made available by SRL and bank borrowings (see "*Use of Proceeds*"). Within the Swiss Re Group's risk tolerance framework, our capitalisation and leverage must be commensurate with an investment grade rating.

Our Strategy

We seek to be the preferred life and pensions closed book consolidator in the UK market.

Our strategy is focused on gross cash generation (excess capital available compared with the target capital position (for the Admin Re® Business: $0.4 billion in 2012, $0.4 billion in 2013, $0.7 billion in 2014 and $0.4 billion in 2015; for the Guardian Business: an estimated $0.3 billion in 2015)) and we seek to do so by maximising our profitability by efficiently managing existing business, acquiring additional books of business and consolidating new business with existing operations to achieve capital, cost, operational and incidental tax synergies.

We also aim to achieve operational excellence through the continuous improvement of our IT systems and architecture (including our scalable Alpha platform) to deliver excellent policyholder administration, constantly updating for and adapting to changing regulatory requirements, as well as focusing on transformation and management actions, including business efficiency and cost reductions. See "*Our Business—Our Operations.*" As part of these efforts, our strategy includes the pursuit of the following:

Selective growth. We intend to continue to selectively pursue opportunities to build and enhance our franchise and product line in the UK market, predominantly by acquiring businesses that allow us to leverage our capabilities and build on our market-leading position as a consolidator of closed books. All of our acquisitions must meet the Swiss Re Group's investment criteria and hurdle rates and require approval by the boards of directors of ReAssure and ARUKSL.

We buy blocks of business that others want to divest – to release capital from non-core operations or to shed administrative responsibilities. This typically means we acquire closed books that deliver relatively stable cash flows, at a discount. We are selective about the business we pursue as these transactions are long-term in nature. We aim to pursue value-additive acquisitions (that offer value enhancement and synergy benefits) by maintaining and developing our in-depth market awareness and fostering open engagement with sellers of portfolios. These efforts are intended to enhance the potential pipeline of possible acquisitions and enhance our ability to integrate new business. In addition, we continue to seek to adapt to the changing market dynamics and regulatory environment, such as by recently developing and offering new pensions products.

We believe that changing regulatory requirements (including the implementation of Solvency II and Basel III) and the increasing complexity of life insurance operations are acting as catalysts for corporate decisions regarding the disposition of legacy operations. There are potentially significant cost and time implications associated with the management of closed books as well as the management and potential need to restructure legacy operating platforms and systems, so as to adhere to changing regulatory requirements, deliver consistent industry-standard customer service and maintain good policyholder experience. UK insurers hold sizeable books of closed, in-force life insurance policies, some of which are expected to come up for sale, providing an attractive market for specialised closed book buyers. In addition, we believe that opportunities for selective growth are supported by the trend within the sector of recycling and refocusing capital to growth markets from mature markets and the challenge in terms of costs posed by the run-off of closed books.

A closed book transaction may involve several different types of transactions; the selling company can divest one of its closed books (typically by reinsurance followed by a Part VII Transfer) or its life companies, or it can outsource administration of the policies and buy reinsurance for the portfolios. Every portfolio is structured differently, requiring thorough due diligence to value the portfolio, the underlying assets and the associated risks. Transactions can involve complex IT issues, since the portfolios are often administered using different systems and software. Buying a closed book not only involves taking in policies and assets, but also inheriting the relationship with the seller's customers. Our business model is focused on keeping costs low, but we equally recognise the critical importance of our obligations to be consistent and fair with policyholders. We are focused on enhancing customer service quality, which we believe can be a key differentiating factor in this market (see "—*Operational excellence.*" below). While we believe that we have strong internal administration capabilities and are not reliant on outsourcing of policy administration to drive operational efficiencies, we will continue to consider the merits of third-party outsourcing arrangements (as opposed to administering policies in-house) on a case-by-case basis.

Although our business model itself is quite straightforward, the underlying activities we undertake can be very detailed and necessitate a deep understanding and evaluation that extends to financial and actuarial know-how as well as legal, human resource and IT expertise. We strive to ensure that we have the right skills, expertise, technology and human resources to support execution of acquisitions and integration of acquired businesses. Integrating acquired businesses is just as important as getting the price and the initial structure right. The integration process usually takes 12 to 18 months to complete and involves moving assets and policies, merging IT systems and, in some instances, employing new staff. Besides our proven track record, a long heritage in insurance and the necessary capital to be applied to the right transactions, we also have the capacity to administer policies in an efficient manner, by migrating policies to our Alpha platform and integrating such policies with our existing business.

Value extraction. We intend to continue to actively manage our portfolio of assets and blocks of business and to focus on creating value through capital, cost, operational and incidental tax synergies. For example, when the American Life Insurance Company ("**Alico**") UK life portfolio was combined with our ReAssure business, we were able to extract meaningful capital synergies. In addition, as a result of the Guardian Group Acquisition, we expect to create value by achieving capital and asset management synergies, for example by extracting capital and asset management benefits through a more diversified asset base and a more diversified product portfolio that allows for diversification benefits to reserving, and by achieving operational synergies, by consolidating head office and support functions, leveraging our Alpha policy administration system capabilities (we intend to migrate the majority of the Guardian Group's policies onto our Alpha platform by the end of 2017) and rationalising administration costs, which we expect will result in a lower administration unit cost per policy.

In terms of our in-force business, we have reallocated our assets over the past several years, which has resulted in capital improvements and generated dividends for our shareholder. In 2014, we benefited from our ability to release \$225 million in surplus reserves held against the risk of credit default stemming from changes to modelling assumptions as well as the recognition of \$234 million following the finalisation of the 2013 year-end and 2014 half-year UK statutory valuation, owing to favourable mortality and longevity experience. We intend to continue to seek to optimise our asset portfolio, so as to increase the yield on our assets, to position ourselves to optimise capital (within relevant respectability constraints), to expand our product base and to continue to achieve cost savings. Through these actions and following integration of the Guardian Group, we aim to grow the amount of cash that we generate, taking into account the natural decrease in gross cash generated, in line with the run-off profile of existing business (see *"Selected Consolidated Financial and Other Data—Other Data*"), and to pay dividends to our shareholder in line with profitable business growth. We expect that the incremental cash generated by the Guardian Group Acquisition, including as a result of synergies once the businesses are fully integrated (which is expected by the end of 2017), will be greater than our existing run-off business, which will support our ability to service our debt and provide a source for future investments and acquisitions, as well as increase the potential level of dividends that may be ultimately paid to our shareholder.

Operational excellence. Our business has undergone significant change over the last three years, resulting from transformation and management actions (including business efficiency and cost reductions), with further activity being undertaken as part of the integration of the Guardian Group, which is aimed at further cost efficiencies and reductions in headcount. These initiatives have been, and continue to be, focused on achieving operational excellence, with the aim of improving efficiency and delivering cost savings.

In support of our focus on operational excellence, we created the Operational Excellence Continuous Improvement Programme (the "**Excellence Programme**"), which is designed to deliver process and performance improvements and improve customer outcomes, whilst reducing operational costs. Our Excellence Programme focuses on three key areas; our people, processes and technology. First, by reaffirming our operational excellence culture and principles and embedding a quality assurance metric into our performance management process, we believe that we have enhanced customer outcomes; our remuneration package was also enhanced to recognise staff who consistently demonstrate that they provide excellent levels of customer service. Second, we implemented various changes to our processes, including to the end-to-end customer journey, by enhancing staff training, altering the way in which we communicate with customers (with an increased focus on telephone and digital communications) and focusing on addressing the root cause of customer complaints and improve customer satisfaction. Third, we have implemented an enhanced workflow tool for use by our customer service teams, which includes a comprehensive suite of management information; this has enabled us to focus on allocating our resources appropriately and efficiently across our business.

The Guardian Business and group functions require integration into the Issuer Group, with selection of the optimal platforms and operating model, including consolidating head office and support functions and leveraging our Alpha policy administration system capabilities. We expect that the realisation of the potential operational synergies will result in one-off integration costs of approximately £66 million, of which approximately half are currently expected to be incurred in 2016 and half in 2017.

We continue to remain focused on investing in our people, processes and technology to continue to deliver process and performance improvements and improve customer outcomes, while delivering cost savings. Improving customer outcomes requires an understanding of customers' needs, delivering consistent industry-standard customer service, communicating clearly and efficiently with customers, enhancing policyholder security and improving policyholder returns and growth opportunities. Maintaining good policyholder experience is critical in respect of retaining policyholders as well as attracting new business from potential sellers.

Summary of the key terms of the Notes

Terms defined in the Conditions and used in this summary but not defined in this summary have the meanings set forth in the Conditions. This summary should be read together with the full Conditions set forth in the "Terms and Conditions of the Notes."

Issuer	Swiss Re Admin Re Limited.
Notes	€750,000,000 1.375% Notes due May 27, 2023.
Issue Price	99.748%.
Issue Date	On or about May 27, 2016 (the "**Issue Date**").
Aggregate Principal Amount of the Notes and Denomination	€750,000,000 in denominations of €100,000 and integral multiples of €1,000 in excess thereof.
Status of the Notes	The Notes constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 4 (*Negative Pledge*)) unsecured obligations of the Issuer, ranking *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes shall, save for such exceptions as may be provided by applicable legislation and, subject to Condition 4 (*Negative Pledge*), at all times rank equally with all other present and future direct, unconditional, unsubordinated and unsecured obligations of the Issuer from time to time outstanding.
Form of the Notes	The Notes will be issued in registered form and will be represented by a permanent registered global certificate (the "**Global Certificate**"), which will be deposited with a common depositary on behalf of Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**") and registered in the name of a nominee for the common depositary for Euroclear and Clearstream, Luxembourg. The provisions governing the exchange of interests in the Global Certificate for definitive Certificates are described in the Conditions.
Negative Pledge	So long as any of the Notes remain outstanding (as defined in the Agency Agreement), the Issuer shall not create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest upon the whole or any part of its undertaking, property, assets or revenues present or future to secure any Relevant Indebtedness or to secure any guarantee of, or indemnity in respect of, any Relevant Indebtedness, except in each case for Permitted Interests, unless, at the same time or prior thereto, the Issuer's obligations under or in respect of the Notes and the Agency Agreement (a) are secured equally and rateably therewith; or (b) have the benefit of such other security, guarantee, indemnity or other arrangement as shall be approved by an Extraordinary Resolution of the Noteholders. Where: "**Agency Agreement**" means the agency agreement, dated on or about May 27, 2016, as amended and/or supplemented and/or restated

from time to time.

"**Extraordinary Resolution**" means (i) a resolution passed at a meeting duly convened and held in accordance with the Agency Agreement by a majority consisting of not less than 75% of the votes cast on such resolution, or (ii) a resolution in writing signed by or on behalf of the holders of not less than 75% in principal amount of the Notes for the time being outstanding; or (iii) consent given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Fiscal Agent) by or on behalf of the holders of not less than 75% in principal amount of the Notes for the time being outstanding.

"**Relevant Indebtedness**" means any present or future indebtedness in the form of, or represented by, bonds, notes, debentures, or other debt securities that are quoted, listed or ordinarily traded on any stock exchange, over-the-counter or other securities market, having an original maturity of two years or more from its issue date.

"**Permitted Interest**" means any mortgage, charge, pledge, lien, Securitisation Lien or other form of encumbrance or security interest which arises in relation to any securitisation or other structured finance transaction where (a) the primary source of payment of any obligations of the issuer is linked or otherwise related to cash flow from particular property or assets (or where payment of such obligations is otherwise supported by such property or assets); and (b) recourse to the issuer in respect of such obligations is conditional on cash flow from such property or assets.

Interest Rate and Interest Payment Dates...

Unless previously redeemed in accordance with the Conditions and, subject to the provisions of Condition 5 (*Interest*), the aggregate principal amount of the Notes shall bear interest at the rate of 1.375% per annum (the "**Rate of Interest**") from (and including) the Issue Date to (but excluding) the Maturity Date, payable annually in arrear on each Interest Payment Date, commencing on May 27, 2017.

The Interest Amount per Calculation Amount, payable on each Interest Payment Date in relation to a full Interest Period, will be €13.75.

When interest is required to be calculated in respect of a period of less than a full Interest Period, it shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the Day Count Fraction, rounding the resulting figure to the nearest cent (half a cent being rounded upwards) and multiplying such rounded figure by a number equal to the denomination of such Note divided by the Calculation Amount.

Where:

"**Calculation Amount**" means €1,000.

"**Day Count Fraction**" means, in respect of any period, the actual number of days in the period from (and including) the date from which interest begins to accrue (the "**Accrual Date**") to (but excluding) the date on which it falls due divided by the actual number of days from (and including) the Accrual Date to (but excluding) the next following Interest Payment Date.

"**Interest Amount**" means the amount of interest that would be payable on the aggregate principal amount of Notes outstanding on the relevant date for payment.

"**Interest Period**" means each period beginning on (and including) the Issue Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date.

Maturity	Unless previously redeemed or purchased and cancelled (in accordance with the Conditions), the Issuer will redeem all outstanding Notes, in whole but not in part, in cash, at their principal amount together with any accrued but unpaid interest up to (but excluding) May 27, 2023 (the "**Maturity Date**").
Tax Redemption	The Notes may be redeemed prior to the Maturity Date, at the option of the Issuer, in whole but not in part, at their principal amount together with interest accrued to (but excluding) the date of redemption, upon the occurrence of a Tax Event that is continuing. Where: "**Tax Event**" means that an opinion of a recognised independent tax counsel has been delivered to the Issuer stating that (i) the Issuer has or will become obligated to pay Additional Amounts as provided or referred to in Condition 8 (*Taxation*) due to a change in, or amendment to, the laws, regulations and rulings of Jersey or the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date; and (ii) such obligation cannot be avoided by the Issuer taking such reasonable measures as the Issuer (acting in good faith) deems appropriate.
Purchase of Notes	The Issuer or any of its Subsidiaries may at any time purchase any Notes in the open market or otherwise and at any price. Such acquired Notes may be cancelled (by surrendering the Notes to the Agent), held or resold. All Notes so cancelled cannot be reissued or resold.
Events of Default	A Noteholder may give notice to the Issuer that a Note is, and it shall accordingly forthwith become, immediately due and repayable (subject as provided below) at its principal amount, together with accrued interest, if certain Events of Default (as defined in the Conditions) shall have occurred and be continuing.
Substitution	The Issuer (or any previous substitute of the Issuer under Condition 13 (*Substitution*)) may, without the consent of the Noteholders, and provided that no Tax Event would occur as a result of such substitution, be substituted in respect of all rights and obligations arising under or in connection with the Notes, by an Issuer's successor in business or any Subsidiary (the "**New Issuer**"), *provided* that certain requirements are met (see Condition 13 (*Substitution*)). If the New Issuer is a company resident for tax purposes in a jurisdiction other than in the United Kingdom (such jurisdiction, the "**New Residence**"), certain other conditions must also be met (see Condition 13 (*Substitution*)). Where: "**Subsidiary**" means, in relation to the Issuer, any company (i) in which the Issuer holds a majority of the voting rights, or (ii) of which the Issuer is a member and has the right to appoint or remove a

	majority of the board of directors, or (iii) of which the Issuer is a member and controls a majority of the voting rights, and includes any company that is a Subsidiary of a Subsidiary of the Issuer.
Further Issues	The Issuer may from time to time, without the consent of the Noteholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the amount and date of first payment of interest) so that such further issue shall be consolidated and form a single series with the Notes, or upon such terms as the Issuer may determine at the time of their issue. See "*Terms and Conditions of the Notes—Further Issues.*"
ISIN	XS1421827269.
Rating of the Notes	A- by Standard & Poor's Credit Market Services Europe Limited.
Use of proceeds	We intend to use the net proceeds from the Offering to repay borrowings under the Bilateral Credit Facility, following which it will be cancelled, and will use any balance for general corporate purposes and potentially to repay borrowings under the Revolving Credit Facility. See "*Use of Proceeds*."
Selling and Transfer Restrictions	There are restrictions on the offer, sale and transfer of the Notes. The Notes are being offered and sold only outside the United States to non-U.S. persons, in compliance with Regulation S. The Notes have not been registered under the Securities Act. Accordingly, the Notes can only be offered or sold pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Issuer does not intend subsequently to register the Notes for resale or to exchange a new series of notes registered under the Securities Act for the Notes. Moreover, the Issuer has not registered, and will not register, as an investment company under the Investment Company Act and, accordingly, the Notes are being offered initially only outside the United States to non-U.S. persons. The Notes may be offered, sold and transferred in other jurisdictions only in compliance with applicable laws and regulations. See "*Subscription and Sale*" and "*Transfer Restrictions*."
Listing and admission to trading	There is currently no public market for the Notes. Application has been made to the Luxembourg Stock Exchange, in its capacity as market operator of the Euro MTF Market under the Luxembourg act relating to prospectuses for securities (loi relative aux prospectus pour valeurs mobilières), and for the Notes to be admitted to the Official List of the Luxembourg Stock Exchange and to be admitted for trading on the Euro MTF Market thereof. There can be no assurance that the Notes offered hereby will be listed and admitted to trade on the Euro MTF Market. The Euro MTF Market of the Luxembourg Stock Exchange is not a regulated market pursuant to the provisions of Directive 2004/39/EC on markets in financial instruments.
Governing Law/Jurisdiction	The Agency Agreement and the Notes and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.
Joint Lead Managers	BNP Paribas, Barclays Bank PLC, HSBC Bank plc, Lloyds Bank plc

and RBC Europe Limited.

RISK FACTORS

An investment in the Notes involves risks. You should carefully consider the following risk factors and the other information in this Offering Memorandum or incorporated herein by reference before making an investment decision. Any of the risk factors could impact our business, financial condition or results of operations. The market prices of the Notes could decline if one or more of these risks and uncertainties develop into actual events. You may lose all or part of your investment.

This Offering Memorandum contains forward-looking statements that involve risks and uncertainties that could cause our actual results or outcomes to differ materially from those expressed in any such forward-looking statements, as a result of any factor or combination of factors, including but not limited to the risks we face as described below and elsewhere in this Offering Memorandum. For more information about forward-looking statements see "Cautionary Note on Forward-Looking Statements."

Risks relating to our Business

Our profitability could be adversely impacted by the effects of adverse economic and market conditions, as well as by political developments.

Our operations as well as our investment returns are subject to general macroeconomic conditions, particularly in the United Kingdom, as well as volatility in the global economic and financial markets. Since the start of the global financial crisis in 2008, the UK economy has experienced significant turbulence and a period of recession, which have adversely affected, among other things, business activity, consumer confidence, asset values, corporate capital investment levels, corporate insolvency rates, conditions in the housing market and the commercial real estate sector, levels of employment, the cost and availability of credit, and liquidity in the capital markets. The crisis in the financial markets led the UK government and other governments to inject liquidity into the financial system and to require (and participate in) the recapitalisation of the banking sector to reduce the risk of failure of certain large institutions and provide confidence to the market. Although the impact of the crisis on insurers did not result in as many failures as in the banking sector, regulators have, in recent years, signalled a need for insurers to hold high quality capital.

The UK economy is affected by prevailing economic conditions in the eurozone and globally, including the possibility of further macroeconomic deterioration and/or financial market instability, which may also negatively affect consumer confidence and retail and wholesale funding markets. Growth forecasts among the principal global economies remain uneven and uncertain, and that uncertainty has been compounded by significant volatility in equity, currency and commodities markets. Slower growth rates in China, together with the actions taken on its currency, and drastic reductions in the price of oil, together with volatility in foreign currency and investment markets caused by interest rate action in the United States; continued concerns over the implications of austerity-driven economic policies in Europe and the ability of the European Union to address significant ongoing structural challenges; deceleration in GDP growth and other negative trends in emerging markets; continued concerns over the ability of central banks to stimulate economic growth; and geopolitical instability, reflecting the political and military situations in the Middle East and North Africa, the rise of the Islamic State, concerns over further terrorist attacks across the globe and the political, economic and social crises caused by massive waves of migration into and through Europe; and concerns over corporate earnings and near term potential for growth, have contributed to downward pressure on the capital markets and in turn on market capitalisation of many listed companies, call into question the likelihood of continued recovery of the global economies and are beginning to raise the spectre of another global recession.

With fewer options available to policymakers and concerns generally over the absence of realistic confidence-building measures, and with heightened risk that volatility or depressed conditions in one sector, one market, one country or one region could have far broader implications, volatility can be expected to continue. Further adverse developments or the continuation of adverse trends that in turn have a negative impact on financial markets and economic conditions could limit our ability to access the capital markets and bank funding markets, could adversely affect the ability of counterparties to meet their obligations to us and could adversely affect the confidence of the ultimate buyers of insurance.

The UK government is holding an in-or-out referendum on the United Kingdom's membership in the EU on 23 June 2016. If the referendum results in the United Kingdom's exit from the European Union ("**Brexit**"), a process of potentially protracted negotiations would determine the future terms of the United Kingdom's relationship with the EU. It has been reported that, to date, the possibility that the pending referendum could lead to Brexit has had an adverse impact on the UK economy due to lower investment and more broadly on confidence among businesses and financial services firms. According to the International Monetary Fund, in the short term, it is expected that a vote in favor of Brexit would result in heightened uncertainty that would adversely affect confidence and investment, and increase financial market volatility. The IMF also predicts that Brexit would have an adverse effect on global economic growth as well as on the UK economy and the economies of other member states of the European Union (each a "**Member State**" and collectively, "**Member States**"). We are unable to predict the impact on our business and profitability were the referendum to result in a vote in favor of Brexit.

The pound has been under significant pressure relative to the U.S. dollar as a result of the uncertainty surrounding the referendum. As a significant portion of our revenues are derived from our operations and investments in the United Kingdom, further exchange rate fluctuations could adversely affect our business, our results of operations and financial condition. ReAssure and Guardian Assurance have assets and liabilities that are principally denominated in pounds sterling. Ark Life, which is based in Dublin, Ireland, has assets and liabilities that are principally denominated in euros (see "—*We are exposed to significant financial and capital markets risks, including changes in interest rates, credit spreads, equity prices and foreign exchange rates, which may adversely impact our financial condition, results of operations, liquidity and capital position*.") In addition, there may be changes to immigration policies in the United Kingdom as a result of Brexit. Although the United Kingdom would likely retain its diverse pool of talent, London's role as a global center for insurance business may decline, particularly if access to the single EU market is interrupted.

Any of the foregoing factors, developments and trends could also have an adverse effect on our investment results, which in the current low interest rate environment and soft insurance cycle could have a material adverse effect on our overall results, make it difficult to determine the value of certain assets in our portfolio, make it more difficult to acquire suitable investments to meet our risk and return criteria and otherwise have a material adverse effect on our business, results of operations or financial condition. A vote in favor of Brexit, in particular, could give rise to increased volatility in foreign exchange rate movements and the value of equity and debt investments (which could result in reduced fee income on policyholder assets and a reduction in the value of shareholder assets), as well as regulatory and compliance risks, including restrictions on the movement of capital, and give rise to operational challenges including in respect of movement of personnel and services, as well as data storage and transfers. An adverse impact on our investments would adversely affect our Solvency II capital position and that impact could be significant.

We are exposed to significant financial and capital markets risks, including changes in interest rates, credit spreads, equity prices and foreign exchange rates, which may adversely impact our financial condition, results of operations, liquidity and capital position.

Deterioration in the performance of investment markets in which we hold our investments could significantly affect our financial position, gross cash generation and profitability.

Our life and pension unit-linked funds hold investments in a variety of capital markets instruments (such as equity and debt securities) and also invest in other asset classes, such as real estate. Our equity investments are primarily in the with-profit and unit-linked funds. As such, we could be negatively affected by any substantial declines in the values of any such investments, particularly in respect of future margins, although the major immediate impact of fluctuations in the value of equity and real estate assets would be to reduce policyholder benefits. In addition, any reductions in the value of equity and real estate assets would have an impact on the shareholder's share of the surplus from our Windsor Life With-Profit Fund and Guardian With-Profit Fund.

Any notable decreases in the market prices of our investments (in particular fixed interest credit related assets) could negatively impact our ability to fund our long-term policyholder obligations, which could increase liquidity risks. Moreover, persistent fluctuations in investment markets could, directly or indirectly, affect levels of regulatory capital required to be held by us, which could in the longer term lead to potential intervention from the regulators, requiring us to safeguard the interests of our policyholders. The types of investments we hold may change in the future, and the risks associated with such holdings may increase as a result.

Our exposure to interest rate risk is primarily related to the market price and cash flow variability associated with changes in interest rates. Economic weakness, fiscal tightening and monetary policies are keeping government bond yields low, which impacts investment yields and affects the profitability of life and pension savings products. Interest rates are expected to remain low for an extended period, but there is a risk that they could rise significantly if the relevant economies are unable to manage effectively their levels of government debt or inflation. Regulators in Europe are aware of this tension and have noted the critical importance of long-term interest rates to life insurers, especially where guaranteed rates have been offered to policyholders.

Our non-profit non-linked liabilities to policyholders vary as interest rates fluctuate. Under relevant insurance regulations, the rate at which future actuarial liabilities can be discounted is based on the level of long-term interest rates and yields associated with investments backing policyholder liabilities. As a result, a reduction in long-term interest rates increases the amount of such policyholder liabilities. We attempt to match a significant portion of these policyholder liabilities with assets whose sensitivity to interest rates is the same as, or similar to, that of the underlying liabilities. Under the Solvency II regime, this is achieved through the use of a matching adjustment (a "**Matching Adjustment**"). Both Reassure and Guardian Assurance currently have approval to use the Matching Adjustment for defined blocks of business. Without the Matching Adjustment, it is still possible, in principle, to match the liabilities against movements in interest rates, but spread movements only impact the assets and not the liabilities. Guardian Assurance also uses financial instruments to hedge interest rate risk. Hedging transactions do not eliminate the interest rate risk entirely, and may not be fully effective. To the extent that such asset-liability matching is not practicable or fully achieved, there may be differences in the impact of changes in interest rates on assets and liabilities. Both ReAssure and Guardian Assurance are exposed to interest rate sensitivity in respect of their capital requirements.

ReAssure's with-profit funds are exposed to additional interest rate risk as the funds' guaranteed liabilities (in particular, guaranteed annuity options ("**GAOs**")) are valued based on market interest rates, with the funds' investments including equities, real estate and fixed interest investments. As a result, declines in interest rates could materially decrease the amount of distributions available to policyholders. Guardian Assurance's with-profit deferred annuities offer a guaranteed cash option, which is currently 'out of the money' and hedged by option on interest rate swaps within the Guardian With-Profit Fund.

Due to the long-term nature of the liabilities of our life companies, sustained declines in long-term interest rates may also subject us to reinvestment risks. Declines in credit spreads may also result in lower spread income. During periods of declining interest rates, issuers may prepay or redeem debt securities that we own, which could force us to reinvest the proceeds at materially lower rates of return. Additionally, the contributions required to fund the deficit under our defined benefit pension scheme may also increase in the event of adverse investment performance in equity and real estate markets.

ReAssure and Guardian Assurance have assets and liabilities that are principally denominated in pounds sterling. Ark Life, which is based in Dublin, Ireland, has assets and liabilities that are principally denominated in euros. We prepare our financial statements in U.S. dollars, and our financial results will therefore be affected by fluctuations among the relative value of the U.S. dollar and the pound sterling, being ReAssure and Guardian Assurance's functional currency, and the relative value of the U.S. dollar and the euro, being Ark Life's functional currency.

Any and all of the above could, in the absence of other countervailing changes, reduce our income from our investments managed by third parties or the Swiss Re Group and its external investment managers and cause a material increase in the net loss position of our investment portfolio, which could have a material adverse effect on our business, results, financial condition and prospects. The Guardian Group portfolio had a relatively high level of interest rate derivatives used for asset-liability matching for Solvency II purposes, which will be reduced over time as part of the Guardian Group integration process, and the portfolio could be adversely impacted to the extent the hedges are ineffective. Moreover these hedging arrangements have collateral requirements that could be triggered upon increases in interest rates. We must mark-to-market these derivatives, which could lead to significant volatility in our earnings prior to the time we are able to reduce the level of these derivative positions and/or make certain accounting elections.

We could be adversely affected by the deterioration in the creditworthiness of, or defaults by, third parties that owe us money, securities or other assets.

We could be exposed to the risk of defaults, or concerns about possible defaults, by our counterparties. Issuers or borrowers whose securities or loans we hold, trading counterparties, counterparties under swaps and other derivative contracts, clearing agents, clearing houses and other financial intermediaries may default on their obligations to us due to bankruptcy, insolvency, lack of liquidity, adverse economic conditions, operations failure, fraud or other reasons, which could also have a material adverse effect on our financial condition and results of operations. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized upon disposal or liquidation or is liquidated at prices not sufficient to recover the full amount of the financial instrument exposure due to us. The occurrence of a major economic downturn or continued concerns over global economic conditions, acts of corporate malfeasance, widening credit spreads, or other events that adversely impact the issuers, guarantors or underlying collateral of securities in our investment portfolio could cause the value of our fixed maturity securities portfolio and our net income to decline and the default rate of the fixed maturity securities in our investment portfolio to increase. A ratings downgrade affecting issuers or guarantors of particular securities, or similar trends that could worsen the credit quality of issuers, such as the corporate issuers of securities in our investment portfolio, could also have a similar effect. With economic uncertainty, credit quality of issuers or guarantors could be adversely affected. Similarly, a ratings downgrade affecting a loan-backed security we hold could indicate the credit quality of that security has deteriorated. Any event reducing the value of these securities other than on a temporary basis could have a material adverse effect on us.

We could be adversely affected by changes in our credit risk.

Key areas where we are exposed to credit risk include our exposure to corporate bonds and asset-backed securities, reinsurers' share of insurance liabilities, amounts due from reinsurers in respect of claims already paid and amounts due from insurance contract holders. If the credit markets were again to deteriorate and further asset classes were to be impacted, we could experience further losses relative to the allowance for defaults currently made in the projection of asset returns (which are used to discount the value of the liabilities). Changes in the market value of the underlying securities and other factors impacting their price could give rise to market value losses. The narrowing of credit spreads on corporate bonds may also result in lower spread income for us. Additionally, we are exposed to a small number of reinsurance counterparties, especially in relation to reinsured pension annuity liabilities. Such counterparty risk may be caused by deterioration in the actual or perceived creditworthiness or default of such counterparties. Any and all of the above could, in the absence of other countervailing changes, cause a material increase in the net loss position of our investment portfolio, which could have a material adverse effect on our business, results, financial condition and prospects.

Changes in the assumptions that we use may adversely affect us.

We are subject to risks relating to the preparation of estimates and assumptions that our management uses, for example, as part of our risk models, as well as those that affect the reported amounts of assets, liabilities, revenues and expenses in our financial statements (such as assumptions related to our capital requirements and anticipated liabilities). Deterioration in market conditions could have an adverse impact on assumptions used for financial reporting purposes, which could affect possible impairment of present value of future profits, fair value of assets and liabilities, deferred acquisition costs or goodwill. To the extent that our management's estimates or assumptions prove to be incorrect and actual claims experience is less favourable than the underlying estimates or assumptions, it could have a material impact on underwriting results (in the case of risk models) or on reported financial condition or results (in the case of capital requirements and anticipated liabilities), and such impact could be material.

We monitor actual liability experience against actuarial assumptions and apply the outcome of such monitoring to refine long-term assumptions. However, because of the underlying risks, it is not possible to determine precisely the amounts that will ultimately be paid to meet policyholder liabilities. Actual liabilities may vary from estimates, particularly when those liabilities do not occur until well into the future. Changes in assumptions may lead to changes in the level of capital that is required to be maintained. In the event that our capital requirements are significantly increased, the amount of capital available for other business purposes, for distribution to our shareholder or to meet our financing commitments will decline.

Our key operating subsidiaries, ReAssure and Guardian Assurance, have liabilities under pension annuities and other policies (such as term life insurance) that are sensitive to future mortality and longevity rates. Annuities are subject to the risk that annuitants live longer than was projected at the time the policies were issued (or at the time of valuation if the valuation mortality assumption has been updated), with the potential result that the issuing life company may have to continue paying out to the annuitants for longer than anticipated and, therefore, longer than was reflected in the pricing and latest valuation of the annuity. Other policies, such as term life insurance and contracts that insure the risk of mortality are subject to the risk that policyholders die earlier than was projected at the time the policies were issued (or at the time of valuation if valuation mortality assumption has been updated), for example, as a result of pandemics, catastrophe or lifestyle changes, with the potential result that the amounts paid out to policyholders exceed the value of the policyholders' benefit payments. To the extent that actual mortality, longevity and morbidity rates or other insurance risk experience is less favourable than the underlying assumptions about such rates or experience and it is necessary to increase reserves for policyholder liabilities as a consequence, the amount of additional capital required and our ability to manage our business in an efficient manner may all be materially adversely affected. In recent decades, mortality, longevity and morbidity rates have improved significantly and there is considerable uncertainty over the rate at which such rates will continue to improve in the future. We could incur significant losses if mortality, longevity or morbidity rates improve faster than has been assumed. This risk is exacerbated by the fact that there may also be increases in our costs, including the cost of meeting guarantees on policies that carry a right to convert their policy value into an annuity at a fixed rate (although these GAO policies largely reside in ReAssure's with-profit funds) and future costs relating to deferred annuities (the with-profit deferred annuities in Guardian Assurance offer a guaranteed cash option, which is currently 'out of the money' and hedged by an option on interest rate swaps within the Guardian With-Profit Fund). Our exposure to credit risk on the assets backing annuity liabilities and mortality, longevity and morbidity risk in respect of the underlying annuity payments has increased as a result of the Guardian Group Acquisition, through the addition of a large block of annuities (approximately 72% of the UK policies acquired are annuity policies).

In addition, for some lines of business, we make assumptions about the future persistency of our policies, being the rates at which policyholders will surrender or otherwise terminate their policies prior to their maturity date. For these products with guarantees at maturity, we are exposed to the risk that fewer policyholders will terminate their policies prior to their maturity date than assumed, since this will increase the volume of guarantees that are required to be met at maturity. For policies with positive projected future cash flows, the anticipated future profits obtained from these policies may be curtailed if more policyholders terminate their policies earlier than assumed. The effect of persistency on our profitability varies for different products. For example, for savings products, actual persistency that is lower than our persistency assumptions could have an adverse impact on profitability, particularly in the early years of a policy or contract, primarily because we would be required to accelerate the amortisation of expenses we deferred in connection with the acquisition of the policy or contract. We expect future persistency experience to be impacted by the UK Pensions Reform (as defined below). Because our assumptions regarding persistency experience are inherently uncertain, our reserves may prove to be inadequate if actual persistency experience is different from those assumptions.

If the assumptions underlying the calculations of our reserves differ from experience (for example, if policyholders do not die at the rate assumed in actuarial calculations or if the volume of guarantees that are required to be met at maturity is greater than assumed), we may have to increase the amount of our reserves, which could have a material adverse impact on our business, results, financial condition and prospects.

Changes in accounting standards may adversely affect our results.

Our results may be impacted by changes in accounting standards, or changes in the interpretation of accounting standards. Our results may also be impacted if regulatory authorities take issue with any conclusions we may reach in respect of accounting matters. Changes in accounting standards could impact future reported results or require restatement of past reported results.

Closed books require careful cost management to avoid exposure to costs that are no longer covered by matching income.

Funds closed to new business are, by their nature, in long-term run-off. This means that the income and in-force value of such funds will decline in the long-term as policies mature and are not replenished by writing new policies. Thus, it is necessary to reduce the costs of managing such closed books at least in line with the run-off profile, which is addressed partly through the use of outsourcing arrangements and seeking new acquisitions across which to spread our fixed costs.

We are exposed to the risk that we may be unable to control costs, reduce costs proportionately or adjust to an appropriate new balance of fixed and variable costs. We may also be exposed to unexpected increases in costs. Such exposures could arise, for example, from deficient management, contractual restrictions, less than anticipated volumes of new acquisitions across which to spread our fixed costs, significant changes in the regulatory environment, material sector-specific inflationary pressures or an unexpected increase in policy lapses. In particular, as the number of policies we hold gradually declines over time, unless we are able to complete additional acquisitions in the future, the fixed cost base of our operations as a proportion of policies will increase and there is an increased risk that our cost base will become unsustainable. Our current expense assumptions for policy charges are based on anticipated governance costs and the underlying administration services contracts, whether with intragroup or external providers, and these assumptions may prove incorrect.

An inability to adjust our costs in line with the run-off profile of such closed books could have a material adverse effect on our business, results, prospects and financial condition.

Failure in implementing our transformation strategy could have a material adverse effect on our business and results of operations.

Our business has undergone significant change over the last three years, resulting from transformation and management actions (including business efficiency and cost reductions, aimed at further reductions in costs and headcount). See "*Our Business—Our Strategy—Operational excellence.*" The integration of the Guardian Group into the Issuer Group may place significant strain on our operational and management resources and heighten operational risk faced by us to implement our transformation strategy, particularly in light of the volume of change to be managed. See "*—Risks Relating to the Guardian Group Acquisition—The integration of the Guardian Group may place a significant strain on our infrastructure, resources and relationships and divert management attention and other resources from the operation of our business.*" This is especially relevant in relation to our IT environment, which is undergoing significant change and may be subject to operational risks in light of our intention to migrate the majority of the Guardian Group's policies (approximately 650,000 policies) onto our Alpha platform by the end of 2017 (compared with the migration of approximately 350,000 policies following the acquisition of HSBC's UK pensions business). The continued operation of our IT systems and successful completion of operational improvements, are important to deliver on our business strategy and integration of acquired businesses into the Issuer Group.

In addition, the PRA and FCA can be expected to focus on the integration of the Guardian Business and, any inability to successfully implement our integration initiatives, including technical challenges in respect of our IT systems and process changes on our proprietary platform, data integration and the development of strategic outsourcing arrangements, could have regulatory consequences, including obligations to take steps to safeguard the interests of policyholders and other customers. Any of the foregoing could have a material adverse effect on our business, results, financial condition and prospects.

Further, given that our business model relies on continued management of fixed costs as well as our continued positive reputation for operational expertise in migration of policies, our business and results of operations would be adversely affected if our activities to be undertaken as part of our transformation strategy are not appropriately managed, or are not completed on time, or at all. In addition, if the costs incurred in implementing such initiatives exceed our expense assumptions, this could have an adverse effect on our results of operations.

We operate in a highly regulated industry and may, from time to time, be subject to enquiries or investigations that could result in fines, sanctions, variation of revocation of permissions and authorisations, reputational damage or loss of goodwill.

We are subject to the dual supervision of the PRA, for prudential issues, and the FCA, for conduct issues, and our UK and Irish regulated entities are subject to Solvency II requirements. ARUK reports to the PRA under Solvency II and all of ARUK's subsidiaries are required to maintain capital resources consistent with regulatory requirements and adopted risk appetites. ReAssure and Guardian Assurance are authorised by the PRA and regulated by the PRA and FCA as a life assurer. Ark Life is authorised and regulated by the CBI. ARUKSL, which provides policy administration internally and to third parties, is regulated by the FCA. In addition, each of ReAssure and Guardian operates long-term business that is subdivided for purposes of Solvency II reporting into ring-fenced funds, which are subject to restrictions on transfers of assets in and out of the funds (and include the with-profit funds and Matching Adjustment funds of each of ReAssure and Guardian Assurance), and residual funds, which are not ring-fenced. Each of these funds is required under PRA regulations to maintain sufficient capital and has defined investment criteria for financial assets and valuation methodologies for insurance liabilities. Ark Life operates a non-ring-fenced fund, which consists of non-linked life and disability business and unit-linked business. This fund is required under CBI regulations to maintain sufficient capital and has defined investment criteria for financial assets and valuation methodologies for insurance liabilities. See "*—We may have to retain more regulatory capital as a result of stricter regulatory capital requirements imposed by the PRA and the FCA, as well as other factors" and "Regulation.*"

While the Issuer itself is not authorised or regulated by the PRA or the FCA and is not subject to Swiss insurance regulations or authorised or regulated by FINMA, in each case, on a standalone basis, as a subsidiary of SRL, the Issuer is subject to insurance group supervision (*Gruppenaufsicht*) in the context of FINMA's oversight of the Swiss Re Group. Such group supervision involves the supervision of insurance groups as a whole, including with respect to certain aspects of corporate governance, as well as solvency, Swiss Re's Own

Risk and Solvency Report, risk management systems and risk concentration, and prescribes the calculation of risk-based solvency margins on a group-wide basis under the Swiss Solvency Test ("**SST**"). All major intra-group transactions must be reported to FINMA.

The scope of oversight and review by our regulators is broad, and covers all material facets of our business, from our strategic focus (including our acquisition strategy), to our regulatory capital levels, to operational matters, including the adequacy of our systems and processes to handle existing business as well as changes to our business (including, for example, the impact of pensions reform discussed below). Moreover, the volume and pace of change to governmental policies and regulatory developments have placed, and will continue to place, pressure on our resources, and increase compliance costs, as we respond to regulatory and policy changes and adapt to the changing environment. There are also potential reputational and conduct implications to consider, and our dividend paying capacity may be constrained.

As a result of the recent regulatory initiatives, the level of regulatory oversight over us is likely to increase. The move to conduct-focused regulation may see a continued move away from rules-based regulation with a greater focus on customer outcomes, which may result in remediation exercises where we cannot demonstrate that we have met expected customer outcomes from the regulator's perspective. We cannot predict the exact nature, timing or scope of possible governmental initiatives, but future regulatory changes may potentially restrict our operations, mandate certain risks to be covered and impose other compliance costs.

If any member of the Issuer Group were found to be in breach of any existing or new laws or regulations, such member would be exposed to the risk of intervention by regulatory authorities, including investigation and surveillance, and judicial or administrative proceedings. In addition, our reputation could suffer and we could be fined or prohibited from engaging in some or all of our business activities (in particular if the PRA or FCA were to withdraw or restrict its authorisation of ReAssure or Guardian Assurance, and/or if the CBI were to withdraw or restrict its authorisation of Ark Life and/or if the FCA were to withdraw or restrict its authorisation of ARUKSL) or could be sued by counterparties, as well as forced to devote significant resources to cooperate with regulatory investigations, any of which could have a material adverse effect on our results of operations and financial condition.

We operate in an industry that has recently been the subject of significant regulatory change. Changes in governmental policy and regulation may have an adverse impact on the industry in general and on our business, financial and condition and results of operations.

We have been, and will continue to be, impacted by legal and regulatory developments, as well as fiscal or other policies and actions of various governmental and regulatory authorities, in particular in the United Kingdom, Ireland, and more broadly in the European Union. Regulatory regimes applicable to the financial services industry, including the insurance industry, have undergone significant change since the global financial crisis, and it is possible that the pace and/or the extent of reforms will continue. Our business could be impacted by regulatory initiatives directed specifically at our industry as well as regulatory changes directed more broadly at financial services providers or regulatory changes prompted by political developments in the United Kingdom, Ireland and at the level of the European Union.

The UK life insurance sector recently has undergone significant regulatory change, including changes to the UK pensions legislation (the "**UK Pensions Reform**") that came into effect on 6 April 2015, tax reforms on pension savings, publication in March 2015 of the FCA's final report on its retirement income market study (which reinforced the importance of consumer choice) and the implementation of the Solvency II regulatory regime (effective 1 January 2016).

The UK Pensions Reform has increased the flexibility provided to pensioners and abolished for those with defined contribution schemes the requirement to buy an annuity. The UK Pensions Reform is reported to have had a significant impact on annuity sales, with a 61% decrease in the first three months since the reforms were introduced, compared to the second quarter of 2014, according to the Association of British Insurers ("**ABI**"). In addition, according to the ABI, an estimated £2.5 billion was withdrawn from pension pots (£1.3 billion in lump sums and £1.1 billion worth of payments from income drawdown (allowing savers to take out regular amounts of money while their money remains invested)) in the first three months since the reforms were introduced and more than £2.3 billion was used to purchase regular income products (either annuities or income drawdown products), although annuity sales are reported to have been recovering since the beginning of the reforms, with sales of new annuity products nearly on par with drawdown according to the ABI. While ReAssure's exposure to the risk of lower annuity sales is limited by the fact that it no longer generates significant volumes of annuities and instead supports customers who wish to purchase an annuity to access the At Retirement panel-based solution supported by Liverpool Victoria ("**LV=**"), a provider of, among other products, guaranteed income options (which provides customers with a tool to shop around), which is being extended to Guardian Assurance, the legislation may reduce our remaining annuity business.

Moreover, as pensioners under the new UK legislation are allowed access to their pension assets and are in position to freely withdraw funds from their pension either in a single sum or over several years, this could reduce our assets under management, and as a result reduce our revenues from an asset management perspective. In addition, as a result of tax reforms, the 55% tax rate on pension savings passed on in the event of death was abolished from April 2015, making annuities more unattractive to retirees. Following the announcement of the UK Pensions Reform, we introduced new products in an effort to mitigate the business outflow as a result of the reform, including a flexible retirement product in 2015 in response to the legislative changes and will be making this available to Guardian Assurance's customer base in 2016 (see "*Our Business—Products*"). If these products or any other products we may introduce in the future do not appeal to, and are not accepted by, consumers, it may have an adverse impact on our revenues and profitability. See "*Regulation—Key Regulatory Developments*."

The UK Chancellor of the Exchequer announced in January 2016 that legislation will be proposed to impose on the FCA the duty to limit the level of early exit charges on pensions, to facilitate the increase of flexibility provided at retirement as a result of the tax reforms that came into effect in April 2015. A consultation paper on the proposed cap is expected to be published by the FCA in the first half of 2016 and will be effective no later than the end of the first quarter in 2017. The current understanding is that the cap will not be retrospective.

In addition, the FCA's thematic reviews (including on retirement income, sales practices for annuities and the fair treatment of long-standing customers in life insurance) have been carried over from its 2014-2015 business plan. In its 2015-2016 business plan, the FCA reaffirmed its focus on the pensions landscape (in respect of policy, supervision, market studies and thematic work), with the intent of ensuring that firms have improved their practices since the publication of the FCA's thematic report on annuities in December 2014. The FCA's increased scrutiny of conduct risk management and accountability is expected to continue to affect the UK life insurance industry and will impact future persistency and strategic risk, as we address the implications on product strategy and increased frequency of customer transactions in our business. In particular, the FCA's thematic review of legacy savings and the end of compulsory annuitisation are the two key developments that have the potential to drive direct losses as opposed to mere adverse persistency experience. See "Regulation – Key Regulatory Developments – FCA Thematic Reviews" for an overview of these reviews. We expect possible liability in respect of certain historical annuity sales practices by the Guardian Group as well as increased costs associated with complying with new FCA guidance arising from the thematic reviews. We continue to evaluate FCA expectations and the impact on our practices, and expect that both will evolve over time. In addition, it is possible that FCA review in particular of the closed life book industry following the publication in March of its findings on the fair treatment of long-standing customers in life insurance could be expanded beyond the firms subject to the review to cover the entire industry.

The Irish life insurance sector also may become subject to significant regulatory change going forward. Following an Irish Government-commissioned *Review of the Irish Pension System,* which recommended the establishment of a universal defined-contribution pension model that would eventually cover almost all Irish workers in the public and private sectors, the Irish Government announced earlier this year that it was planning for the introduction of universal pension coverage in Ireland. The Irish Government has appointed an expert group to assess the implementation of a mandatory occupational pensions system. While it remains to be seen what measures will be introduced in Ireland as part of pension reform, it is possible that the Irish Government may implement similar or more extensive reforms than those implemented in the United Kingdom, which will impact future persistency and strategic risk, as we address the implications on product strategy and increased frequency of customer transactions in our business.

We may have to retain more regulatory capital as a result of stricter regulatory capital requirements imposed by the PRA, the FCA and the CBI, as well as other factors.

Actions of our regulators could have the effect of increasing capital requirements to which we are subject. We are in contact with the PRA in terms of capital requirements for purposes of Solvency II reporting. Our ultimate aim is to have an internal model for Solvency II purposes (the "**Internal Model**") approved by the PRA for ARUK, ReAssure's residual fund (including the Guardian Group's non-profit business to be transferred via Part VII transfer), ARUKSL and the Admin Re® Staff Pension Scheme. Preparation of an application for such approval remains a key priority for us in 2016 and 2017. Key changes in the scope of our Internal Model from our previous application will be the inclusion of the Guardian Business (although any future application will be based on the post-Part VII Transfer position) and a proposed move to a partial Internal Model with a standard formula (the "**Standard Formula**") approach used for with-profit funds (including the Windsor Life With-Profit Fund, the National Mutual With-Profit Fund and the Guardian With-Profit Fund). Until our Internal Model is approved, we are using the Standard Formula approach for Solvency II reporting, which is expected to be more onerous than the Internal Model. On a Standard Formula basis, the solvency ratios under the Solvency II regime are similar to the solvency ratios under the Solvency I regime (see "*Our Business—Capital Requirements and Reserves.*") While the PRA can require add-ons to the Standard Formula, the PRA has communicated that zero capital add-on is suitable for ReAssure and Guardian Assurance. While there is no certainty as to the level of capitalisation that the PRA will accept to approve the Internal Model, we expect that there should be no increase above the requirement of the Standard Formula. In particular, the treatment of the Matching Adjustment in the Internal Model should be more favourable. In addition, we are required to comply with the CBI rules in respect of required capital for Ark Life.

Our regulators may impose stricter regulatory capital requirements on us or regulations may be amended in the future to increase regulatory capital requirements in the future. Our ability to meet our regulatory capital requirements can be affected by other factors and developments as well, including continued fluctuations in investment markets. The general composition of our investment portfolio, including for example the level of illiquid assets (such as our investments in real estate and infrastructure debt), is subject to regulatory oversight, and investment risk in turn has Solvency II implications.

Separately, the International Association of Insurance Supervisors is promoting Own Risk and Solvency Assessments ("**ORSA**") requirements as a key component of regulatory reform. An ORSA requires insurance companies to issue their own assessment of their current and future risk through an internal risk self-assessment process that includes projection of solvency under base case and stress scenarios, and allows regulators to form an enhanced view of an insurer's ability to withstand financial stress. ORSA is in various stages of implementation in Europe and other jurisdictions, with various effectiveness dates. ARUK has produced, and will continue to produce, an annual ORSA.

Any inability to meet regulatory capital requirements in the longer term could lead to intervention by the PRA and FCA, which could be expected to require us to take steps to safeguard the interests of policyholders and other customers with a view to restoring regulatory capital to acceptable levels. Any of the above could have a material adverse effect on our business, results, financial condition and prospects.

In times of market dislocations, we may not have sufficient liquidity to meet our insurance obligations and this could have an adverse effect on us.

Our business requires, and our policyholders expect, that we have sufficient capital and sufficient liquidity to meet our insurance obligations, and that this would continue to be the case following the occurrence of any foreseeable event or series of events. Failure to do so could have an adverse effect on our liquidity or capital positions, our ability to meet our regulatory requirements and ultimately our ability to conduct our business.

We view the ability to meet liquidity needs through asset sales as reasonable. Unit-linked and with-profit assets (other than real estate assets) are generally liquid in nature. Fixed interest assets backing non-linked liabilities, which principally include annuity liabilities where short-term liquidity requirements are more predictable than for mortality and protection business, generally include a reasonable proportion of government bonds to ensure a reasonable level of liquidity. Generally, the ability to meet these liquidity needs could be adversely impacted by factors that we cannot control, such as market dislocations or interruptions, adverse economic conditions, severe disruption in the financial and worldwide credit markets and the related increased constraints on the availability of credit; and changes in interest rates, foreign exchange rates and credit spreads; or by perceptions among market participants of the extent of our liquidity needs. We expect that going forward there will be an increasing focus on investments in illiquid assets, although our risk appetite for investments in illiquid assets is relatively low (compared to our investments in liquid assets) and is subject to a stress liquidity ratio limit as well as a defined limit on the proportion of illiquid assets compared to the total fixed income portfolio. We intend to increase the size and scope of the illiquid asset portfolio, subject to market developments, regulatory non-objection and changes to Swiss Re's strategic asset allocation. Any increases in the amounts we invest in illiquid assets may have an adverse effect on our ability to meet our liquidity needs through asset sales and may subject us to increasing capital requirements.

Market conditions and the related stress on valuations could also subject us to unexpected needs for liquidity. Decreases in the price of investment assets supporting policy liabilities may increase the incidence of policyholder complaints, the size of policyholder compensation payments, rates at which policyholders let their policies lapse and the rates at which policyholders redeem their policies before their maturity date. This could give rise to challenges, particularly where a high volume of surrenders coincides with a tightening of liquidity to the point where asset sales are completed on disadvantageous terms to meet surrender requests.

We may not be able to secure new sources of liquidity or funding, should projected or actual liquidity fall below levels we require; market conditions may constrain the general availability of credit and willingness of lenders to lend. In addition, our ability to meet liquidity needs may also be constrained by regulatory requirements that require regulated entities to maintain or increase regulatory capital or that restrict intra-group transactions, the timing of dividend payments from subsidiaries or the fact that certain assets may be encumbered or otherwise non-tradable. Failure to meet covenants in financing arrangements could give rise to defaults and further constrain access to liquidity.

Any of the foregoing could have a material adverse effect on our financial condition and results of operations. In addition, our ability to take advantage of new business opportunities could be adversely impacted by our inability to access sufficient liquidity, which in turn could adversely affect our ability to achieve our growth targets.

Our ability to grow by acquiring and consolidating additional closed books or growing our revenues from external outsourcing arrangements with third parties may be constrained by competition, regulatory restrictions and other factors.

We generate revenues principally from the policies we own (which, in the Admin Re® Business are administered in-house and by HCL, that administers policies in the ex-Barclays life portfolio that we acquired in 2008 and which expenses are incurred by us) and from our external outsourcing arrangements with third parties, including Aviva, on behalf of whom we administer policies. Through Guardian, we have third-party administration arrangements, including with Capita and Diligenta in the UK and Irish Life in Ireland.

As a consolidator of closed books, we rely on the acquisition of appropriate blocks of business (through acquisition of entire lines of business and subsequent Part VII Transfers or the entire share capital of (or a majority stake in) life insurance companies or through reinsurance) and the replacement of policies as they run off in order to continue to cover the fixed costs in our current business model. In an effort to maintain and increase our cash flows and maintain economies of scale in our operations as our closed books run-off, we intend to continue to grow both by selectively acquiring and consolidating additional closed books. Our ability to acquire closed books will depend upon a number of factors, including our ability to identify acceptable acquisition candidates, consummate acquisitions on favourable terms, integrate acquired companies and portfolios successfully, obtain regulatory consents from the PRA and other relevant regulatory authorities (such as for Part VII Transfers and internal fund mergers under Part VII, which may be made subject to restrictions as a condition of approval), obtain financing to support growth and maintain our infrastructure to support our acquisition strategy. SRLC may seek third-party support in the form of additional capital for purposes of our strategy of growth through acquisitions, which, for example, could involve capital contributed at or above the Issuer level, or within the Issuer Group, could take the form of equity or debt funding and could involve investments on a portfolio-by-portfolio basis or more broadly in an investment vehicle or subsidiary.

We compete with other closed book consolidators as well as a number of other potential purchasers, including insurance and reinsurance companies, banks, hedge funds, private equity firms and sovereign wealth funds, as alternative capital continues to flow into the reinsurance space. We compete largely on the basis of pricing, and prices paid to acquire closed books tend to fluctuate over time. Our ability to compete is also impacted by changes in the regulatory and political landscape. Life insurance products typically are long-term and, in many cases, customers cease to be engaged with their products over time. If we are unable to increase levels of engagement with customers or deliver a consistent high-quality level of service, policyholders may terminate their policies earlier than assumed, which could have an adverse impact on our profitability.

If we are unable to acquire additional closed books and to maintain and grow revenues from our outsourcing arrangements in line with our strategy, this could have a material adverse effect on our financial condition, results of operations or prospects, particularly if we are unable to reduce fixed costs in line with a reduced portfolio size.

Acquisitions and disposals could have an adverse effect on us.

We may experience unforeseen difficulties as we integrate acquired companies and portfolios that we may acquire in the future into our existing operations. These difficulties may require significant management attention and financial resources. In addition, future acquisitions involve risks more generally, including:

- diligence investigations not identifying material liabilities or risks relating to the acquired business;
- adequately assessing the value of the acquired business;
- difficulties in integrating the risk, financial, technological and management standards, processes;
- procedures and controls of the acquired business conflicting with those of our existing operations;
- challenges in managing the increased scope and complexity of our operations;
- assumption of unanticipated liabilities, including employee pension liabilities;
- failure to achieve anticipated benefits from acquisitions;
- distraction of management from existing business;
- unexpected losses of key employees of the acquired operations;
- difficulties repaying acquisition and related financing costs; and
- changing our structure which may result in a reduction in unrelieved tax losses.

Our pursuit of growth opportunities in which we have limited or no prior experience or our decision to purchase closed books from sellers with which we have limited experience or with whom we have no prior dealings, exposes us to unexpected or greater risks and potential losses. While our Alpha platform currently caters for 25,000 product variants, which have been built up from previous acquisitions, a migration effort following an acquisition (including the Guardian Group Acquisition) would likely require us, among other things, to augment our platform and related systems to accommodate additional product variants. In respect of the Guardian Group Acquisition, we envisage the need to develop our Alpha platform to accommodate an additional 120-140 product variants.

If we decide to dispose of a company which we own, or the business or assets of such a company, such as a block of annuities, there is no guarantee that we will find a purchaser for such a company, business or assets, or that a potential purchaser will have the same view of the value of such company, business or assets. This may mean that we may be unable to realise the target value of such company, business or assets. In addition, any such disposal could reduce our assets under management and as a result reduce our revenues from our asset management business.

A failure to successfully meet the challenges associated with any future acquisitions (and the integration thereof) or disposals could have a material adverse effect on our business, results, financial condition and prospects.

As a holding company, the Issuer is dependent upon its subsidiaries to cover operating expenses and otherwise meet its obligations, including under the Notes.

The Issuer Group's life assurance and asset management operations are conducted through direct and indirect subsidiaries. As a holding company, the Issuer's principal sources of funds are dividends, amounts that may be borrowed from banks (see "*Description of Other Indebtedness*") or, through the issuance of debt securities in the capital markets (such as this Offering), interest and repayment of principal on intercompany loans that have been made to its subsidiaries, and amounts raised from equity injections from our shareholder. Dividends received from the Issuer's subsidiaries consist principally of profits from ReAssure (premium and fee income) and income from third-party administration management that flows into ARUKSL, Guardian Assurance (premium and fee income) until such time as the Part VII Transfer of Guardian Assurance's long-term insurance business into ReAssure is completed, investment income and capital released as books run-off, and in all cases and at all times are subject to regulatory capital restrictions at the ReAssure, ARUK, Ark Life and Guardian Assurance levels, with the majority of income flows being directly or indirectly subject to PRA or CBI consent. ARUK relies on dividends received from ReAssure and Guardian Assurance (until such time as the Part VII Transfer of Guardian Assurance's long-term insurance business into ReAssure is completed), and will also receive dividends from Ark Life following the Part VII Transfer of Guardian Assurance's long-term insurance business into ReAssure, to meet its cash needs, mainly to fund any expense overruns, pension contributions, non-routine investments for ARUK or ARUKSL and Issuer Group overhead expenses for services received from the Swiss Re Group that are not charged to ReAssure and Guardian Assurance, as well as shareholder dividends to SRLC. Unlike ReAssure, ARUK has no direct access to other liquid assets. Constraints on the ability of the Issuer's subsidiaries to pay dividends or interest and principal on intra-group loans to it could adversely impact its ability to service its obligations under the Notes. See "—*Changes in tax legislation and other circumstances that affect tax calculations could adversely affect our financial condition, our results of operations and our Solvency II capital position" and "In times of market dislocations, we may not have sufficient liquidity to meet our insurance obligations and this could have an adverse effect on us."*.

The effect of legal actions and adverse judgments could have a material adverse effect on our business, results, financial condition and prospects.

We could be named, from time to time, as a defendant in legal actions in connection with our operations. We are also involved, from time to time, in investigations and regulatory proceedings, certain of which could result in adverse judgments, settlements, fines and other outcomes. The volume and scope of such investigations and proceedings involving the financial services industry has increased in recent years, not only in respect of matters covered by our direct regulators, but also in respect of compliance with broader business conduct rules including those in respect of market abuse, bribery, money laundering, trade sanctions and data protection and privacy. We could be subject to risks arising from alleged, or actual, violations of any of the foregoing, and could also be subject to risks arising from potential employee misconduct, including non-compliance with internal policies and procedures. Substantial legal liability could materially adversely affect our business, financial condition or results or could cause significant reputational harm, which could seriously affect our business.

A vulnerability of, or failure in, or disruption to, our operational systems or infrastructure, or those of third parties, could disrupt our businesses or cause other losses.

The potential for operational risk exposure exists throughout our business. Disruption to, or failure of, our operational systems or infrastructure subjects us to risks that may vary in size, scale and scope. Integral to our performance is the continued efficacy of our technical systems (including our Alpha platform and other financial, accounting, data processing and other systems) and operational infrastructure; we rely on these systems for critical elements of our business process, including, for example, entry and retrieval of individual risk details, monitoring aggregate exposures and financial and regulatory reporting. We also rely on the ability of our employees, our internal systems and systems operated by third parties (including outsource partners), to conduct our day-to-day and ongoing operations. Moreover, our operations rely on the secure processing, storage and transmission of confidential and other information in our computer systems and networks.

Our key operational risks include, but are not limited, to operational or technical failures, unlawful tampering with our technical systems, terrorist activities, and ineffectiveness or exposure due to interruption in third-party support, as well as the loss of key individuals or failure on the part of the key individuals to perform properly. IT resilience is also a key focus area for the FCA and the PRA. They are increasingly viewing cyber risk as a primary threat to solvency because of the significant, rapid and unexpected impact of security incidents affecting healthcare insurers in the UK and the inability of such insurers to effectively respond to the events in question. Our systems, software and networks (or those of third parties with whom we interact or outsource to) may be vulnerable to unauthorised access (from within the Issuer Group or by third parties), computer viruses or other malicious code, cyber threats and other events that could have a security impact and result in the loss, theft or disclosure of confidential information relating to customers or employees. Any security breach that leads to disclosure of confidential information could harm our reputation with irreparable consequences. In addition, we may face litigation and be required to pay damages or penalties, such as fines imposed by governmental and other authorities, resulting in increased costs and loss of revenue. If third parties with whom we interact, such as outsource partners, violate applicable laws or our data protection policies, such violations could result in legal claims or proceedings, which may subject us to liability. We may be required to expend significant additional resources to modify or enhance our protective measures and investigate and remedy vulnerabilities. Any resulting perception that we do not adequately protect the privacy of personal information could result in the loss of current or potential relationships with sellers, policyholders and third-party service providers.

In addition, we update our systems and infrastructure to support our operations and growth and to respond to changes in regulations and markets. This updating can create risks associated with implementing new systems and integrating them with existing ones.

Our operational systems and infrastructure have been and may in the future be, exposed to vulnerabilities, fail to operate properly or become disabled as a result of events that are wholly or partially beyond our control. For example, we experienced a number of incidents in January 2016, which impacted a variety of core systems (including Alpha), resulting in temporary business disruption. Any disruption to, failure, termination or constraint in respect of our systems could adversely affect our ability to manage our exposure to risk or expand our businesses or result in financial loss or liability, impairment of our liquidity, disruption of our businesses, regulatory intervention or reputational damage. Despite the resiliency plans and facilities that we have in place, our ability to conduct business may be adversely impacted by a disruption in the infrastructure that supports our business, which may include a disruption involving electrical, communications, internet, transportation or other services used by us or third parties with which we conduct business. If third parties to which we outsource certain IT activities suffer disruptions to, or failures in, their operational systems and infrastructure, we may be unable to find and retain alternative service providers, in a timely manner and/or at commercially acceptable rates.

Our credit facilities place various constraints on us and our use of credit facilities subjects us to various risks.

Our credit facilities ("*Description of Other Indebtedness*") contain covenants that could constrain our ability to undertake various activities or transactions, such as asset sales, incurrence of liens and various types of restructurings, including a change of control of the Issuer (which would be treated as a prepayment and cancellation event). Any failure to comply with such covenants or covenants in any other credit facilities we might enter into in future, could result in a default. A default could lead to acceleration of the underlying obligations, trigger collateralisation requirements and/or trigger cross-defaults in other credit facilities or debt instruments. The need to refinance or replace these funding arrangements on less favourable terms could adversely affect our business and our financial condition.

Our future access to funds from bank counterparties could be adversely impacted if one or more bank counterparties were to face liquidity or other credit-related issues. We might not be able to replace such counterparties on favourable terms, on a timely basis or otherwise.

Our failure to maintain our funding arrangements could require us to liquidate investments or curtail business activities, which could have a material adverse effect on our financial position.

Pension scheme liabilities may impact our results of operations and financial condition.

We sponsor the Admin Re® Staff Pension Scheme, a funded defined benefit pension scheme for our past employees and a number of our present employees. In addition, we operate a defined contribution scheme for the current employees of the ARUK group (including the Guardian Group).

The defined benefit pension scheme closed to new members around 2001and closed to future accrual on 30 September 2010. The benefits for employees who were active members of the scheme at the time of closure to future accrual retain a salary link whilst in service ("**linked deferred members**"). As of 31 December 2015, our expected employer contribution was approximately £1 million for 2016, relating to the augmentations to linked deferred members' benefits. A full valuation is prepared every three years; the last approved triennial valuation was performed as of 31 December 2011 and showed a scheme deficit of £56 million. The most recent triennial valuation relates to 31 December 2014 and is nearing completion. ARUK and ARUKSL, as sponsors of the defined benefit pension scheme, have agreed with the trustee in principle to a recovery plan towards self-sufficiency (the trustee seeks to reach 100% funding on a self-sufficiency basis by 31 December 2025) with investment de-risking over the next ten years and, we expect to enter into a funding agreement with the trustee in the near future. Following entry into such agreement, we expect to be committed to payments of approximately £14 million per annum into a security account, for the period commenting 1 April 2016 until 31 March 2019, with potential further payments to be made depending on scheme experience. If the defined benefit pension scheme is not in a self-sufficient position by the end of the ten-year period, the assets held in the security account would become available to the defined benefit pension scheme, up to the amount required to ensure self-sufficiency, which may adversely impact our results of operations and financial condition.

Changes in tax legislation and other circumstances that affect tax calculations could adversely affect our financial condition, our results of operations and our Solvency II capital position.

We are subject to tax and intercompany pricing laws in the United Kingdom and Ireland, including those relating to the flow of funds between the Issuer and its subsidiaries. Our effective tax rate in any given financial year reflects a variety of factors that may not be present in succeeding financial years, and may be affected by changes in the tax laws of the jurisdictions in which we operate, or the interpretation of such tax laws. Certain tax positions taken by us are based on industry practice, tax advice, tax rulings and drawing similarities from our facts and circumstances to those in case law. In particular, transfer pricing is an area of taxation that depends heavily on the underlying facts and circumstances and generally involves a significant degree of judgment.

Changes in tax laws, regulations or related interpretations in jurisdictions in which we do business, or withdrawal of tax rulings in jurisdictions such as Switzerland that have issued such rulings to the Issuer Group and the Swiss Re Group, could increase the level of taxes we pay.

In the 2016 budget, the UK Chancellor of the Exchequer announced a consultation to restrict the amount of profit that can be offset through losses carried forward to 50% (which restriction is expected to apply only to profit in excess of £5 million). While this is not expected to affect the amount of deferred tax assets in our financial statements, there is the potential for our Solvency II capital position to be adversely affected depending upon the outcome of the consultation and discussions with the PRA on how to reflect any future changes to tax laws in the calculation of SCR (as defined below). Were our Solvency II capital position to be adversely affected, ARUK's ability to pay dividends to the Issuer would be significantly constrained, which in turn could adversely affect our ability to service our obligations under the Notes.

In addition, there are ongoing discussions between some of the Member States regarding the imposition of a financial transaction tax ("**FTT**") on financial institutions transacting business within those Member States, and it is unclear whether such a tax will be imposed and, if so, what the scope of the tax could be. While such a tax might not impact our insurance or reinsurance contracts, it could impact other activities conducted by us, including our investment activities.

Changes in corporate tax rates can also affect the value of deferred tax assets and deferred tax liabilities and the value of deferred tax assets could be impacted by future earnings levels as well as other factors that impact underlying assumptions.

In addition, aggressive tax enforcement is becoming a higher priority for many tax authorities, which could lead to an increase in tax audits, inquiries and challenges of historically accepted intra-group financing, intercompany fund transfers and other arrangements of insurance companies, including our arrangements. Tax authorities may also actively pursue additional taxes based on retroactive changes to tax laws.

In particular, the on-going global Base Erosion and Profit Shifting ("**BEPS**") of the Organization for Economic Cooperation and Development ("**OECD**"), which intends to achieve a multinational framework on corporate taxation could substantially affect the tax treatment of the Issuer Group. While we do not expect our business to be impacted by the guidance announced thus far, not all of the guidance is in final form and there is the potential for unexpected developments that could adversely affect our post-tax profits.

We have in the past faced, and may in the future face, audits and challenges brought by tax authorities. If material challenges were to be successful, our effective tax rate may increase, we may be required to modify structures at significant costs to us, we may also be subject to interest and penalty charges and we may incur costs in defending litigation or reaching a settlement. We are required to exercise judgment when determining our provisions for income taxes and accounting for tax-related matters. We regularly make estimates where the ultimate tax determination is uncertain. The final determination of any tax investigation, tax audit, tax litigation, appeal of a taxing authority's decision or similar proceedings may differ materially from that which is reflected in our financial statements.

Any of the foregoing could materially and adversely affect our business, financial condition and results of operations.

Risks Relating to the Swiss Re Group Structure

Decisions at the Swiss Re Group level in respect of the broader Swiss Re Group or with respect to us specifically could impact our business and operations, as well as our financial performance and the composition of our balance sheet.

The Issuer is an indirect wholly owned subsidiary of SRL and is part of the Life Capital Business Unit, one of the four operating segments of the Swiss Re Group. From the perspective of the Swiss Re Group, we represent a source of cash generation, diversification and complementary client solutions. Capital, funding and cost allocations are made at the Swiss Re Group level across its operating segments based principally on business plans as measured against U.S. GAAP and economic value management metrics. As part of the Swiss Re Group's focus on efficient capital allocation, the Issuer expects to be paying dividends to SRLC, and which in turn would expect to pay dividends to SRL. Decisions on dividends payable by each of the operating segments, including the Issuer Group, are made at the Swiss Re Group level based on legal entity, regulatory, capital and liquidity considerations. As part of the consideration by the Swiss Re Group of third-party capital options, Swiss Re may partner with minority investors in or within the SRLC Group, which could alter historical approaches taken in respect of capital, liquidity, funding and/or dividends, as well as other governance matters, including strategy for the Issuer Group.

Decisions at the Swiss Re Group level, including in respect of any of the foregoing, could have an adverse impact on our financial condition, including our capital and liquidity levels, on our regulatory capital requirements and on other key performance indicators, and could have other effects, including on the execution of our current growth strategy.

We are dependent on the Swiss Re Group for a range of services and derive other benefits from the Swiss Re Group, much of the availability of which is beyond our control.

We do not operate on a standalone basis. We are dependent on other members of the Swiss Re Group for a range of asset management services, corporate services (including general management services, human resources, logistics, IT support, finance, treasury and accounting services, auditing services, risk management oversight and legal and compliance) and technical services (including actuarial services support and underwriting services support). In addition, we derive a range of significant operational and other benefits from our status as a part of the Swiss Re Group. As a result, factors affecting the Swiss Re Group, whether involving developments or events unique to the Swiss Re Group or events or developments applicable more broadly, could have a material adverse effect on our ability to conduct our business, even if such factors do not directly impact our business operations.

Our structure provides SRLC with the ability to expand its business in the closed life book area without doing so through the Issuer Group.

Our focus is on the UK market and, to a lesser extent, the Irish market. To the extent Swiss Re seeks to invest in closed life book opportunities in the future in markets other than the United Kingdom and Ireland, it is likely to do so outside the Issuer Group, in which case associated cash flows would not benefit the Issuer Group or any holders of its indebtedness. Other opportunities (in the United Kingdom or otherwise) that are pursued with third-party investors might also be undertaken outside the Issuer Group.

Risks Relating to the Guardian Group Acquisition

The Guardian Group Acquisition may not be as financially or operationally successful as originally contemplated.

When deciding to acquire the Guardian Group, we made certain business assumptions and determinations based on our investigation of the business to be acquired, as well as other information then available (without independent verification). However, these assumptions and determinations involve risks and uncertainties that may cause them to be incorrect. As a result, we may not realise the full benefits that we expect from the Guardian Group Acquisition. For example, our estimates or assumptions as to future cash generation, synergies from initial and future management actions (including, among other things, increased allocation to illiquid assets from the Guardian Group's portfolio, reduction in policy administration costs, application of the Guardian Group's interest rate swap strategies capturing market imperfections to our existing annuity portfolio, replacing approximately half of the Guardian Group's equity hedges on unit-linked assets with underfunded units, integration of annuity platforms), tax benefits, and potential increased diversification benefit under the Standard Formula approach for Solvency II reporting, may prove to be incorrect.

To the extent that our management's estimates or assumptions prove to be incorrect, this could have a material adverse effect on the level of gross cash that we generate and on our reported financial condition or results of operations.

We may be unable to integrate the Guardian Group effectively and realise the expected benefits and synergies from the Guardian Group Acquisition.

In connection with the integration of the Guardian Group into our existing operating structure, we expect that the incremental cash generated thereby, including as a result of synergies once the businesses are fully integrated (which is expected by the end of 2017), will be greater than our existing run-off business. Additionally, we expect to create value by achieving operational, capital and asset management synergies. The

Guardian Group's business is anticipated to add an incremental £10 million per annum to our cost base from 2018 (decreasing from the Guardian Group's UK cost base of £44 million as at 31 December 2015). We will also seek to secure cash flows from the closed books we have acquired across which to spread our fixed costs (which is also expected to lengthen the average duration of the run-off profile of our existing business by approximately one year). Further, we intend to implement various management actions. We expect these benefits to start to accrue from completion of the Guardian Group Acquisition although these will be fully realised only once the business integration is complete.

If we cannot successfully integrate the Guardian Group within a reasonable time and within our anticipated cost parameters, we may be unable to realise the potential and anticipated financial results of the Guardian Group Acquisition, including expected cost and revenue synergies, operational efficiencies and other benefits. The effective integration of the Guardian Group into the Issuer Group can pose management, administrative and financial risks, including:

- the integration of the acquired business in a cost-effective manner, including management information and financial control systems, IT infrastructure and systems, annuity platforms and customer service;
- disruption to, or a failure of, our operational systems or infrastructure, in particular, our Alpha platform;
- combining the two groups' business models;
- legal, accounting, transaction fees and other costs relating to the Guardian Group Acquisition;
- disruptions to daily operations of each of the two groups;
- post-acquisition regulatory approvals or clearance by the PRA in respect of management actions that we would seek to implement;
- additional capital expenditure requirements;
- the risk of an increase in taxes, including due to loss or restrictions of certain tax attributes such as tax credits;
- the retention of policyholders;
- the integration of different group and management cultures; and
- the retention, hiring and training of key personnel.

If we are unable to effectively manage risks associated with the integration of the Guardian Group, if we experience a delay to integration, are unable to integrate fully or become subject to additional regulatory conditions, we may incur higher than expected costs and not realise all the anticipated benefits of the Guardian Group Acquisition, which could have a material adverse effect on our business, financial condition and results of operations.

The integration of the Guardian Group may place a significant strain on our infrastructure, resources and relationships and divert management attention and other resources from the operation of our business.

The integration of the Guardian Group could place a significant strain on group-wide infrastructure, internal control systems and other resources. It is likely to require substantial amounts of management's time and focus, which could place strain on management resources and processes, affect management's ability to operate our business and disrupt our operations. Further, our efforts to integrate the Guardian Group could result in unintended consequences, such as the loss or renegotiation of key relationships with policyholders, suppliers and other partners of us and the Guardian Group.

The Guardian Group Acquisition may expose us to unknown or undisclosed business, operational, tax, regulatory and other liabilities.

As a result of the Guardian Group Acquisition, we may assume unknown or undisclosed business, operational, tax, regulatory and other liabilities, fail to properly assess known contingent liabilities or assume businesses with internal control deficiencies. While we seek to mitigate these risks through, among other things, due diligence processes and indemnification provisions, we cannot be certain that the due diligence process we conducted was adequate (in particular, because we have acquired a privately held group) or that the indemnification provisions and other risk mitigation measures we put in place will be sufficient. Additionally, the Guardian Group Acquisition also exposes us to risk of ongoing compliance issues until such time as we can fully integrate acquired operations into our compliance and control frameworks. Any unknown or undisclosed liabilities that we assume, or any additional information about the Guardian Group that adversely affects us (such as unknown or contingent liabilities and issues relating to compliance with applicable laws) could substantially increase our costs and have a material adverse effect on our business, financial condition and results of operations.

Risks Relating to the Notes

Investment in the Notes will be subject to the risks typically associated with debt instruments.

An investment in the Notes will involve certain risks. In particular, an investment in the Notes may give rise to:

- credit risk of the Issuer, which can arise from a potential partial or total failure of the Issuer to make interest and/or principal payments that the Issuer is obligated to make under the Notes;

- market risk, which can arise from market volatility and changes in credit spreads, which depends, among other things, on changes in the creditworthiness of the Issuer, the probability of default, the recovery rate and the remaining term to maturity of the Notes. Changes in the general level of interest rates, credit spreads, inflation, overall economic developments and prevailing investor sentiment towards credit risk may also have a positive or negative effect on the market value of the Notes; and/or

- trading liquidity risk, which can arise from the lack of listing of the Notes, or lack of over-the-counter trading for the Notes.

The Notes contain no restrictive financial covenants or covenants governing the Issuer's operations or limiting the Issuer's ability to undertake various potentially transformative types of transactions.

The Notes do not contain any maintenance covenants (that would require the Issuer to meet financial ratios or minimum financial requirements) or negative covenants that restrict its ability to incur more unsecured indebtedness, pay dividends or make other distributions, repurchase any of its securities or undertake other similar actions. There is no restriction on the amount of securities that the Issuer or its subsidiaries may issue or guarantee that rank *pari passu* with the Notes. Accordingly, we may incur substantial additional unsecured indebtedness in the future and the issuance of any securities or guarantee that rank *pari passu* with the Notes may reduce the amount recoverable by Noteholders on liquidation, dissolution, insolvency, compromise or other proceeding for the avoidance of insolvency of, or against, the Issuer. Subject to restrictions under the negative pledge clause (set out in Condition 4 (*Negative Pledge*)), we may also incur indebtedness which may be secured by some of our assets. Any such incurrence of additional indebtedness could exacerbate the related risks that we now face, including an increase in the risks associated with the inability to service our indebtedness. The Notes also do not limit the Issuer's ability to enter into a merger, asset sale, related party transaction or other significant transaction that could materially alter its existence, jurisdiction of organisation or regulatory regime and/or the composition and business of the Issuer or the Issuer Group. Moreover, the Notes do not contain any covenant, event of default or other provision triggered by a change of control of the Issuer. Noteholders could be materially and adversely affected by any of the foregoing developments were any to be pursued.

The Notes are obligations of the Issuer and are not guaranteed by any other member of the Swiss Re Group or the Issuer Group. As such, the Issuer's obligations under the Notes will be structurally subordinated to any obligations of its subsidiaries. In the event of a liquidation, winding-up or dissolution or a bankruptcy, administration, reorganisation, insolvency, receivership or similar proceeding of any subsidiary, such subsidiaries will pay the holders of their own debt obligations, their trade creditors and any preferred shareholders before they would be able to distribute any of their assets to the Issuer. As a result of the foregoing, the Issuer may not have sufficient funds to make payments on the Notes.

The Notes may not be a suitable investment for all investors.

Each potential investor in the Notes must determine the suitability of an investment in the Notes in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference into this Offering Memorandum;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact that such an investment may have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the potential risks of an investment in the Notes;

- understand thoroughly the Conditions; and

- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment in the Notes and its ability to bear the applicable risks.

The Issuer may redeem the Notes prior to their Maturity Date under certain circumstances and such redemption might occur when the prevailing interest rates are low.

The Issuer may, subject to certain conditions, redeem the Notes prior to their Maturity Date, in whole but not in part, in cash, at their principal amount together with interest accrued to (but excluding) the date of redemption, at any time that a Tax Event (as defined in Condition 20 (Definitions)) occurs and is continuing.

As a Tax Event could occur at any time after the Issue Date, it is possible that the Issuer would be able to redeem all outstanding Notes at any time after such date. In any such case, the Noteholders will not receive a make-whole amount or any other compensation in light of the early redemption of the Notes. If the Issuer redeems the Notes upon the occurrence of a Tax Event, there is a risk that the Notes may be redeemed at times when the redemption proceeds are less than the current market value of the Notes or when prevailing interest rates may be relatively low, in which latter case Noteholders may only be able to reinvest the redemption proceeds in securities with a lower yield.

In addition, such ability to redeem the Notes early is likely to limit their market value. During any period when the Issuer has the right to redeem the Notes or if there is a perception in the market that a Tax Event may occur giving rise to such right, the market value of the Notes generally will not rise substantially above the price at which they can be redeemed.

Investors are exposed to risks associated with fixed interest rate securities.

A holder of a security with a fixed interest rate is exposed to the risk that the price of such securities falls as a result of increasing market interest rates. While the interest rate of the Notes is fixed until their Maturity Date, the interest rates in the capital markets (market interest rates) typically change on a daily basis. As the market interest rate changes, the price of the Notes changes typically in the opposite direction; if the market interest rate increases, the price of the Notes would typically fall, and if the market interest rate falls, the price of the Notes would typically increase. Therefore, Noteholders should be aware that movements of the market interest rate can adversely affect the price of the Notes and can lead to losses if Noteholders sell their Notes.

Active liquid trading markets for the Notes may not develop, and the transfer of the Notes will be subject to restrictions.

The Notes have not been registered under the Securities Act. Accordingly, the Notes can only be offered or sold pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Issuer does not intend subsequently to register the Notes for resale or to exchange a new series of notes registered under the Securities Act for the Notes. Moreover, the Issuer has not registered, and will not register, as an investment company under the Investment Company Act and, accordingly, the Notes are being offered initially only outside the United States to non-U.S. persons. In addition, there currently is no public market for the Notes. Although an application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and be admitted to trading on the Euro MTF Market, we cannot assure you that the Notes will become or will remain listed. There can be no assurance as to the liquidity of any market that may develop for the Notes, the ability of Noteholders to sell them or the price at which the Noteholders may be able to sell them. The liquidity of any market for the Notes will depend on the number of Noteholders, prevailing interest rates, the market for similar securities and other factors, including general economic conditions and our own financial condition, performance and prospects, as well as recommendations by securities analysts. There can be no assurance that if a market for the Notes were to develop, such a market would not be subject to disruptions or that it will be maintained.

Credit ratings assigned to the Notes may not reflect all risks, are not a recommendation to buy or hold securities and may be subject to revision, suspension or withdrawal at any time.

One or more independent credit rating agencies may assign credit ratings to the Notes. The credit ratings address our ability to perform our obligations under the terms of the Notes and credit risks in determining the likelihood that payments will be made when due under the Notes. The ratings may not reflect the potential impact of all risks related to the structure, market, additional risk factors discussed in this Offering Memorandum and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time. Ratings may be solicited or unsolicited. No assurance can be given that a credit rating will remain constant for any given period of time or that a credit rating will not be lowered or withdrawn entirely by the credit rating agency if, in its judgment, circumstances in the future so warrant. Rating agencies may also change their methodologies for rating securities with features similar to the Notes in the future. A suspension, reduction or withdrawal at any time of the credit rating assigned to the Notes by one or more of the credit rating agencies may adversely affect the market price of the Notes.

Investors must rely on the procedures of Euroclear and Clearstream, Luxembourg for transfer, payment and communication with the Issuer.

The Notes will be issued in registered form and will be represented by a permanent registered global certificate (the "**Global Certificate**"), which will be deposited with a common depositary on behalf of Euroclear and Clearstream, Luxembourg and registered in the name of a nominee for the common depositary for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the Conditions, investors will not be entitled to receive Certificates. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Certificate. While the Notes are represented by the Global Certificate, investors will be able to trade their beneficial interests only through Euroclear or Clearstream, Luxembourg and will receive and provide any notices only through Euroclear or Clearstream, Luxembourg.

While the Notes are represented by the Global Certificate, the Issuer will discharge its payment obligations under the Notes by making payments to or to the order of the registered holder as nominee for the common depositary for Euroclear or Clearstream, Luxembourg for distribution to their accountholders. A holder of a beneficial interest in the Global Certificate must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificate.

In certain limited instances the Issuer could substitute or vary the terms of the Notes and the Noteholders may be bound by certain other amendments to the Notes to which they did not consent.

The Conditions contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders who do not attend and vote at the relevant meeting and Noteholders who vote in a manner contrary to the majority.

Further, the Issuer and the Agent (as defined in the Conditions) may, without the consent or approval of the Noteholders, make such amendments to the terms of the Notes or the Agency Agreement that in their opinion are of a formal, minor or technical nature or made to correct a manifest error, as well as make any other modification and waive or authorise any breach or proposed breach, of any provisions of the Agency Agreement that is in the Issuer's opinion not materially prejudicial to the interests of the Noteholders.

Noteholders may be subject to exchange rate risks and exchange controls.

The Issuer will pay principal and interest on the Notes in euro. This presents certain risks relating to currency conversions if a Noteholder's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than euro. These include the risk that exchange rates may significantly change (including changes due to devaluation of the euro, or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the euro would decrease the Investor's Currency-equivalent yield on the Notes, the Investor's Currency equivalent value of the principal payable on the Notes and the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

EU tax initiatives could impact Noteholders.

On 14 February 2013 the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovenia and Slovakia and Spain (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has a very broad scope and could, if introduced, apply to certain dealings in Notes (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

Joint statements issued by participating Member States indicated an intention to implement the FTT by 1 January 2016 but this deadline was not met. The Commission's Proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to implementation, the timing of which remains unclear. The scope of any such tax is uncertain and additional Member States may decide to participate.

Prospective Noteholders are advised to seek their own professional advice in relation to the FTT.

There is a possibility of U.S. reporting and withholding tax on payments under the Notes.

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**," and such sections, "**FATCA**"), impose a 30% withholding tax on certain types of U.S.-source payments made to a "foreign financial institution," unless the foreign financial institution, among other things, undertakes to identify accounts held by certain U.S. persons or U.S.-owned entities, annually report certain information about such accounts, and withhold 30% on payments to account holders whose actions prevent it from complying with these and other reporting requirements, or unless the non-U.S. financial institution is otherwise exempt from those requirements. In addition, FATCA imposes a 30% withholding tax on the same types of payments to a "passive non-financial foreign entity" unless the entity certifies that it does not have any substantial U.S. owners or the entity furnishes identifying information regarding each substantial U.S. owner.

The Issuer has determined that it is an "active non-financial foreign entity" and not a financial institution for purposes of FATCA. However, this determination is highly factual and is subject to change. If the Issuer were to become a "foreign financial institution," the Issuer will, in order to avoid being subject to withholding as described above, be required to register with the U.S. Internal Revenue Service (the "**IRS**") and comply with the requirements of the intergovernmental agreement between the United States and Jersey implementing FATCA, including due diligence, reporting and withholding. This would require the Issuer to withhold at a rate of 30% on any "passthru payments" (as defined under FATCA) in respect of the Notes made after the later of 31 December 2018 or the publication of final regulations relating to "passthru payments" to any Noteholder that has not provided information required to establish that the accountholder is exempt from withholding under FATCA. The IRS is considering passthru payments and it is not clear how this rule will ultimately apply to the Issuer or the Notes. In addition, the Issuer would be obligated to provide certain information to the Jersey Comptroller of Taxes regarding Noteholders that are certain types of United States persons or entities owned directly or indirectly by such United States persons. If a Noteholder is subject to withholding on account of FATCA, there will be no additional amount payable by way of compensation to the Noteholder for the deducted amount.

FATCA is particularly complex. Each Noteholder is urged to consult its own tax advisor to obtain a more detailed explanation of FATCA and to learn how FATCA might affect each Noteholder in its particular circumstance.

In certain instances, the Issuer could substitute the obligor under the Notes without the consent or approval of the Noteholders.

The Issuer may, without consent of the Noteholders, substitute itself in respect of all rights and obligations arising under or in connection with the Notes, with a New Issuer (as defined in the Conditions) provided, among other things that no Tax Event would occur as a result of such substitution and that the Issuer has issued its irrevocable, unconditional and unsubordinated guarantee (as described more fully in the Conditions). While, among other conditions, the interests of the Noteholders must not be materially prejudiced in the opinion of the Issuer, the substitution of the Issuer under the Notes could have an adverse effect on the Noteholders. Among other things, the New Issuer could be domiciled in any jurisdiction other than Jersey. If Noteholders are, for whatever reason, precluded from owning securities issued by a legal entity organized or domiciled in a particular jurisdiction, they may have to sell their Notes in the open market.

Change of law could impact the rights of Noteholders.

The Agency Agreement and the Notes and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law. We cannot predict the impact of any possible judicial decision or change to English law or administrative practice that applies after the date of this Offering Memorandum.

Legal investment considerations may restrict certain purchasers from investing in the Notes.

The investment activities of certain investors may be subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) the Notes are legal investments for it; (ii) the Notes can be used as collateral for various types of borrowing; and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions considering an investment in the Notes should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

DESCRIPTION OF OTHER INDEBTEDNESS

In connection with the Issuer Group Formation, indebtedness owed by SRLC and discussed below has been novated to the Issuer. This indebtedness is expected to be repaid in the short-term. See "*Use of Proceeds.*"

Multicurrency Revolving Credit Facility

The Issuer is party to a £550 million multicurrency syndicated revolving credit facility (the "**Revolving Credit Facility**) that was entered into in April 2016 pursuant to a novation of a facility that had been extended to SRLC in 2014. The Revolving Credit Facility provides us with the ability to borrow multicurrency loans from time to time up to the total commitment of £550 million for working capital and general corporate purposes. Loans bear interest at a margin above LIBOR, or in the case of loans denominated in euro, EURIBOR. Covenants include a negative pledge clause, restrictions on disposals of assets, and restrictions on amalgamations, demergers, mergers and corporate reconstructions. Upon a change of control (if SRL ceases to directly or indirectly own more than 50.1% of the voting shares of the Issuer), the lenders would no longer be obligated to fund utilisations under the Revolving Credit Facility (other than rollover loans at maturity) and any lender would have the right to cancel its commitment and call its outstanding loan. The Revolving Credit Facility also has customary events of default.

The Issuer's payment obligations under the Notes will rank *pari passu* with its payment obligations under the Revolving Credit Facility.

The Revolving Credit Facility is fully drawn.

Bilateral Credit Facility Agreement

The Issuer is party to a £550 million bilateral credit facility (the "**Bilateral Credit Facility**") that was entered into in April 2016 (pursuant to a novation of a facility that had been extended to SRLC for purposes of funding a portion of the consideration for the Guardian Acquisition). Amounts borrowed bear interest at a margin above LIBOR. Covenants include a negative pledge clause, restrictions on disposals of assets, and restrictions on amalgamations, demergers, mergers and corporate reconstructions. Upon a change of control (if SRL ceases to directly or indirectly own more than 50.1% of the voting shares of the Issuer), the lender would have the right to cancel its commitment and call its outstanding loan. The Bilateral Credit Facility also has customary events of default.

The Issuer's payment obligations under the Notes rank *pari passu* with its payment obligations under the Bilateral Credit Facility.

The Bilateral Credit Facility is fully drawn.

TERMS AND CONDITIONS OF THE NOTES

The €750,000,000 aggregate principal amount of 1.375% Notes due May 27, 2023 (each, a "**Note**" and together, the "**Notes**," which expression includes any further Notes issued pursuant to Condition 15 (*Further Issues*) and forming a single series therewith) of Swiss Re Admin Re Limited, incorporated under the laws of Jersey (the "**Issuer**"), have the benefit of an agency agreement, dated on or about May 27, 2016 (as amended and/or supplemented and/or restated from time to time, the "**Agency Agreement**"), between the Issuer and BNP Paribas Securities Services as registrar (in such capacity, the "**Registrar**," which expression includes any successor registrar appointed by the Issuer from time to time in connection with the Notes) and as fiscal agent and principal paying agent (in such capacity, the "**Agent**," which expression includes any successor fiscal agent and principal paying agent appointed from time to time in connection with the Notes).

These terms and conditions (the "**Conditions**") include summaries of, and are subject to, the detailed provisions of the Agency Agreement, which includes the form of the Notes. The Noteholders (as defined in Condition 20 (*Definitions*)) are deemed to have notice of all provisions of the Agency Agreement applicable to them. Copies of the Agency Agreement are available for inspection by Noteholders during normal business hours at the specified office of the Agent, the initial specified office of which is set out below.

1. Form, Denomination and Transfer

The Notes will be issued in registered form, in the aggregate principal amount of €750,000,000 in denominations of €100,000 and integral multiples of €1,000 in excess thereof on or about May 27, 2016 (the "**Issue Date**").

A Note certificate (each, a "**Certificate**"), will be issued to each Noteholder in respect of its registered holding. Each Certificate will be numbered serially with an identifying number which will be recorded in the register of Noteholders which the Issuer will procure to be kept by the Registrar (the "**Register**").

2. Status

The Notes constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 4 (*Negative Pledge*)) unsecured obligations of the Issuer, ranking *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes shall, save for such exceptions as may be provided by applicable legislation and, subject to Condition 4 (*Negative Pledge*), at all times rank equally with all other present and future direct, unconditional, unsubordinated and unsecured obligations of the Issuer from time to time outstanding.

3. Title and Transfer

(a) **Title**: Title to the Notes passes only by registration in the Register. The holder of any Note will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership or writing on it, or the previous theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder. In these Conditions "**Noteholder"** and (in relation to a Note) "**holder**" means the person in whose name a Note is registered in the Register.

(b) **Transfer**: A Note may be transferred by depositing the Certificate issued in respect of that Note, with the form of transfer on the back duly completed and signed, at the specified office of the Registrar or the Agent.

(c) **Delivery of Certificates:** Each new Certificate to be issued pursuant to Condition 3(b) shall, within three business days of receipt of the form of transfer and surrender of the relevant Certificate, be mailed by uninsured post at the risk of the Noteholder entitled to the new Certificate to the address specified in the form of transfer. In this Condition 3(c), "**business day**" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the Agent or the Registrar (as the case may be).

(d) **Formalities free of charge**: Registration of transfer of Notes will be effected without charge by or on behalf of the Issuer or the Agent but upon payment (or the giving of such indemnity as the

Issuer or the Agent may reasonably require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer.

(e) **Closed Periods:** No Noteholder may require the transfer of a Note to be registered during the period of 15 days ending on the due date for any payment of principal or interest on that Note.

(f) **Regulations:** All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests one.

4. Negative Pledge

So long as any of the Notes remain outstanding (as defined in the Agency Agreement), the Issuer shall not create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest upon the whole or any part of its undertaking, property, assets or revenues present or future to secure any Relevant Indebtedness (as defined in Condition 20 (*Definitions*)) or to secure any guarantee of, or indemnity in respect of, any Relevant Indebtedness, except in each case for Permitted Interests (as defined in Condition 20 (*Definitions*)), unless, at the same time or prior thereto, the Issuer's obligations under or in respect of the Notes and the Agency Agreement (a) are secured equally and rateably therewith; or (b) have the benefit of such other security, guarantee, indemnity or other arrangement as shall be approved by an Extraordinary Resolution (as defined in Condition 20 (*Definitions*)) of the Noteholders.

5. Interest

(a) **Interest Rate and Interest Payment Dates**: Unless previously redeemed in accordance with these Conditions and, subject to the provisions of this Condition 5 (*Interest*), the aggregate principal amount of the Notes shall bear interest at the rate of 1.375% per annum (the "**Rate of Interest**") from (and including) the Issue Date to (but excluding) the Maturity Date (as defined in Condition 20 (*Definitions*)), payable annually in arrear on May 27 each year (each, an "**Interest Payment Date**"), commencing on May 27, 2017, as provided in Condition 7 (*Payments*). The Interest Amount (as defined in Condition 20 (*Definitions*)) per Calculation Amount, payable on each Interest Payment Date in relation to a full Interest Period (as defined in Condition 20 (*Definitions*)), will be €13.75.

(b) **Interest Accrual:** Each Note will cease to bear interest from (and including) the due date for redemption unless, upon due presentation and surrender of the relevant Certificate, payment of principal is improperly withheld or refused or unless a default is otherwise made in respect of payment, in which case it will continue to bear interest at the Rate of Interest (both before and after judgment) until (but excluding) whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Agent has notified the Noteholders that it has received all sums due in respect of the Notes (except to the extent that there is any subsequent default in payment).

(c) **Calculation of broken interest:** When interest is required to be calculated in respect of a period of less than a full Interest Period, it shall be calculated by applying the Rate of Interest to the Calculation Amount (as defined in Condition 20 (*Definitions*)), multiplying the product by the Day Count Fraction (as defined in Condition 20 (*Definitions*)), rounding the resulting figure to the nearest cent (half a cent being rounded upwards) and multiplying such rounded figure by a number equal to the denomination of such Note divided by the Calculation Amount.

6. Redemption and Purchase

(a) **Final redemption:** Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on the Maturity Date.

(b) **Tax Event**: If at any time after the issue of the Notes but prior to the Maturity Date, a Tax Event (as defined in Condition 20 (*Definitions*)) occurs and is continuing, the Issuer may redeem the

Notes (in whole but not in part) on giving (via the Agent) not less than 30 nor more than 60 days' irrevocable notice to the Noteholders in accordance with Condition 16 (*Notices*), provided that:

(i) no such notice of redemption may be delivered earlier than 90 days prior to the earliest date on which the Issuer would be obligated to pay the Additional Amounts (as defined in Condition 8(a) (*Taxation*) below); and

(ii) prior to the publication of any such notice of redemption pursuant to this Condition 6(b) (*Tax Event*), the Issuer will deliver or procure that there is delivered to the Agent a certificate signed by two authorised officers of the Issuer stating that a Tax Event has occurred.

Notes redeemed pursuant to this Condition 6(b) (*Tax Event*) will be redeemed at their principal amount together with interest accrued to (but excluding) the date of redemption.

(c) **Purchase:** The Issuer or any of its Subsidiaries may at any time purchase any Notes at any price in the open market or otherwise.

(d) **Cancellation**: Notes purchased by or on behalf of the Issuer or its Subsidiaries may be cancelled. Any Notes that are cancelled may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

(e) **Notices to the Agent**: Where the provisions of this Condition 6 (*Redemption and Purchase*) provide for the giving of notice by the Issuer to the Noteholders via the Agent, such notice shall be deemed to be validly given to the Agent if provided in writing and delivered with all required information to the Agent within the prescribed time limits of this Condition 6 (*Redemption and Purchase*).

7. Payments

(a) **Principal:** Payments of principal in respect of the Notes shall be made (i) by transfer to the Registered Account (as defined in Condition 20 (*Definitions*)) of the Noteholder; or (ii) if the Noteholder does not have a Registered Account, by euro cheque drawn on a bank that processes payments in euro mailed to the Registered Address (as defined in Condition 20 (*Definitions*)) of the Noteholder, as notified to the Agent not later than the Record Date (as defined below), in each case, upon surrender of the relevant Certificate at the specified office of the Agent.

(b) **Interest:** Payments of interest in respect of the Notes shall be made (i) by transfer to the Registered Account of the Noteholder; or (ii) if the Noteholder does not have a Registered Account, by euro cheque drawn on a bank that processes payments in euro mailed to the Registered Address of the Noteholder, as notified to the Agent not later than the Record Date, in each case, upon endorsement (in the case of interest payable other than on redemption) or surrender (in the case of interest payable on redemption) of the relevant Certificate at the specified office of the Agent.

(c) **Record Date:** Each payment in respect of a Note will be made to the person shown as the Noteholder in the Register at the opening of business in the place of the Registrar's specified office on the 15^{th} day before the due date for such payment (the "**Record Date**").

(d) **Payments subject to fiscal laws:** All payments are subject in all cases to (i) any applicable fiscal or other laws, regulations and directives applicable in the place of payment and (ii) any withholding or deduction required pursuant to any FATCA Provisions, but in each case without prejudice to the provisions of Condition 8 (*Taxation*). No commission or expenses shall be charged to the Noteholders in respect of such payments.

(e) **Payments on Business Days:** Where payment is to be made by transfer to a Registered Account, payment instructions (for value the due date, or, if the due date is not a Business Day, for value the next Business Day) will be initiated and, where payment is to be made by euro cheque, the cheque will be mailed (i) in the case of payments of principal and interest payable on redemption, on the later of the due date for payment and the day on which the relevant

Certificate is surrendered at the specified office of the Agent and (ii) in the case of payments of interest payable other than on redemption, on the due date for payment. A Noteholder shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a Business Day or (B) a cheque mailed in accordance with this Condition 7(e) (*Payments on Business Days*) arriving after the due date for payment or being lost in the mail.

8. Taxation

(a) All payments of principal and interest in respect of the Notes will be made free and clear of, and without a tax deduction or withholding (collectively, a "**Tax Deduction**") for, any taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed, levied, collected, withheld or assessed by or on behalf of Jersey or the United Kingdom, or any political subdivision thereof or any authority thereof having the power to tax, unless the Issuer is compelled by law to make such Tax Deduction. In the event of such Tax Deduction, subject as provided in Condition 8(b) (*Taxation*) below, the Issuer will pay such additional amounts (the "**Additional Amounts**") as will result (after such Tax Deduction) in receipt by the Noteholders of such amounts as the Noteholders would have received if no Tax Deduction had been required.

(b) Notwithstanding Condition 8(a) (*Taxation*), no Additional Amounts shall be payable on account of any Taxes which:

(i) are payable if payment under a Note is claimed by or on behalf of a Noteholder that is liable to such Taxes in respect of such Note by reason of it having some connection with Jersey or the United Kingdom other than the mere holding of that Note;

(ii) are payable or required to be withheld or deducted by reason of any FATCA Provisions; or

(iii) are payable more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an Additional Amount on presenting the same for payment on such thirtieth day. The "**Relevant Date**" means the date on which such payment first became due, except for that the full amount of the moneys payable has not been duly received by the Agent on or prior to such due date. In that case, "**Relevant Date**" means the date on which notice is duly given to the Noteholders in accordance with Condition 16 (*Notices*) to the effect that the full amount of such moneys has been received.

9. Events of Default

A Noteholder may give notice to the Issuer that a Note is, and it shall accordingly forthwith become, immediately due and repayable (subject as provided below) at its principal amount, together with accrued interest, if any of the following events (each, an "**Event of Default**") shall have occurred and be continuing:

(a) there is a failure by the Issuer to pay principal or interest on any of the Notes when due and such failure continues for a period of seven days; or

(b) a default is made by the Issuer in the performance or observance of any other covenant, condition or provision contained in the Notes and on its part to be performed or observed (other than the covenant to pay the principal and interest in respect of any of the Notes) and such default continues for the period of 30 days next following the service by a Noteholder on the Issuer of notice requiring such default to be remedied; or

(c) any indebtedness of the Issuer for or in respect of borrowed money (whether present or future, actual or contingent, and including any guarantee, indemnity, surety or other similar obligation but excluding obligations arising under the Notes) in an aggregate principal amount exceeding $100,000,000 (or its equivalent in other currencies) is not paid when due or (as the case may be) within any applicable grace period or becomes due and payable prior to its stated maturity as a result of an event of default (howsoever described); or

(d) a resolution is passed or an order of a court of competent jurisdiction is made that the Issuer be wound up or dissolved or the Issuer ceases or threatens to cease to carry on all or substantially all of its business or operations otherwise than for the purposes of or pursuant to and followed by a consolidation, amalgamation, merger or reconstruction the terms of which shall have previously been approved in writing by an Extraordinary Resolution of Noteholders or as a result of a Permitted Reorganisation (as defined in Condition 20 (*Definitions*)); or

(e) an encumbrancer takes possession or a receiver is appointed of the whole or any substantial part of the assets or undertaking of the Issuer; or

(f) a distress, execution or seizure before judgment is levied or enforced upon or sued out against any substantial part of the property, assets or revenues of the Issuer and (a) is not discharged or stayed within 60 days thereof or (b) is not being contested in good faith and by appropriate means; or

(g) the Issuer is insolvent or bankrupt or unable to pay its debts as and when they fall due or the Issuer shall initiate or consent to proceedings relating to itself under any applicable bankruptcy, composition, postponement of bankruptcy, administration or insolvency law or make a general assignment for the benefit of, or enter into any composition with, its creditors; or

(h) proceedings shall have been initiated against the Issuer under any applicable bankruptcy, composition, administration or insolvency law in respect of a sum claimed in aggregate of at least $100,000,000 or its equivalent in other currencies and such proceedings shall not have been discharged or stayed within a period of 60 days or are not being contested in good faith and by appropriate means; or

(i) (subject to equivalent grace periods) any event occurs which under applicable laws has an analogous effect to any of the events referred to in paragraphs (d) to (h) above.

10. Prescription

Claims against the Issuer for payment in respect of Notes shall become void unless made within a period of 10 years (in the case of principal) and five years (in the case of interest) from the date on which the relevant payment first became due.

11. Replacement of Certificates

If any Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Registrar, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer or the Registrar may require.

Mutilated or defaced Certificates must be surrendered before replacements will be issued.

12. Agents

(a) The initial Agent for the Notes will be BNP Paribas Securities Services with its specified office at 33, rue de Gasperich, Howald-Hesperange, L 2085 Luxembourg.

(b) The Issuer reserves the right at any time to vary or terminate the appointment of the Agent and/or to appoint other Agents *provided* that it will at all times maintain: (i) a fiscal agent; and (ii) if and for so long as the Notes are listed on a stock exchange, a paying agent having a specified office in such city as may be required by the rules and regulations of the relevant stock exchange or any other relevant authority; and (iii) a registrar.

(c) The Agent reserves the right at any time to change its specified office to some other specified office in the same city. Notice of all changes in the identities or specified offices of the Agent will be delivered promptly by the Issuer to the Noteholders in accordance with Condition 16 (*Notices*).

(d) If, at any time during the life of the Notes, the Agent shall resign or become incapable of acting as Agent or shall be adjudged bankrupt or insolvent, the Agent shall be substituted by a duly licensed major European bank chosen by the Issuer. In the event of such a replacement of the Agent all references to the Agent shall be deemed to refer to such replacement. Notice of such a replacement shall be delivered to the Noteholders in accordance with Condition 16 (*Notices*).

(e) The Agent acts solely as the Issuer's agent and does not assume any obligations towards or relationship of agency or trust for the Noteholders.

13. Substitution

(a) The Issuer (or any previous substitute of the Issuer under this Condition 13 (*Substitution*)) may, without the consent of the Noteholders, and provided that no Tax Event would occur as a result of such substitution, be substituted in respect of all rights and obligations arising under or in connection with the Notes by an Issuer's successor in business or any Subsidiary (as defined in Condition 20 (*Definitions*)) (the "**New Issuer**"), *provided* that:

(i) Swiss Re Admin Re Limited has issued its irrevocable, unconditional and unsubordinated guarantee in respect of the obligations of the New Issuer under the Notes, which guarantee shall, on a winding up of Swiss Re Admin Re Limited, have a *pari passu* ranking with the obligations of Swiss Re Admin Re Limited under the Notes prior to the substitution of Swiss Re Admin Re Limited; and

(ii) if the New Issuer is a company resident for tax purposes in a New Residence (as defined in Condition 13(b) (*Substitution*)), the conditions set forth in Condition 13(c) (*Substitution*) are also met; and

(iii) certification is provided to the Agent by two duly authorised officers of the Issuer stating that the conditions precedent set out in this Condition 13 (*Substitution*) have been complied with.

(b) If the New Issuer is a company resident for tax purposes in a jurisdiction other than the United Kingdom (such jurisdiction, the "**New Residence**"), the following conditions shall also be met:

(i) the Notes would constitute legal, valid and binding obligations in the New Residence of such New Issuer;

(ii) under the applicable laws and regulations in effect at the date of the substitution, the New Issuer would not be obligated to make any withholding or deduction on any payments in respect of the Notes beyond any withholding or deduction already applicable to payments made by the Issuer in respect of the Notes prior to the substitution (in case such withholding or deduction is introduced after a substitution, Condition 13(c) (*Substitution*) will apply); and

(iii) the guarantee to be provided by Swiss Re Admin Re Limited according to Condition 13(a)(i) (*Substitution*) explicitly also guarantees the payment to the Noteholders of any amounts required to be withheld or deducted by the New Issuer at any time after substitution.

(c) If the New Issuer is resident for tax purposes in a New Residence, the provisions of Condition 8 (*Taxation*) shall apply, with references to Jersey and/or the United Kingdom also being references to the New Residence.

(d) In the event of a substitution pursuant to this Condition 13 (*Substitution*), any reference in these Conditions to the Issuer shall be a reference to the New Issuer and if the New Issuer is resident for tax purposes in a New Residence, any reference to Jersey and/or the United Kingdom shall also be a reference to the New Residence.

(e) Notice of any substitution shall be irrevocably given by the Issuer causing the Agent or Registrar to deliver a notice to Noteholders in accordance with Condition 16 (*Notices*). Upon such delivery of notice to Noteholders, the substitution shall become effective, and the Issuer (and in the event of a repeated application of this Condition 13 (*Substitution*) any previous New Issuer), shall be discharged from any and all obligations under the Notes.

14. Modifications and Meetings of Noteholders

(a) **Meetings of Noteholders.** The Agency Agreement contains provisions for convening meetings of Noteholders to consider any matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Agency Agreement. Such a meeting may be convened by the Issuer or at the request of Noteholders holding not less than 10% of the aggregate principal amount of the Notes for the time being outstanding. The quorum at any meeting for passing an Extraordinary Resolution will be two or more persons present holding or representing more than 50% in principal amount of the Notes for the time being outstanding, or at any adjourned such meeting two or more persons present whatever the principal amount of the Notes held or represented by them; *provided, that*, at any meeting the business of which includes consideration of any proposal to:

(i) change the date, or the method of determining the date, for payment of principal, interest or any other amount in respect of the Notes, to reduce or cancel the amount of principal, interest or any other amount payable on any date in respect of the Notes or to change the method of calculating the amount of principal, interest or any other amount payable in respect of the Notes on any date;

(ii) change the currency in which any amount due in respect of the Notes is payable;

(iii) change the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution or any other resolution of Noteholders or the number or percentage of votes required to be cast, or the number or percentage of Notes required to be held, in connection with the taking of any decision or action by or on behalf of the Noteholders or any of them;

(iv) change the circumstances set out in Condition 14(a)(i) to (vi), the definition of "Extraordinary Resolution, the definition of "outstanding" or the definition of "Written Resolution" in the Conditions;

(v) to approve any exchange or substitution of the Notes for, or the conversion of the Notes into, any other obligations or securities of the Issuer or any other person; or

(vi) in connection with any proposed exchange, substitution or conversion of the type referred to in subparagraph (v) of this Condition 14(a), to amend any of the provisions of the Notes describing circumstances in which Notes may be redeemed or declared due and payable prior to their scheduled maturity date,

the necessary quorum for passing an Extraordinary Resolution will be two or more persons present holding or representing not less than 75%, or at any adjourned meeting not less than 25%, of the principal amount of the Notes for the time being outstanding. The Agency Agreement provides that (i) a resolution passed at a meeting duly convened and held in accordance with the Agency Agreement by a majority consisting of not less than 75% of the votes cast on such resolution, (ii) a resolution in writing signed by or on behalf of the holders of not less than 75% in principal amount of the Notes for the time being outstanding (a "Written Resolution") or (iii) consent given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Fiscal Agent) by or on behalf of the holders of not less than 75% in principal amount of the Notes for the time being outstanding, shall, in each case, be effective as an Extraordinary Resolution of the Noteholders. An Extraordinary Resolution passed by the Noteholders will be binding on all Noteholders, whether or not they were present at any meeting and whether or not they voted on the resolution.

(b) **Modification and Waiver**. The parties to the Agency Agreement may agree, without the consent of the Noteholders, to (i) any modification of any of the provisions of the Notes or the Agency Agreement which is of a formal, minor or technical nature or which is made to correct a manifest error; and (ii) any other modification and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Agency Agreement that is in the opinion of such parties not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and such modification shall be notified by the Issuer (via the Agent or Registrar, in accordance with Condition 16 (*Notices*)) to the Noteholders as soon as practicable.

15. Further Issues

The Issuer may from time to time, without the consent of the Noteholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the amount and date of first payment of interest) so that such further issue shall be consolidated and form a single series with the Notes or upon such terms as the Issuer may determine at the time of their issue.

16. Notices

If the Notes are listed, notices to Noteholders will be valid if published by such method as permitted by the relevant stock exchange where the Notes are then listed. For so long as any of the Notes are listed on the Luxembourg Stock Exchange and traded on the Euro MTF Market and the rules of such exchange so require, notices with respect to the Notes listed on the Luxembourg Stock Exchange and traded on the Euro MTF Market will be published on the official website of the Luxembourg Stock Exchange (*http://www.bourse.lu*). Such notice will be deemed to have been validly given on the date of the publication.

If the Notes are unlisted, notice will be validly given by the Issuer delivering such notice to the Agent or Registrar for communication by the Agent or Registrar to the relevant Noteholders specified in the Register. Such notice will be deemed to have been validly given to the Noteholders on the day after which the said notice was given to the Agent or Registrar.

17. Currency Indemnity

If any sum due from the Issuer in respect of the Notes or any order or judgment given or made in relation thereto has to be converted from the currency (the "**First Currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**Second Currency**") for the purpose of (a) making or filing a claim or proof against the Issuer; (b) obtaining an order or judgment in any court or other tribunal; or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the specified office of the Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the First Currency into the Second Currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the First Currency with the Second Currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

18. Governing Law and Jurisdiction

(a) **Governing law:** The Agency Agreement and the Notes and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

(b) **English courts:** Subject to Condition 18(d) (*Rights of the Noteholders to take proceedings outside England)* below, the English courts have exclusive jurisdiction to settle any dispute arising out of or in connection with the Notes, including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with the Notes (a "**Dispute**") and all Disputes will be submitted to the exclusive jurisdiction of the English courts.

(c) **Appropriate forum:** The Issuer waives any objection to the English courts on the grounds that they are an inconvenient or inappropriate forum to settle any Dispute.

(d) **Rights of the Noteholders to take proceedings outside England:** Condition 18(b) (*English courts*) is for the benefit of the Noteholders only. To the extent allowed by law, the Noteholders may, in respect of any Dispute or Disputes, take (i) proceedings in any other court with jurisdiction; and (ii) concurrent proceedings in any number of jurisdictions.

(e) **Service of process:** The Issuer irrevocably appoints Swiss Re Life Capital Management Ltd, UK branch, at 30 St. Mary Axe, London, England, or the city in which the specified office of the Agent and the Registrar is located, as its agent for service of process in any proceedings before the English courts in relation to any Dispute, and agrees that, in the event of Swiss Re Life Capital Management Ltd, UK branch, being unable or unwilling for any reason so to act, it will immediately appoint another person as its agent for service of process in England in respect of any Dispute and notify the Agent in writing of the name and address of the replacement process agent. The Issuer agrees that failure by a process agent to notify it of any process will not invalidate service. Nothing herein shall affect the right to serve process in any other manner permitted by law.

19. Contracts (Rights of Third Parties) Act 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term or condition of the Notes but this does not affect any right or remedy of any person which exists or is available apart from that Act.

20. Definitions

"**Additional Amounts**" has the meaning set forth in Condition 8(a) (*Taxation*).

"**Agency Agreement**" means an agency agreement, dated on or about May 27, 2016 (as amended and/or supplemented and/or restated from time to time), between the Issuer, the Agent and the Registrar.

"**Agent**" means BNP Paribas Securities Services initially, and any successor fiscal agent and principal paying agent appointed by the Issuer from time to time in connection with the Notes.

"**Business Day**" means a day (other than a Saturday or a Sunday) on which the Trans-European Automated Real Time Gross Settlement Express Transfer (TARGET2) system (or any successor thereto) is operating, and on which commercial banks and foreign exchange markets in London, England and the city in which the specified office of the Agent and the Registrar is located, settle payments and are open for general business.

"**Calculation Amount**" means €1,000.

"**Certificate**" has the meaning set forth in Condition 1 (*Form, Denomination and Transfer*).

"**Conditions**" means these terms and conditions of the Notes, as amended from time to time.

"**Day Count Fraction**" means, in respect of any period, the actual number of days in the period from (and including) the date from which interest begins to accrue (the "**Accrual Date**") to (but excluding) the date on which it falls due divided by the actual number of days from (and including) the Accrual Date to (but excluding) the next following Interest Payment Date.

"**Dispute**" has the meaning set forth in Condition 18(b) (*English Courts*).

"**Event of Default**" has the meaning set forth in Condition 9 (*Events of Default*).

"**Extraordinary Resolution**" means (i) a resolution passed at a meeting duly convened and held in accordance with the Agency Agreement by a majority consisting of not less than 75% of the votes cast on such resolution, or (ii) a resolution in writing signed by or on behalf of the holders of not less than 75% in principal amount of the Notes for the time being outstanding; or (iii) consent given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Fiscal Agent) by or on behalf of the holders of not less than 75% in principal amount of the Notes for the time being outstanding.

"**FATCA Provisions**" mean Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**," and such sections "**FATCA**"), any successor provisions to FATCA, any current or future regulations or official interpretations of FATCA, any agreement entered into pursuant to Section 1471(b) of the Code, any intergovernmental agreement between the United States and another jurisdiction (including any agreement with Jersey or the United Kingdom) to improve tax compliance and to implement FATCA (an "**IGA**") or any legislation, rules or practices implementing an IGA.

"**First Currency**" has the meaning set forth in Condition 17 (*Currency Indemnity*).

"**Interest Amount**" means the amount of interest that would be payable on the aggregate principal amount of Notes outstanding on the relevant date for payment.

"**Interest Period**" means each period beginning on (and including) the Issue Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date.

"**Issuer**" means Swiss Re Admin Re Limited, with its registered office at 22 Grenville Street, St. Helier, Jersey JE4 8PX.

"**Interest Payment Date**" has the meaning set forth in Condition 5(a) (*Interest Rate and Interest Payment Dates*).

"**Issue Date**" has the meaning set forth in Condition 1 (*Form, Denomination and Transfer*).

"**Maturity Date**" means May 27, 2023.

"**New Issuer**" has the meaning set forth in Condition 13(a) (*Substitution*).

"**New Residence**" has the meaning set forth in Condition 13(b) (*Substitution*).

"**Note**" or "**Notes**" means the €750,000,000 aggregate principal amount of 1.375% Notes due May 27, 2023 of the Issuer.

"**Noteholder**" has the meaning set forth in Condition 3(a) (*Title and Transfer*).

"**Permitted Interest**" means any mortgage, charge, pledge, lien, Securitisation Lien or other form of encumbrance or security interest which arises in relation to any securitisation or other structured finance transaction where (a) the primary source of payment of any obligations of the issuer is linked or otherwise related to cash flow from particular property or assets (or where payment of such obligations is otherwise supported by such property or assets); and (b) recourse to the issuer in respect of such obligations is conditional on cash flow from such property or assets.

"**Permitted Reorganisation**" means a consolidation, amalgamation, merger or reconstruction entered into by the Issuer, under which: (a) the whole of the business, undertaking and assets of the Issuer is transferred to, and all the liabilities and obligations of the Issuer are assumed by, the new or surviving entity either (i) automatically by operation of applicable law; or (ii) by some other means so long as, in relation to the obligations of the Issuer under or in respect of the Notes, all the obligations of the Issuer under the terms of the Notes are so transferred or assumed by agreement, as fully as if the new or surviving entity had been named in the Notes, in place of the Issuer; and, in either case, (b) the new or surviving entity will immediately after such consolidation, amalgamation, merger or reconstruction be subject to the same regulation and supervision by the same regulatory authority as the regulation and supervision to which the Issuer was subject immediately prior thereto.

"**Rate of Interest**" has the meaning set forth in Condition 5(a) (*Interest Rate and Interest Payment Dates*).

"**Record Date**" has the meaning set forth in Condition 7(c) (*Record Date*).

"**Register**" has the meaning set forth in Condition 1 (*Form, Denomination and Transfer*).

"**Registered Account**" means the euro account maintained by or on behalf of the Noteholder with a bank that processes payments in euro, details of which appear on the Register at the close of business, in the case of principal, on the second Business Day before the due date for payment and, in the case of interest, on the relevant Record Date.

"**Registered Address**" means the address of a Noteholder, appearing on the Register at the close of business, in the case of principal, on the second Business Day before the due date for payment and, in the case of interest, on the relevant Record Date.

"**Registrar**" means BNP Paribas Securities Services initially, and any successor registrar appointed by the Issuer from time to time in connection with the Notes.

"**Relevant Date**" has the meaning set forth in Condition 8(b)(iii) (*Taxation*).

"**Relevant Indebtedness**" means any present or future indebtedness in the form of, or represented by, bonds, notes, debentures, or other debt securities that are quoted, listed or ordinarily traded on any stock exchange, over-the-counter or other securities market, having an original maturity of two years or more from its issue date.

"**Second Currency**" has the meaning set forth in Condition 17 (*Currency Indemnity*).

"**Securitisation Lien**" means a customary back-up security interest granted as part of a sale, lease, transfer or other disposition of assets by the Issuer to, either directly or indirectly, any issuer in a securitisation or other structured finance transaction.

"**Subsidiary**" means, in relation to the Issuer, any company (i) in which the Issuer holds a majority of the voting rights, or (ii) of which the Issuer is a member and has the right to appoint or remove a majority of the board of directors, or (iii) of which the Issuer is a member and controls a majority of the voting rights, and includes any company that is a Subsidiary of a Subsidiary of the Issuer.

"**Taxes**" has the meaning set forth in Condition 8(a) (*Taxation*).

"**Tax Deduction**" has the meaning set forth in Condition 8(a) (*Taxation*).

"**Tax Event**" means that an opinion of a recognised independent tax counsel has been delivered to the Issuer stating that (i) the Issuer has or will become obligated to pay Additional Amounts as provided or referred to in Condition 8 (*Taxation*) due to a change in, or amendment to, the laws, regulations and rulings of Jersey or the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date; and (ii) such obligation cannot be avoided by the Issuer taking such reasonable measures as the Issuer (acting in good faith) deems appropriate.

"**Written Resolution**" has the meaning set forth in Condition 14(a) (*Meetings of Noteholders*).

OVERVIEW OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

The Notes will be represented by a Global Certificate (the "**Global Certificate**"). The Global Certificate contains certain provisions which modify the effect of the Terms and Conditions of the Notes. Terms defined in the Terms and Conditions of the Notes and the Agency Agreement relating to the Notes have the same meaning in the paragraphs below. References herein to Euroclear and/or Clearstream, Luxembourg shall be deemed to include references to any other clearing system which has accepted the Notes for clearance. The following is a summary of those provisions:

Relationship of Accountholders with Clearing System

Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a Note represented by the Global Certificate must look solely to Euroclear or Clearstream, Luxembourg (as the case may be) for its share of each payment made by the Issuer to the holder of the Global Certificate and in relation to all other rights arising under the Global Certificate, subject to and in accordance with the respective rules and procedures of Euroclear or Clearstream, Luxembourg (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by the Global Certificate and such obligations of the Issuer will be discharged by payment to the holder of the Global Certificate in respect of each amount so paid.

Meetings

The registered holder of the Global Certificate will (unless the Global Certificate represents only one Note) be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, as having one vote in respect of each €100,000 in principal amount of the Notes.

Payment

For so long as the registered Holder is shown in the Register as the holder of the Notes evidenced by the Global Certificate, the registered holder shall (subject as provided below) in all respects be entitled to the benefit of such Notes and shall be entitled to the benefit of the Agency Agreement. Payments of all amounts payable under the Conditions in respect of the Notes as evidenced by the Global Certificate will be made to the registered holder pursuant to the Conditions. Upon any payment of any amount payable under the Conditions the amount so paid shall be entered by the Registrar on the Register, which entry shall constitute prima facie evidence that the payment has been made.

All payments of any amounts payable and paid to the registered holder shall be valid and, to the extent of the sums so paid, effectual to satisfy and discharge the liability for the moneys payable hereon and on the relevant Notes.

Each person (other than another clearing system) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as to the holder of a particular aggregate principal amount of the Notes (each an "**Accountholder**") (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the aggregate principal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated as the holder of such aggregate principal amount of such Notes (the "**Accountholder's Holding**") for all purposes other than with respect to any payments on the Notes, for which purpose the registered holder shall be deemed to be the holder of such aggregate principal amount of the Notes in accordance with and subject to the terms of the Global Certificate. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the registered holder.

The Issuer has covenanted in favour of each Accountholder that it will make all payments in respect of the principal amount of Notes for the time being shown in the records of Euroclear and/or Clearstream, Luxembourg as being held by the Accountholder and represented by the Global Certificate to the registered holder of the Global Certificate in accordance with the terms of the Global Certificate and acknowledges that each Accountholder may take proceedings to enforce this covenant and any of the other rights which it has under the paragraph above directly against the Issuer.

For the purposes of Condition 7 (Payments), so long as the Notes as evidenced by the Global Certificate are held on behalf of Euroclear and/or Clearstream, Luxembourg, the record date in respect of the Notes shall be the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date.

Transfers

Transfers of book-entry interests in the Notes will be effected through the records of Euroclear and/or Clearstream, Luxembourg and their respective participants in accordance with the rules and procedures of Euroclear and/or Clearstream, Luxembourg and their respective direct and indirect participants.

The Registrar will not register title to the Notes in a name other than that of a nominee for the common depositary for a period of fifteen days preceding the due date for any payment of interest or principal in respect of the Notes.

Exchange

The Global Certificate will be exchangeable (free of charge to the holder) in whole but not in part for Certificates only upon the occurrence of an Exchange Event. An "Exchange Event" means that the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available.

The Issuer will promptly give notice to the Noteholders in accordance with Condition 16 (*Notice*) if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg, as the case may be, acting on the instructions of any Accountholder may give notice to the Registrar requesting exchange. Any exchange shall occur no later than ten days after the date of receipt of the notice by the Registrar.

Exchanges will be made upon presentation of the Global Certificate at the office of the Registrar by or on behalf of the registered holder on any day on which banks are open for general business in Luxembourg and will be effected by the Registrar (a) entering each Accountholder in the Register as the registered holder of the principal amount of Notes equal to such Accountholder's Holding (as defined below) and (b) completing, authenticating and dispatching to each Accountholder a Certificate evidencing such Accountholder's Holding. The Issuer will, at the cost of the Issuer (but against such indemnity as the Registrar may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Accountholders. The aggregate principal amount of the Notes evidenced by Certificates issued upon an exchange of the Global Certificate will be equal to the aggregate outstanding principal amount of the Notes evidenced by the Global Certificate.

An Accountholder must provide the Registrar with a written order containing instructions and such other information as the Issuer and the Registrar may require to effect the exchange of the Global Certificate as provided above.

The Global Certificate is not a document of title. Entitlements are determined by entry in the Register and only the registered holder from time to time is entitled to payment in respect of the Global Certificate.

Upon the exchange of the whole of the Global Certificate for Certificates, the Global Certificate shall be surrendered to, or to the order of, the Registrar and cancelled.

Notices

For so long as all of the Notes are evidenced by the Global Certificate and the Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to entitle holders in substitution for notification as required by Condition 16 (*Notice*) except that, so long as the Notes are listed on the Luxembourg Stock Exchange, and the rules of that exchange so require, notices shall also be published in accordance with the rules of such exchange. Any such notice shall be deemed to have been given to the Noteholders on the day after the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be).

USE OF PROCEEDS

The proceeds from this Offering, less related expenses, are expected to be approximately €743,560,000. We intend to use the net proceeds from the Offering to repay borrowings under the Bilateral Credit Facility, following which it will be cancelled, and will use any balance for general corporate purposes and potentially to repay borrowings under the Revolving Credit Facility.

CAPITALISATION

The following table sets forth the capitalisation, as of 31 December 2015, of the SRLC Group (excluding Excluded Life Capital Operations) on an actual basis, on a pro forma basis to give effect to the Issuer Group Formation and as adjusted to give effect to the Offering.

You should read this table together with the financial information set forth under "Selected Consolidated Financial Information" and "Unaudited Condensed Pro Forma Financial Information." See also "*Financial and Other Information Included or Incorporated by Reference in this Offering Memorandum.*"

	As of 31 December 2015 *(unaudited)*		
	SRLC Group excluding Excluded Life Capital Operations[a] (Actual)	**SRLC Group excluding Excluded Life Capital Operations (Pro forma[b])**	**SRLC Group excluding Excluded Life Capital Operations (Pro forma, as adjusted[c])**
		(USD in millions)	
Long-term debt	-	1,624	1,624
Equity:			
Common shares and additional paid-in capital[d]	4,584	4,584	4,584
Accumulated other comprehensive income:			
Net unrealised investment gains/losses, net of tax	715	715	715
Foreign currency translation, net of tax	(15)	(36)	(36)
Adjustment for pension and post-retirement benefits, net of tax	(64)	(64)	(64)
Total accumulated other comprehensive income	636	615	615
Retained earnings[d]	(654)	473	473
Total equity	4,566	5,672	5,672
Total capitalisation	**4,566**	**7,296**	**7,296**

(a) Represents the Admin Re® Business. See "Unaudited Condensed Pro Forma Financial Information."

(b) Gives pro forma effect to the Issuer Group Formation as if it had occurred on 31 December 2015. In effect reflects the combination of the Admin Re® Business and the Guardian Business.

(c) As adjusted for the Offering and the use of the net proceeds thereof to repay borrowings under the Bilateral Credit Facility, in each case as if this had occurred on 31 December 2015, as set forth in *"Use of Proceeds*."

(d) The presentation of common shares and additional paid-in capital is based on the ARUK share capital and share premium. The net Guardian Group's share capital and share premium (calculated on a pro forma basis) is presented within retained earnings so as to illustrate the net capitalisation position of the combined Issuer Group. The split among the equity components in the Issuer's consolidated financial statements for the year ending 31 December 2016 may vary depending upon consolidation adjustments when such financial statements are prepared.

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

SRLC Group

You should read the following selected consolidated financial data of the SRLC Group together with the SRLC Group Financial Statements, which have been prepared in accordance with U.S. GAAP and are included elsewhere in this Offering Memorandum. See "*Financial and Other Information Included or Incorporated by Reference in this Offering Memorandum.*"

	Year ended 31 December	
	2014	**2015**
	(USD in millions) *(audited)*	
Income Statement Data:		
Revenues		
Premiums earned	319	232
Fee income from policyholders	343	318
Net investment income – non-participating	667	528
Net realized investment gains – non-participating	141	321
Net investment result – unit-linked and with-profit	1,305	772
Total revenues	**2,775**	**2,171**
Expenses:		
Life and health benefits	(1,008)	(545)
Return credited to policyholders	(1,091)	(780)
Acquisition costs	(131)	(96)
Other expenses	(295)	(246)
Interest expenses	(25)	(16)
Total expenses	**(2,550)**	**(1,683)**
Income before income tax expense	225	488
Income tax (expense)	7	(2)
Net income attributable to common shareholder	**232**	**486**

	As at 31 December	
	2014	**2015**
	USD	*USD*
	(audited)	
Balance Sheet Data:		
Total investments	41,196	41,765
Total assets	44,054	46,060
Total liabilities	39,828	42,035
Total equity	4,226	4,025

	Year ended 31 December	
	2014	**2015**
	USD	*USD*
	(audited unless otherwise indicated)	
Other data		
Dividends on common shares	407	401
Gross cash generation (unaudited)[1]	674	455
Return on equity (unaudited)	5.4	11.8

(1) Represents the change in excess capital over and above the target capital position, with the target capital being the minimum statutory capital plus the additional capital required by SRLC's capital management policy. Gross cash

generation is not intended to equate directly to dividends paid to our shareholder, as it also represents sources for the servicing and repayment of our debt as well as future investments and acquisitions. Generally, gross cash generation is impacted by interest rate movements: For example, the regulatory capital requirements are driven by reserves, and interest rates impact the size of reserves *(i.e.*, the higher the interest rates, the lower the reserves). Annuity business is sensitive to movements in risk free yields, through the change in SCR (as defined under "*Our Business – Capital Requirements and Reserves*"). For example, when interest rates fall, the best estimate liability increases, resulting in a higher SCR. Annuity business is also sensitive to credit spreads, where movements in asset values are not matched by movements in the best estimate liabilities, for assets outside of the Matching Adjustment. For assets inside the Matching Adjustment, credit spreads impact the SCR. For unit-linked business, there is limited exposure. Beginning in January 2016, gross cash generation is determined under the Solvency II regime, which is more sensitive to economic movements than its predecessor. As a result, significant movements in interest rates and credit spreads can have a more pronounced impact on reported gross cash generation.

Guardian Group

You should read the following selected consolidated financial data of the Guardian Group together with the Guardian Group Financial Statements, which have been prepared in accordance with IFRS and are included elsewhere in this Offering Memorandum. See "*Financial and Other Information Included or Incorporated by Reference in this Offering Memorandum*."

	Year ended 31 December	
	2014 (restated[a])	**2015**
	(GBPs in millions) (audited)	
Income Statement Data:		
Revenues		
Gross premiums written	1,880.1	66.6
Less: premiums ceded to reinsurers	(43.6)	(45.4)
Net premiums written	**1,836.5**	**21.2**
Fee and commission income	27.6	28.0
Gain on business combination	64.6	-
Investment income	576.6	549.5
Fair value gains and losses	1,419.2	(82.3)
Other income	1.0	0.9
Other revenue	**2,089.0**	**496.1**
Total revenue	**3,925.5**	**517.3**
Gross benefits and claims paid	(1,058.2)	(1,190.9)
Less: claims ceded to reinsurers	93.9	96.3
Gross change in insurance contract liabilities	(2,698.0)	928.0
Gross change in investment contract liabilities	(192.3)	(103.2)
Change in contract liabilities ceded to reinsurers	392.3	(65.6)
Net benefits and claims	(3,462.3)	(335.4)
Other operating and administrative expenses	(123.5)	(163.3)
Finance costs	(62.9)	(73.0)
Total benefits, claims and other expenses	(3,648.7)	(571.7)
Profit/(loss) before tax	**276.8**	**(54.4)**
Income tax charge	(47.2)	(19.0)
Net income/(loss) from continuing operations attributable to equity holders of the Company	**229.6**	(73.4)

	As at 31 December	
	2014 (restated[a])	**2015**
	(GBPs in millions) (audited)	
Balance Sheet Data:		
Total investments	15,644.6	14,446.8
Total assets	20,658.9	18,736.9
Total liabilities	19,954.6	18,120.6
Total equity	704.3	616.3

(a) Comparative investment and insurance contract liabilities and their corresponding income statement movements have been restated to more accurately reflect the allocation of increases in the long term business provisions of with-profit insurance contracts and investment contracts with discretionary participating features ("**DPFs**") due to distributions from the unallocated divisible surplus, and between the provisions of unit-linked insurance contracts and investment contracts without DPFs to more accurately reflect the substance of the underlying liability in respect of unit-linked pension contracts. The restatements have been made to ensure the accounting presentation is in line with the substance of the contracts and has been performed purely for disclosure purposes.

UNAUDITED CONDENSED PRO FORMA FINANCIAL INFORMATION

The following unaudited condensed pro forma financial information is presented to illustrate the financial statement impact of the Issuer Group Formation, namely the combination of the Admin Re® Business and the Guardian Business, the novation of the Bilateral Credit Facility and the Revolving Credit Facility, and the Offering (and the use of the net proceeds thereof as set forth in "*Use of Proceeds"*), as if these transactions had occurred on 1 January 2015, in the case of pro forma income statement information, and on 31 December 2015, in the case of pro forma balance sheet information. The unaudited condensed pro forma financial information has been prepared based on:

- income statement and balance sheet information for the operations of the SRLC Group excluding the Excluded Life Capital Operations as of and for the year ended 31 December 2015, and a reconciliation of that information to the consolidated income statement and balance sheet of the SRLC Group as of and for the year ended 31 December 2015;

- consolidated income statement and balance sheet data of Guardian Holdings as of and for the year ended 31 December 2015 presented in U.S. GAAP and derived from Guardian Holdings' income statement and balance sheet as of and for the year ended 31 December 2015 prepared in accordance with IFRS; and

- pro forma adjustments to give effect to the Issuer Group Formation and the Offering (and the use of the net proceeds thereof as set forth in "*Use of Proceeds"*) as if they had occurred for income statement purposes on 1 January 2015 and for balance sheet purposes on 31 December 2015.

The pro forma presentation is intended to be illustrative only. The pro forma adjustments are based upon currently available information and certain assumptions, described in the accompanying notes to the unaudited condensed pro forma financial information that management believes are reasonable under the circumstances. Actual results may differ materially from the assumptions within the accompanying unaudited condensed pro forma financial information. Among other things the aggregate principal amount of the Notes to be assumed to be outstanding after the Offering is indicative only.

The unaudited condensed pro forma financial information has not been prepared by management in accordance with the regulations governing the content of offering documentation (including the Prospectus Directive) or generally accepted accounting standards. Because of its nature, the unaudited condensed pro forma financial information does not represent the actual financial position or results of operations of the Issuer, it is not necessarily indicative of the financial condition or results of operations that would have been realised had the Issuer Group Formation and the Offering occurred as of the dates indicated, and it is not meant to be indicative of any future financial condition or results of operations of the Issuer Group. Neither the assumptions underlying the pro forma adjustments nor the resulting pro forma financial information has been audited or reviewed.

Notwithstanding that the Guardian Group Acquisition as a legal matter involved the acquisition of the Guardian Group by SRLC and notwithstanding that the unaudited condensed pro forma financial information has been prepared to illustrate the effects of the acquisition of the Guardian Group by SRLC, at the Issuer Group level, the Issuer is deemed the acquiror for financial reporting purposes. Accordingly, while the Issuer Group's consolidated financial statements as of and for the six months ending 30 June 2016 and as of and for the year ending 31 December 2016 will reflect the Guardian Business and the Admin Re® Business, the comparative information as of and for the six months ended 30 June 2015 and as of and for the year ended 31 December 2015 that will be included in those financial statements will reflect the Guardian Business and not the Admin Re® Business (see *"Financial and other Information Included or Incorporated by Reference in This Offering Memorandum"*).

	Year Ended 31 December 2015 (*USD in millions*)			
	Historical		Pro Forma Adjustments	
	SRLC Group excluding Excluded Life Capital Operations[(a)]	**Guardian Group[(b)]**	**Issuer Group Formation and Offering-Related Pro Forma Adjustments[(c)]**	**Pro Forma**
Income Statement Data:				
Revenues				
Premiums earned	191	32	-	223
Fee income from policyholders	318	43	-	361
Net investment income – non-participating	466	547	-	1,013
Net realized investment gains – non-participating	311	117	-	428
Net investment result – unit-linked and with-profit	772	399	-	1,171
Total revenues	**2,058**	**1,138**		**3,196**
Expenses:				
Life and health benefits	(498)	(379)	-	(877)
Return credited to policyholders	(780)	(334)	-	(1,114)
Acquisition costs	(93)	42	7	(44)
Other expenses	(232)	(195)	(2)	(429)
Interest expenses	(42)	(12)	27	(27)
Total expenses	**(1,645)**	**(878)**	**32**	**(2,491)**
Income before income tax expense	**413**	**260**	**32**	**705**
Income tax (expense)	12	(63)	(8)	(59)
Net income attributable to common shareholder	**425**	**197**	**24**	**646[(d)]**

(a) Derived from note 2 to the SRLC Group Financial Statements. The following is a reconciliation to the SRLC Group consolidated income statement for the year ended 31 December 2015.

	Year Ended 31 December 2015 (*USD in millions*)			
	SRLC Group excluding Excluded Life Capital Operations	**ALHM**	**Group items and consolidated (including SRLC, SRLC Management and ARUK Finance)**	**SRLC Group**
Income Statement Data:				
Revenues				
Premiums earned	191	41	-	232
Fee income from policyholders	318	-	-	318
Net investment income – non-participating	466	62	-	528
Net realized investment gains – non-participating	311	2	8	321
Net investment result – unit-linked and with-profit	772	-	-	772
Total revenues	**2,058**	**105**	**8**	**2,171**

	Year Ended 31 December 2015 (*USD in millions*)			
	SRLC Group excluding Excluded Life Capital Operations	**ALHM**	**Group items and consolidated (including SRLC, SRLC Management and ARUK Finance)**	**SRLC Group**
Expenses:				
Life and health benefits	(498)	(47)	-	(545)
Return credited to policyholders	(780)	-	-	(780)
Acquisition costs	(93)	11	(14)	(96)
Other expenses	(232)	(6)	(8)	(246)
Interest expenses	(42)	-	26	(16)
Total expenses	**(1,645)**	**(42)**	**4**	**(1,683)**
Income before income tax expense	**413**	**63**	**12**	**488**
Income tax (expense)	12	(16)	2	(2)
Net income attributable to common shareholder	**425**	**47**	**14**	**486**

(b) Reconciliation of Guardian Holdings' IFRS results to U.S. GAAP:

	Year Ended 31 December 2015			
	Guardian Group IFRS results (*£ millions*)	**Guardian Group IFRS results** (*USD millions*)[(1)]	**US GAAP adjustments** (*USD millions*)	**Guardian Group US GAAP** (*USD millions*)
Revenues				
Premiums earned	21	32	–	32
Fee income from policyholders	28	43	–	43
Net investment income/loss – non-participating	207	317	230[(2)]	547
Net realized investment gains/losses – non-participating	-	-	117[(3)]	117
Net investment result – unit-linked and with-profit business	261	399	-	399
Other revenues	1	2	(2)	0
Total Revenues	**518**	**793**	**345**	**1,138**
Expenses				
Life and health benefits	(118)	(181)	(198)[(4)]	(379)
Return credited to policyholders	(218)	(334)	0	(334)
Acquisition costs	(17)	(26)	68[(5)]	42
Other expenses	(154)	(236)	41[(6)]	(195)
Interest expenses	(65)	(99)	87[(7)]	(12)
Total expenses	**(572)**	**(876)**	**(2)**	**(878)**
Income before income tax expense	**(54)**	**(83)**	**343**	**260**
Income tax expense	(19)	(29)	(34)[(8)]	(63)
Net income attributable to common shareholders	**(73)**	**(112)**	**309**	**197**

(1) Sterling amounts have been converted to U.S. dollars using an exchange rate of £1 to $1.53.
(2) Recognises interest on an effective yield basis and eliminates unrealised gains and losses on assets accounted for as available-for-sale as these are recognised in other comprehensive income.
(3) Some assets were accounted for at fair-value-through-profit-or-loss in the Guardian Group's 2015 financial statements that are accounted for as available-for-sale in the Swiss Re Group's financial statements that are prepared in accordance

with U.S. GAAP. This adjustment also reallocates the realised gains on these assets in the income statement from net investment income to net realised investment gains/(losses). This item includes the removal of a realised loss on sale of the Guardian Group's holding in Empire Life.

(4) Represents the income statement effect from moving from the Guardian Group's accounting policy for insurance liabilities to the Swiss Re Group's accounting policy for insurance liabilities and applying U.S. GAAP principles.

(5) Represents present value of future profits (PVFP) amortisation expense.

(6) Represents the elimination of expenses incurred related to the Guardian Group Acquisition.

(7) Represents the removal of Guardian Group's interest expense on indebtedness that was repaid as part of the Guardian Group Acquisition as well as the removal of the interest expense attributable to the Bridge Facility that was novated to the Issuer in April 2016 (of £550 million), and includes the interest expense attributable to the fully drawn Revolving Credit Facility that was novated to the Issuer in April 2016 (of £550 million) and the issuance of the Notes (the principal amount of the Notes were converted at an exchange rate as at 31 December 2015 of €1 to £0.737). See "*Description of Other Indebtedness.*" Sterling amounts have been converted to U.S. dollars using an exchange rate of £1 to $1.53, and interest on the Notes is based on indicative rates.

(8) Represents the tax effect of pro forma adjustment.

(c) Pro forma adjustments include:

- The removal of ARUK interest expense in respect of debt that was repaid as part of the Guardian Group Acquisition, which is included within SRLC Group excluding Excluded Life Capital Operations.
- Interest incurred by SRLC on the Revolving Credit Facility that was novated to the Issuer in April 2016. See "*Description of Other Indebtedness*" and note (7) above.
- Removal of acquisition costs incurred by the Guardian Group as part of the negotiation of the Guardian Group Acquisition.
- Tax effects of the foregoing pro forma adjustments.
- The incurrence of certain fees in respect of the restructuring of debt as part of the Guardian Group Formation and other debt issuance costs that cannot be capitalized.

(d) On the basis of pro forma net income of $646 million, return on equity would have been 12.8%, for the year ended 31 December 2015.

Balance Sheet Information

	As of 31 December 2015 (*USD in millions*)			
	Historical		Pro Forma Adjustments	
	SRLC Group excluding Excluded Life Capital Operations[(a)]	Guardian Group[(b)]	Issuer Group Formation and Offering-Related Pro Forma Adjustments[(c)]	Pro Forma
Balance Sheet Data:				
Fixed income securities	12,233	11,321	(103)	23,451
Equity securities	-	1	-	1
Policy loans, mortgages and other loans	57	1,240	561[(d)]	1,858
Short-term investments	275	117	(1)	391
Other invested assets	369	590	(5)	954
Investments for unit-linked and with profit business	27,423	8,023	(73)	35,373
Total investments	**40,357**	**21,292**	**379[(d)]**	**62,028**
Cash and cash equivalents	1,230	2,775	(25)	3,980
Accrued investment income	265	265	(2)	528
Premiums and other receivables	3	39	-	42
Reinsurance recoverable on unpaid claims and policy benefits	876	1,751	(16)	2,611
Acquired present value of future profits	1,259	(641)	6	624
Income taxes recoverable	36	-	-	36
Deferred tax assets	335	119	(1)	453

	As of 31 December 2015 (USD in millions)			
	Historical		Pro Forma Adjustments	
	SRLC Group excluding Excluded Life Capital Operations[(a)]	Guardian Group[(b)]	Issuer Group Formation and Offering-Related Pro Forma Adjustments[(c)]	Pro Forma
Other assets	165	11	-	176
Total Assets	**44,526**	**25,611**	**341[(d)]**	**70,478**
Unpaid claims and claim adjustment expenses	226	56	(1)	281
Liabilities for life and health policy benefits	12,034	16,535	(150)	28,419
Policyholder account balances	26,196	6,157	(56)	32,297
Unearned premiums	158	-	-	158
Funds held under reinsurance treaties	221	-	-	221
Reinsurance balances payable	24	9	-	33
Income taxes payable	64	6	-	70
Deferred and other non-current tax liabilities	724	294	(3)	1,015
Accrued expenses and other liabilities	313	378	(3)	688
Long-term debt	-	-	1,624[(d)]	1,624
Total liabilities	**39,960**	**23,435**	**1,411[(d)]**	**64,806**
Total equity	**4,566**	**2,176**	**(1,070)[(d)]**	**5,672**
Total liabilities and equity	**44,526**	**25,611**	**341[(d)]**	**70,478**

(a) Derived from management schedules. The following is a reconciliation to the SRLC Group consolidated balance sheet at 31 December 2015.

	As of 31 December 2015 (USD in millions)			
	SRLC Group excluding Excluded Life Capital Operations	ALHM	Group items and consolidated (including SRLC, SRLC Management, ARUK Finance)	SRLC Group
Balance Sheet Data:				
Fixed income securities	12,233	180	-	12,413
Equity securities	-	-	-	-
Policy loans, mortgages and other loans	57	1,027	-	1,084
Short-term investments	275	98	85	458
Other invested assets	369	18	-	387
Investments for unit-linked and with profit business	27,423	-	-	27,423
Total investments	**40,357**	**1,323**	**85**	**41,765**
Cash and cash equivalents	1,230	18	91	1,339
Accrued investment income	265	3	-	268
Premiums and other receivables	3	1	-	4
Reinsurance recoverable on unpaid claims and policy benefits	876	4	-	880

	As of 31 December 2015 (*USD in millions*)			
	SRLC Group excluding Excluded Life Capital Operations	**ALHM**	**Group items and consolidated (including SRLC, SRLC Management, ARUK Finance)**	**SRLC Group**
Acquired present value of future profits	1,259	2	-	1,261
Income taxes recoverable	36	-	7	43
Deferred tax assets	335	1	-	336
Other assets	165	1	(2)	164
Total Assets	**44,526**	**1,353**	**181**	**46,060**
Unpaid claims and claim adjustment expenses	226	82	-	308
Liabilities for life and health policy benefits	12,034	1,091	-	13,125
Policyholder account balances	26,196	-	-	26,196
Unearned premiums	158	-	-	158
Funds held under reinsurance treaties	221	-	-	221
Reinsurance balances payable	24	28	-	52
Income taxes payable	64	8	10	82
Deferred and other non-current tax liabilities	724	13	-	737
Accrued expenses and other liabilities	313	8	27	348
Long-term debt	-	-	808	808
Total liabilities	**39,960**	**1,230**	**845**	**42,035**
Total equity	**4,566**	**123**	**(664)**	**4,025**
Total liabilities and equity	**44,526**	**1,353**	**181**	**46,060**

(b) Reflects the opening balance sheet for Guardian Holdings as of the date of the Guardian Group Acquisition, 6 January 2016, used on the basis that there otherwise were no significant changes in the financial condition of Guardian Holdings between 31 December 2015 and 6 January 2016, other than the extinguishment of intra-group indebtedness and repayment of indebtedness to the seller as part of the acquisition. As part of the Guardian Group Acquisition, goodwill of $153 million was recognised and attributed to the Life Capital Business Unit. This has not been reflected in the pro forma balance sheet as the final allocations within the Life Capital segments have yet to be made.

(c) Reflects adjustments to give effect to the exchange rate for sterling relative to the U.S. dollar as at 31 December 2015 instead of 6 January 2016.

(d) Reflects the fully drawn Revolving Credit Facility that was novated to the Issuer in April 2016 (of £550 million), the issuance of the Notes and the application of the net proceeds from the Offering to repay the Bridge Facility. The principal amount of the Notes and the net proceeds of the Offering were converted at an exchange rate as at 31 December 2015 of €1 to £0.737, as a result of which no net proceeds are shown as credited to cash and cash equivalents (however, at the actual exchange rate at closing, the balance of the net proceeds will be credited to cash and cash equivalents). See "*Description of Other Indebtedness.*" Sterling amounts have been converted to U.S. dollars using an exchange rate of £1 to $1.474057. After giving effect to the foregoing the Issuer holds a loan in an aggregate principal amount of £387.9 million ($570.0 million). See *"Relationships with the Rest of the SRLC Group and the Swiss Re Group - Related Party Transactions – Loan note*."

OUR BUSINESS

Overview of the Issuer Group

We form a core part of the Swiss Re Group. Our business involves the acquisition and management of closed books of in-force life and health insurance business, including pensions business ("**closed books**"), providing us with a range of products that include long-term life and pension products, permanent health insurance and critical illness products, and retirement annuities.

We acquire portfolios through acquisition of entire lines of business (and a subsequent transfer of the business to us in the United Kingdom via a Part VII Transfer) or the entire share capital of (or a majority stake in) life insurance companies, or through reinsurance. We typically assume responsibility for administering the underlying policies in such portfolios until they reach maturity, are surrendered or an insured event occurs resulting in the termination of the policies. In addition, we write a nominal amount of new business on a passive basis normally for existing customers that request "top-ups" of current contracts or who need to move to an alternative product type to access certain product features.

Our principal sources of revenues are fee income on unit-linked products, premiums on existing policies, investment income and fee income on third-party administration services we provide. We seek to maximise our future profits through a combination of efficient management of existing policies, the acquisition of additional books of business priced on the basis of economic value and consolidation of such new business with our existing business to achieve capital, cost, operational and incidental tax synergies. We also aim to focus on operational excellence through the continuous improvement of our scalable operating platform, which includes focusing on transformation and management actions, including business efficiency and cost reductions.

For the year ended 31 December 2015, we had, on a pro forma basis (See *"Unaudited Condensed Pro Forma Financial Information"*):

- premiums earned of $223 million;
- fee income of $361 million;
- total revenues of $3,196 million; and
- net income attributable to common shareholder of $646 million.

Our business is subject to shifting demographic trends, regulatory changes, and varying financial returns which prompt insurers and others to sell or otherwise reinsure their legacy life insurance portfolios to third parties, thereby reducing administrative costs for their legacy systems, releasing capital and monetising future cash flow from non-core portfolios. See "*Our Business—Industry Overview—Closed Book Transactions; Characteristics of Closed Books.*" We position ourselves to help insurers and others respond to a changing regulatory environment and market conditions by acquiring their closed or non-core in-force life insurance portfolios; these insurers can exit either from a single line of business or the whole market.

We have developed market-leading experience in the acquisition of closed books, including the complexities of policy conversion, regulatory approval and effective on-going policy management. We administer acquired books of business predominantly as a single business via our proprietary IT system.

From the perspective of the Swiss Re Group, we represent a source of cash generation, diversification and complementary client solutions. Our ability to acquire and manage closed books provides complementary risk and capital management solutions to clients of the other Business Units within the Swiss Re Group, enhancing the Swiss Re Group product and service offering. We draw upon our experience gained through the Swiss Re Group's traditional reinsurance business to provide our counterparties with attractive solutions. Additionally, our annuity liabilities provide longevity risk, which acts as a natural hedge to mortality risk that dominates the core business of the Swiss Re Group's Life & Health reinsurance business. Our life and pensions risk exposure provides diversification benefits to the Swiss Re Group, helping to counterbalance property & casualty business written.

We began operations in the United States in the mid-1990s, prior to setting up our UK business in 2003 through the acquisition of the closed book of business of Zurich Life Assurance Company, one of the then-named Zurich Financial Services' UK-based life assurance businesses. Since then, we have completed a further 11 transactions in the United Kingdom, where we have added approximately seven million policies, including our acquisition of the Guardian Group (on 6 January 2016) and HSBC's UK pensions business, which has expanded our presence within the UK life insurance industry (see *"—History"*). In 2011, we rebranded our UK life assurance company, ReAssure. Today, we operate principally in the United Kingdom.

The following tables set forth information about our policies (including policies administered by us in-house (including on behalf of Aviva, which owns these policies) and policies for which administration is outsourced to third parties) and assets under management as of 31 December 2015.

Type of policy	**Admin Re® Business**	**Guardian Assurance**	**Ark Life**	**Issuer Group**
	As of 31 December 2015			
Unit-linked/savings business[1]	1,234,724	106,516	107,113	1,448,353
Annuities[2]...	359,853	469,095	-	828,948
Term or protection[3]..........................	298,203	32,337	112,532	443,072
Third-party administration services	1,267,348	-	-	1,267,348
Total...	**3,160,128**	**607,948**	**219,645**	**3,987,712**

(1) Includes non-unit-linked liabilities that are attributable to the index-linked business and non-index linked liabilities that are attributable to the index-linked business.
(2) Includes annuities in payment and deferred annuities.
(3) Includes term and protection policies.

Assets under management	**Admin Re® Business**	**Guardian Group**	**Issuer Group**
	(£ in millions)		
Non-Profit..	8,786	10,258	18,813
With-Profit...	2,104	2,169	4,273
Unit-Linked	17,443	3,750	21,193
Total..	**28,333**	**16,177**	**44,279**

Asset management is generally outsourced, with approximately £19.3 billion of unit-linked and with-profit assets managed principally by Aberdeen Asset Management Limited and HSBC Global Asset Management as of 31 December 2015, and the non-profit and shareholder assets managed by the Swiss Re Group and its external investment managers.

Industry Overview

The UK Life Insurance Market

Life insurance business includes the provision of life insurance cover and life-based investment products (such as pensions, annuities, investments and savings and protection policies) by insurance firms. Life insurance and long-term insurance products are used to provide designated beneficiaries a sum of money in the event of death, disablement, serious illness or injury of the insured. As with all insurance contracts, exclusions may apply that limit the insurer's liability. The complexity of long-term insurance products means that customers will seek advice when considering life insurance options. According to the ABI, approximately 75% of customers in the United Kingdom who purchased a pension, protection or other long-term insurance product in 2015 received some form of advice.

The insurance market in the United Kingdom is the third largest in the world and the largest in Europe. The life insurance industry has a major presence in the UK economy and is the largest in Europe. Life insurers are significant participants in the UK economy, not least as investors. The size of the life insurance market in the United Kingdom relative to continental Europe is attributed in large part to the high level of public pension and disability benefits available on the continent. Notwithstanding the single market in Europe, there are strong national drivers – including tax arrangements and pension provision – which affect product design and business strategy across Europe.

According to the ABI, there were more than 20.8 million individual pension policies in force in the United Kingdom in 2015, of which more than a quarter were work based. There were more than six million investment and savings policies in force in 2015, and more than 28 million individual term, whole of life, income protection and critical insurance policies in force, as well as approximately 1.7 million collective life policies and 22,000 long-term care policies in force in 2014.

While the UK market has experienced a shift toward unit-linked business in recent years, there are still vast back books of products that were written when yields were higher. Given that life insurance liabilities tend to be of longer duration than the backing assets, insurers need to fund these liabilities in very different markets from the ones in which they were issued. The life insurance industry in the United Kingdom is at a critical juncture, with weak investment returns against the backdrop of increasing regulatory scrutiny. The pressures on life insurers are coming both from falling investment yields and rising capital requirements and many life insurers are exploring cost-cutting measures, balance sheet restructuring, consolidation and exiting existing lines of insurance products. As a consolidator of closed books, we expect that this will present us with opportunities to acquire new business.

The UK life market includes open and closed books of business; the former includes new business and products marketed to policyholders, while the latter includes books that are closed to new business and are in "run off."

Closed Book Transactions; Characteristics of Closed Books

A closed book transaction covers several different types of transactions: the selling company can divest one of its closed, in-force life books or its life companies, or it can outsource administration of the policies and purchase reinsurance for the portfolios. Every portfolio is structured differently, requiring thorough due diligence to value the portfolio, the underlying assets and the associated risks.

Closed books are policies that are no longer sold but are still on the books of a life insurance carrier as premium-paying policies. Insurance companies that run closed books continue to accept premiums on existing policies and administer and manage policyholder assets until the policies expire or mature.

A closed life company is one that no longer accepts new business but continues to be managed for existing policyholders; essentially, a pool of assets and a series of cascading cash obligations that run-off as the underlying life and pension policies expire or reach maturity. These cash obligations represent a collection of largely long-dated liabilities comprising matured or maturing policies that entitle policyholders to defined future payments of a steady and generally predictable nature. Depending on the specific policy, policyholders may be entitled to a cash payout at the policy's maturity date or on the death of the policyholder, or a series of payouts and/or participation in the investment returns generated by the assets backing the policy. To meet these long-dated liabilities, life companies hold substantial assets collected as premiums, which are invested in a wide variety of asset classes, subject to rules set out by the relevant regulator and the terms and conditions of the policies.

Reasons for Closures of Closed Books

Life companies may close to new business for a number of reasons, including: insufficient capital strength to support taking on new policies; poor levels of profitability on new business; and strategic decisions to stop writing certain types of new business, such as with-profit policies, and/or to focus on growth markets and/or products.

In writing new business, life companies incur significant marketing expenses and commission payments at the time new policies are sold. While life companies generally recover these up-front costs and earn profits through margins embedded in the premiums charged to policyholders (particularly for protection and annuity products) and through other charges and asset management fees (for with-profit and unit-linked products), the pay-back periods for the up-front costs are often up to and sometimes in excess of ten years. In addition, life companies are required to set up substantial reserves at the time new business is written and to continue to hold significant levels of capital in order to be able to meet future policyholder liabilities.

The capital position of life companies may be negatively impacted by poor investment returns, declining long-term interest rates, continuing poor performance and uncertainty in debt and equity markets. These factors can cause a reduction in the value of assets backing the liabilities of life companies.

Between 2001 and 2003, the poor performance of equity markets had a strong adverse impact on the UK life insurance and pensions industry, resulting in regulatory capital issues and a number of regulatory changes and other issues impacting the industry as a whole. This led to a number of life companies having insufficient capital strength to continue to absorb the initial costs of writing new policies. As a result, a number of life companies concluded that shareholder value was best maximised by closing existing funds to new business and managing these closed books as efficiently as possible. Similar issues to those that arose in the 2001 to 2003 period resurfaced amidst the ongoing turmoil in financial markets, which occurred in 2008 and 2009, due to the poor performance of most asset classes, which adversely affected the capital position of many life companies.

Availability of Closed Books

There are several reasons why closed books come to the market. In Europe, the Solvency II regime is prompting many insurance companies to rethink their capital allocations, and some of them to sell parts of their closed, in-force businesses. In the banking sector, Basel III regulations make ownership of insurance businesses less attractive to banks. Highly volatile financial markets are also forcing some companies to concentrate on their core business and to conserve capital. Another market driver is the opportunity for insurers to achieve higher potential growth in emerging markets than in the mature markets, including the United Kingdom, Europe and the United States.

In addition, with the low yields likely to persist in the medium-term, the UK life insurance industry continues to face pressure against the backdrop of increasing regulatory scrutiny and compliance costs. Insurers in the United Kingdom hold sizeable books of closed, in-force life insurance policies, some of which are expected to come up for sale, as life insurers who are unable to provide a viable response to the changes in regulatory regime and legislation decide to exit the market or otherwise explore balance sheet restructuring in order to drive acceptable profits for shareholders.

For legacy players, costs of maintaining closed book portfolios include investments to upgrade systems to be Solvency II- or Basel III-compliant, investments to ensure fair treatment of legacy policyholders and the costs associated with active portfolio management.

Common Types of UK Life Insurance Policies

The range of life insurance products can be categorised along a number of lines. One such classification is by type of policyholder objective. Risk or protection products (such as term assurance, critical illness cover and income protection) provide policyholders protection against a specified event such as death, critical illness and/or disablement during the term of the policy, in return for premiums; such products transfer certain insurance risks to the insurance provider. Savings and investment products sold by life companies, on the other hand, carry little or no underwriting or insurance risk. A second distinction which can be drawn is based more explicitly on the characteristics of the investment returns of the different products. We describe these categorisations in more detail below.

Non-profit. A non-profit, or non-participating, policy is one where the policyholder does not participate in the profits of the life insurance company. The value of non-profit life and pensions products is either linked directly to the performance of the underlying assets or is guaranteed by the insurer. Policies of the former type are typically "unit-linked" products where policyholder funds are linked to an underlying investment product or fund. For such policies, the policyholder bears all of the investment risk. The benefits attributable to the policyholder are determined by reference to the investment performance of a specified pool of assets. The policyholder elects which units in a diversified open-end or closed end fund to purchase. Unit-linked funds include personal and group pension plans and feature regular and single-premium savings. They operate on a similar basis to U.S. mutual funds, with the life company often charging a fee based on the value of the funds. Under Solvency I, the insurer was compelled to hold the full face value of policyholder units, thereby becoming exposed to the movement in value of policyholder units via future management charges. Under Solvency II this requirement falls away and the insurer must instead hold at least the market consistent value of the technical provisions for unit-linked life insurance policies, which enables the elimination of market risk exposure

Alternatively, the return may be guaranteed by the insurer, which as a consequence bears the investment risk. Common examples are protection policies, such as life and disability insurance policies, which pay out lump sums on death or disability, and annuities, which provide a specified income stream over the life of the policyholder in exchange for an up-front payment. The life company's shareholder fund under Solvency I was generally entitled to retain 100% of the surplus investment returns from such funds. For purposes of Solvency II reporting, shareholder funds and non-profit funds (excluding Matching Adjustment funds) have been replaced by residual non-ring-fenced funds and 100% of the profits arising within such non-ring-fenced funds are potentially available for release to the shareholder, subject to applicable requirements, including without limitation, regulatory solvency and capital requirements.

With-profit. A with-profit, or participating, policy is one where the policyholder participates in the profits of the life assurance company. In the United Kingdom, with-profit investments historically have been viewed as an attractive investment alternative, with the policyholder paying a monthly premium in return for a lump sum payment at the end of the policy term. Each policyholder's premiums are paid into a fund with those of other with-profit investors. The insurer aims to distribute part of its profit to the with-profit policyholders in the form of bonuses. The value of such distributions is based on, among other things, the performance of the underlying pool of assets. Policy payouts are generally subject to a minimum guarantee and are "smoothed" (which generally involves an evaluation of the discretionary element of policyholder benefits in the calculation of policy payouts) to lessen the impact of changes in the underlying value of the assets in the short term (therefore lessening the impact of changes in payout from one quarter to the next, providing policyholders with greater certainty in terms of expected payout).

With-profit policies are entitled to potential incremental bonuses throughout the life of the policy as well as a terminal, or final, bonus. The terminal bonus represents the policyholder's final share of the assets of the fund. Any available surplus held in a with-profit fund may only be used to meet the requirements of the fund itself or be distributed in defined proportions to the fund's policyholders and the life company's shareholders. For example, the traditional with-profit fund provides for a 90:10 policyholder/shareholder split, which entitled the life company's shareholder fund under Solvency I and, which entitles the shareholder under Solvency II, to a 10% share of the profits in any bonus declared. Surplus arising in Matching Adjustment funds can be extracted subject to applicable requirements. This policyholder/shareholder split means that most of the investment risk of the with-profit fund is borne by policyholders.

In recent years, the UK life insurance sector has undergone a series of significant changes that have led to a general decline in the popularity of with-profit products. In particular:

- declining investment returns have resulted in a general reduction in bonus rates and an increased use of market value adjustments across the industry; and
- increased regulatory scrutiny and subsequent changes to the regulatory framework, including ECRs, has made with-profit products more capital intensive and operationally expensive for life assurers to sell.

In addition, over time, pensions business has overtaken life business in importance, representing a significant proportion of with-profit business, which reflects the increasing importance of the pensions market in the United Kingdom.

Recent Developments affecting the UK Life Insurance Market

In an unexpected move, the UK government announced in March 2014 significant changes to the annuity market with far reaching implications for life insurers serving the UK market. In addition, as a result of tax reforms, the 55% tax rate on pension savings passed on in the event of death was abolished from April 2015, making annuities more unattractive to retirees.

The FCA has carried over various thematic reviews (including on retirement income, sales practices for annuities and the fair treatment of long-standing customers in life insurance) from its 2014-2015 business plan and, in its 2015-2016 business plan, the FCA reaffirmed its focus on the pensions landscape (in respect of policy, supervision, market studies and thematic work), with the intent of ensuring that firms have improved their practices since the publication of the FCA's thematic report on annuities in December 2014. IT resilience is also a key focus area for the FCA and the PRA. They are increasingly viewing cyber risk as a primary threat to solvency because of the significant, rapid and unexpected impact of security incidents affecting healthcare insurers in the UK and the inability of such insurers to effectively respond to the events in question. See "*Regulation—Key Regulatory Developments*" for further information.

Our Strengths

In preparation for becoming the principal component of a separate Business Unit within the Swiss Re Group, commencing in 2011 we upgraded core actuarial, finance, and IT capabilities and systems within our UK-based service company, ARUKSL, boosting the efficiency and effectiveness of our portfolio administration and risk management. Providing high-quality customer service to each individual policyholder in a portfolio of acquired businesses, while at the same time complying with regulation and achieving the cost efficiency of large-scale integration, can present significant operational challenges for life assurers. A dedicated service company with clear evaluation procedures helps in our efforts to ensure that all these critical targets are fully met and generate long-term value from the integration and management of acquired closed books.

We benefit from the following strengths:

Long-standing, trusted relationships with key stakeholders, supported by our being a part of Swiss Re. We emphasise consistent service for our policyholders and TCF, and benefit from being a constituent part of a leading global (re)insurer group, with a reputation for integrity and extensive, longstanding interactive relationships with our key regulators. We benefit from access to a number of integration solutions that can be tailored to the characteristics of business acquired through Part VII Transfers or through reinsurance, or the acquisition of companies through share acquisitions (the recent example of the latter being the Guardian Group Acquisition), and which can accommodate the needs of the sellers of portfolios. We believe that this enables us to maintain existing relationships with sellers and leverage our strengths to build new relationships with sellers.

Track record of undertaking transactions of significant size. We have a market-leading track record, with over 10 completed transactions (reinsurance and stock acquisitions) in the United Kingdom during the past 12 years. The Guardian Group Acquisition represents the most recent addition to this track record. We continue to focus on the UK market, as we believe we are well positioned due to our extensive experience and sector-leading platform in this market. We also see opportunities in the United Kingdom as a result of regulatory changes that are impacting the views of insurers as to the attractiveness of certain products, changes in systems and technology that incentivise institutions to address legacy operational challenges and trends in reallocation of capital among insurers as they seek growth and profitability in other markets. We have demonstrated our ability to seamlessly manage transitions, as highlighted by the absence of any discernible impact on persistency rates following portfolio transfers, and we believe we are well positioned to integrate the Guardian Group.

Scalable experience across a broad range of risks. We have developed a wide range of experience across a broad range of risks. Through the wide array of portfolios and companies we have acquired, over time we have built up extensive experience across life, health, investment, pension and, to a lesser extent, protection products. This experience spans across non-profit, unit-linked and with-profit contracts. We intend to continue to seek to enlarge our existing business, diversify our portfolio and maximise operating and capital synergies, in order to grow further. We believe that our scale, together with our experience, enables us to develop and refine our assumptions (which take into account past risk experience as well as future expectations) and reserves, to realise synergies from previous acquisitions and to focus on improving outcomes for policyholders of closed books. In addition, we believe that we are able to leverage our scale and experience to take advantage of significant value creation opportunities, including the opportunity to use our financial and actuarial experience, know-how as well as legal, human resource and IT expertise in managing risks, maintaining existing relationships with sellers of portfolios, building new relationships and delivering consistent service.

Differentiated, broad administration platform. In recent years we have undertaken a number of initiatives to improve operational performance, including the improvement of our IT architecture and systems and the tools that support them. Our key initiatives include continued investment in our core proprietary "Alpha" administration platform, which we believe positions us well to consolidate and administer a substantial majority of life and pension products that have been acquired through acquisitions; the platform covers virtually all life and pension products available in the UK market, incorporating more than 25,000 product variants, and consolidates many of the complex tasks behind business integration. It is a client-focused, flexible and scalable administration system that provides us with economies of scale, simplified and generic processes, unit valuations, allocations and with-profit calculations.

Over the last 12 years, we have successfully migrated more than five million policies onto our Alpha platform from 25 significant policy administration systems, often resolving significant IT issues that presented challenges to the sellers. By focusing on the United Kingdom for further acquisitions, we continue to reduce complexity and take advantage of a changing market, capturing economies of scale. All of these benefits are ultimately made possible by our Alpha platform and skills in business integration.

We expect to leverage the Guardian Group's intellectual property and processes together with the existing scalable platform to create additional value for the benefit of policyholders, while we migrate the majority of existing policies (approximately 650,000 policies) onto our Alpha platform (expected by the end of 2017).

Visibility on our cash flows over the long-term due to the well-seasoned nature of our portfolios. Over the last 12 years, we have acquired a number of portfolios of closed books, each of which had its own set of products, business processes, data and IT architecture. As a closed book consolidator, we have sought to consolidate each of these books, and will generally continue to seek to consolidate future books (including the majority of policies that we expect to acquire pursuant to the Guardian Group Acquisition), onto a single platform. Closed books generally provide predictable fund maturity and liability profiles, generating expected stable long-term cash flows resulting in a cash generative business, which supports payments of principal and interest on our indebtedness and distributions to our shareholder. In the past four years, ARUK paid dividends to SRLC of £319 million (2012), £219 million (2013), £313 million (2014) and £151 million (2015), the last of which was lower than in prior years due principally both to uncertainties around our Solvency II position at the time of payment and to the payment of £24.8 million in dividends from ReAssure to ARUKFL (of which £12.6 million was paid from ARUKFL to SRLC), which amount would otherwise have been paid directly to SRLC. The 2016 dividend is expected to be declared during the second quarter of 2016.

As a consolidator of closed books, we generally do not need to hold material levels of capital to support the writing of new business. The largest part of our cost base is recurring expenses (which tend to be more predictable in nature than non-recurring expenses). In addition, by acquiring closed books, we lower our operational risks relating to the administration of policies, relative to writing new policies. Moreover, as policies run-off, excess capital supporting these liabilities can be released to the shareholder.

Access to capital and funding. In addition to access to capital and funding we have raised in the capital markets or lending markets, or may in the future be able to raise, including from third-party investors, we have access to capital and funding from the Swiss Re Group, which could be available to us to fund portfolio acquisitions. The Guardian Group Acquisition was funded in part through cash on hand made available by SRL and bank borrowings (see "*Use of Proceeds*"). Within the Swiss Re Group's risk tolerance framework, our capitalisation and leverage must be commensurate with an investment grade rating.

Our Strategy

We seek to be the preferred life and pensions closed book consolidator in the UK market.

Our strategy is focused on gross cash generation (excess capital available compared with the target capital position (for the Admin Re® Business: $0.4 billion in 2012, $0.4 billion in 2013, $0.7 billion in 2014 and $0.4 billion in 2015; for the Guardian Business: an estimated $0.3 billion in 2015) and we seek to do so by maximising our profitability by efficiently managing existing business, acquiring additional books of business and consolidating new business with existing operations to achieve capital, cost, operational and incidental tax synergies.

We also aim to achieve operational excellence through the continuous improvement of our IT systems and architecture (including our scalable Alpha platform) to deliver excellent policyholder administration, constantly updating for and adapting to changing regulatory requirements, as well as focusing on transformation and management actions, including business efficiency and cost reductions. See "*—Our Operations.*" As part of these efforts, our strategy includes the pursuit of the following:

Selective growth. We intend to continue to selectively pursue opportunities to build and enhance our franchise and product line in the UK market, predominantly by acquiring businesses that allow us to leverage our capabilities and build on our market-leading position as a consolidator of closed books. All of our acquisitions must meet the Swiss Re Group's investment criteria and hurdle rates and require approval by the boards of directors of ReAssure and ARUKSL.

We buy blocks of business that others want to divest – to release capital from non-core operations or to shed administrative responsibilities. This typically means we acquire closed books that deliver relatively stable cash flows, at a discount. We are selective about the business we pursue as these transactions are long-term in nature. We aim to pursue value-additive acquisitions (that offer value enhancement and synergy benefits) by maintaining and developing our in-depth market awareness and fostering open engagement with sellers of portfolios. These efforts are intended to enhance the potential pipeline of possible acquisitions and enhance our ability to integrate new business. In addition, we continue to seek to adapt to the changing market dynamics and regulatory environment, such as by recently developing and offering new pensions products.

We believe that changing regulatory requirements (including the implementation of Solvency II and Basel III) and the increasing complexity of life insurance operations are acting as catalysts for corporate decisions regarding the disposition of legacy operations. There are potentially significant cost and time implications associated with the management of closed books as well as the management and potential need to restructure legacy operating platforms and systems, so as to adhere to changing regulatory requirements, deliver consistent industry-standard customer service and maintain good policyholder experience. UK insurers hold sizeable books of closed, in-force life insurance policies, some of which are expected to come up for sale, providing an attractive market for specialised closed book buyers. In addition, we believe that opportunities for selective growth are supported by the trend within the sector of recycling and refocusing capital to growth markets from mature markets and the challenge in terms of costs posed by the run-off of closed books.

A closed book transaction may involve several different types of transactions; the selling company can divest one of its closed books (typically by reinsurance followed by a Part VII Transfer) or its life companies, or it can outsource administration of the policies and buy reinsurance for the portfolios. Every portfolio is structured differently, requiring thorough due diligence to value the portfolio, the underlying assets and the associated risks. Transactions can involve complex IT issues, since the portfolios are often administered using different systems and software. Buying a closed book not only involves taking in policies and assets, but also inheriting the relationship with the seller's customers. Our business model is focused on keeping costs low, but we equally recognise the critical importance of our obligations to be consistent and fair with policyholders. We are focused on enhancing customer service quality, which we believe can be a key differentiating factor in this market (see "—*Operational excellence.*" below). While we believe that we have strong internal administration capabilities and are not reliant on outsourcing of policy administration to drive operational efficiencies, we will continue to consider the merits of third-party outsourcing arrangements (as opposed to administering policies in-house) on a case-by-case basis.

Although our business model itself is quite straightforward, the underlying activities we undertake can be very detailed and necessitate a deep understanding and evaluation that extends to financial and actuarial know-how as well as legal, human resource and IT expertise. We strive to ensure that we have the right skills, expertise, technology and human resources to support execution of acquisitions and integration of acquired businesses. Integrating acquired businesses is just as important as getting the price and the initial structure right. The integration process usually takes 12 to 18 months to complete and involves moving assets and policies, merging IT systems and, in some instances, employing new staff. Besides our proven track record, a long heritage in insurance and the necessary capital to be applied to the right transactions, we also have the capacity to administer policies in an efficient manner, by migrating policies to our Alpha platform and integrating such policies with our existing business.

Value extraction. We intend to continue to actively manage our portfolio of assets and blocks of business and to focus on creating value through capital, cost, operational and incidental tax synergies. For example, when the Alico UK life portfolio was combined with our ReAssure business, we were able to extract meaningful capital synergies. In addition, as a result of the Guardian Group Acquisition, we expect to create value by achieving capital and asset management synergies, for example by extracting capital and asset management benefits through a more diversified asset base and a more diversified product portfolio that allows for diversification benefits to reserving, and by achieving operational synergies, by consolidating head office and support functions, leveraging our Alpha policy administration system capabilities (we intend to migrate the majority of the Guardian Group's policies onto our Alpha platform by the end of 2017) and rationalising administration costs, which we expect will result in a lower administration unit cost per policy.

In terms of our in-force business, we have reallocated our assets over the past several years, which has resulted in capital improvements and generated dividends for our shareholder. In 2014, we benefited from our ability to release \$225 million in surplus reserves held against the risk of credit default stemming from changes to modelling assumptions as well as the recognition of \$234 million following the finalisation of the 2013 year-end and 2014 half-year UK statutory valuation, owing to favourable mortality and longevity experience. We intend to continue to seek to optimise our asset portfolio, so as to increase the yield on our assets, to position ourselves to optimise capital (within relevant respectability constraints), to expand our product base and to continue to achieve cost savings. Through these actions and following integration of the Guardian Group, we aim to grow the amount of cash that we generate, taking into account the natural decrease in gross cash generated, in line with the run-off profile of existing business (see *"Selected Consolidated Financial and Other Data—Other Data*"), and to pay dividends to our shareholder in line with profitable business growth. We expect that the incremental cash generated by the Guardian Group Acquisition, including as a result of synergies once the businesses are fully integrated (which is expected by the end of 2017), will be greater than our existing run-off business, which will support our ability to service our debt and provide a source for future investments and acquisitions, as well as increase the potential level of dividends that may be ultimately paid to our shareholder.

Operational excellence. Our business has undergone significant change over the last three years, resulting from transformation and management actions (including business efficiency and cost reductions), with further activity being undertaken as part of the integration of the Guardian Group, which is aimed at further cost efficiencies and reductions in headcount. These initiatives have been, and continue to be, focused on achieving operational excellence, with the aim of improving efficiency and delivering cost savings.

In support of our focus on operational excellence, we created the Excellence Programme, which is designed to deliver process and performance improvements and improve customer outcomes, whilst reducing operational costs. Our Excellence Programme focuses on three key areas; our people, processes and technology. First, by reaffirming our operational excellence culture and principles and embedding a quality assurance metric into our performance management process, we believe that we have enhanced customer outcomes; our remuneration package was also enhanced to recognise staff who consistently demonstrate that they provide excellent levels of customer service. Second, we implemented various changes to our processes, including to the end-to-end customer journey, by enhancing staff training, altering the way in which we communicate with customers (with an increased focus on telephone and digital communications) and focusing on addressing the root cause of customer complaints and improve customer satisfaction. Third, we have implemented an enhanced workflow tool for use by our customer service teams, which includes a comprehensive suite of management information; this has enabled us to focus on allocating our resources appropriately and efficiently across our business.

The Guardian Business and group functions require integration into the Issuer Group, with selection of the optimal platforms and operating model, including consolidating head office and support functions and leveraging our Alpha policy administration system capabilities. We expect that the realisation of the potential operational synergies will result in one-off integration costs of approximately £66 million, of which approximately half are currently expected to be incurred in 2016 and half in 2017.

We continue to remain focused on investing in our people, processes and technology to continue to deliver process and performance improvements and improve customer outcomes, while delivering cost savings. Improving customer outcomes requires an understanding of customers' needs, delivering consistent industry-standard customer service, communicating clearly and efficiently with customers, enhancing policyholder security and improving policyholder returns and growth opportunities. Maintaining good policyholder experience is critical in respect of retaining policyholders as well as attracting new business from potential sellers.

Capital Requirements and Reserves

Capital Requirements

General. Depending on the legal and regulatory environment under which they operate, legal entities have to hold a certain amount of minimum capital at all times. The ultimate responsibility for the capitalisation of a legal entity rests with the relevant bodies of that entity.

- The minimum capitalisation of ARUK is calculated by reference to regulatory requirements of the European Insurance and Occupational Pensions Authority ("**EIOPA**") Delegated Acts, applicable to insurance groups.

- The minimum capitalisation of ReAssure, Guardian Assurance and Ark Life is calculated by reference to regulatory requirements of EIOPA Delegated Acts applicable to life insurance companies.

- The minimum capitalisation of ARUKSL is calculated by reference to regulatory requirements relating to life insurance business service companies.

- Guardian Company Services Limited has no regulatory capital requirements.

For non-insurance companies in the Issuer Group, all companies are required to maintain adequate financial resources to meet the accounting criteria of a "going concern" with the sole exception of companies where appropriate notice has been given and due process applied to wind a company up and liquidate its assets. If a non-regulated subsidiary in the Issuer Group has a negative residual net asset position but continued trading is required, an appropriate letter confirming continued financial support will be provided from either ARUK or the most appropriate subsidiary of ARUK.

Solvency I and Solvency II. In Europe, Solvency II became effective on 1 January 2016, replacing Solvency I. Solvency II introduces an economic risk-based solvency regime designed to harmonise the prudential supervision of insurers throughout Europe. We discuss below the Solvency II framework, as well as the Solvency I framework as the latter was relevant historically to the setting historically of our reserves.

The Solvency II framework adopts a three-pillar approach with quantitative requirements on financial resources (Pillar 1), qualitative requirements on governance (Pillar 2) and requirements on public disclosure and supervisory reporting (Pillar 3). In relation to Pillar 1, all assets and liabilities are valued on a market consistent basis. Solvency II replaces the investment restrictions that were in place under many of the Solvency I directives with the "Prudent Person Principle" with an option for Member States to introduce certain quantitative restrictions. Solvency II introduced a risk-sensitive capital requirement (known as the Solvency Capital Requirement, or "**SCR**"), which can be calculated using a standard formula or supervisory approved internal model and requires insurers and reinsurers to hold capital in relation to all quantifiable risks with a confidence level of 99.5%. See generally, "*Regulation*."

Historical - ReAssure. For purposes of Solvency I reporting, ReAssure was a "realistic-basis" firm (having total with-profit liabilities in excess of £500 million as of 31 December 2015). As such, it was required to calculate the solvency position of each of its two with-profit funds (National Mutual With-Profit Fund and the Windsor Life With-Profit Fund) on both a "realistic" and a "regulatory" basis, reserving for the more onerous of the two (the "twin peaks" approach). ReAssure's Non-Profit Fund, in contrast, was subject to only the regulatory basis. ReAssure's with-profit funds were managed in accordance with the provisions of the relevant Principles and Practices of Financial Management ("PPFM"), run-off plan, and any prior scheme of transfer. The run-off plan targeted augmentations to policyholder asset shares (with a consequential impact on policyholder benefits) such that the fund retained enough capital to cover the Solvency I Pillar II capital requirements.

Historical – Guardian. Under the Solvency I regime, Guardian Assurance was a "realistic-basis" firm (having total with-profit liabilities in excess of £500 million as of 31 December 2015). As such, the solvency position of the Guardian With-Profit Fund was calculated on both a "realistic" and a "regulatory" basis, reserving for the more onerous of the two (the "twin peaks" approach). The Guardian Non-Profit Fund in contrast, was subject to only the regulatory basis. Under the Solvency I regime, the Guardian With-Profit Fund was managed in accordance with the provisions of the relevant PPFM, run-off plan, and any prior scheme of transfer.

Current – ReAssure and Guardian. For purposes of Solvency II reporting, both ReAssure and Guardian Assurance's target level of capital buffer is 20% of the SCR. This is set with reference to a one-in-ten year stress and remains subject to discretion of the boards of ReAssure and Guardian Assurance and on the interaction of the buffer with any specific capital margins required by either a court order or the PRA. The PRA has the power to impose capital add-ons if the Standard Formula is viewed to be an inadequate representation of the firm's risk profile. The PRA has reviewed the appropriateness of capital levels at both Guardian Assurance and ReAssure and found that no capital add-ons are required. Under Solvency II, ReAssure and Guardian Assurance's with-profit funds continue to be managed in accordance with the provisions of the relevant PPFM. The run-off plans for the with-profit funds will continue to be managed using a similar approach as Solvency I – Pillar II (for ReAssure, this yields a capital requirement greater than the Solvency II Standard Formula approach). Any significant excess over the capital buffer is expected to be periodically distributed to the shareholder, subject to the Swiss Re Group's risk tolerance framework (*i.e.,* maintenance of capitalisation and leverage metrics at least commensurate with an investment grade rating).

Historical and Current - ARUK. Under the Solvency I regime, ARUK was subject to minimum capital requirements, calculated by reference to regulatory requirements resulting from the EU Insurance Groups Directive 98/78/EC ("**IGD**"). Additionally, ARUK maintained, as determined by ARUK's board of directors periodically, an additional level of capital such that in the event of small unexpected issues arising such as unanticipated industry levies or reasonable exceptional in year claims experience, the minimum IGD capital requirements were maintained. For purposes of Solvency II reporting, ARUK's primary capital management target is to maintain a target level of capital buffer of 20% of the SCR, subject to discretion of the board of ARUK and on the interaction of the buffer with any specific capital margins required by either a court order or the PRA. To the extent that a specific material risk event crystallises or there is a fundamental change in the perception of the potential liability for a specific insurance risk category necessitating increased capital resources after applying a consistent risk appetite standard, ARUK will seek additional financial resources from the Swiss Re Group (see "—*Capital management buffers*").

Historical and Current – ARUKSL. ARUKSL was granted permission by the predecessor to the FCA, the UK Financial Services Authority (the "**FSA**") in April 2012 to undertake regulated activities in connection with the servicing of life insurance policies and it is now authorised and regulated by the FCA. As a consequence, ARUKSL has to maintain at all times sufficient qualifying capital resources to meet the minimum capital requirements applicable to life insurance service companies. For purposes of Solvency II reporting, the minimum capital requirements for ARUKSL are the greater of (i) own-funds requirements (being the sum of an amount agreed with the regulator as being sufficient to support an orderly wind-down of the business, if required); the amount prescribed by the regulations relating to ARUKSL's professional indemnity insurance policy excess retention; and the base capital requirement of £10,000; or (ii) the amount determined by an income based requirement, which is calculated with reference to the annual income of ARUKSL from the most recent audited accounts (replacing the expenditure based requirement under the Solvency I regime, which was calculated with reference to the annual expenditure of ARUKSL from the most recent audited accounts). ARUKSL will also maintain, as determined by the board of ARUKSL periodically, an additional level of capital such that in the event of small unexpected issues arising, the minimum capital requirements are maintained.

Estimated Solvency II Position as at 31 December 2015

We believe that we are appropriately capitalised under Solvency II.

The estimated ARUK group Solvency II ratio was 145% as at 31 December 2015, calculated on a pro forma basis to (i) give effect to the combination of the Admin Re® Business and the Guardian Business, as if the Guardian Group Acquisition had completed on that date and (ii) exclude any diversification benefits between entities. The ARUK group is expected to benefit from synergies resulting from the integration of the Admin Re® Business and the Guardian Business; for example, the combined SCR is expected to be lower due to risk diversification. However, prior to completion of the Part VII Transfer of Guardian Assurance's long-term insurance business into ReAssure, we are unable to recognise diversification benefits within companies in the Admin Re® Business and the Guardian Business and have not given effect to any such benefits in calculating the estimated ARUK group Solvency II ratio.

On a Standard Formula basis, the solvency ratios under the Solvency II regime are similar to the solvency ratios under the Solvency I regime. The following table presents the estimated Solvency II ratios (on a solo basis) at the ReAssure and Guardian Assurance levels, as at 31 December 2015.

	Solvency II ratio
As at 31 December 2015	
ReAssure	165%
Guardian Assurance.............................	153%

Sensitivity of Solvency II ratios

Solvency II ratios are subject to various risks.

On a Solvency II Standard Formula basis, the main risks (before allowing for the benefits of diversification) for the ARUK group, ReAssure and Guardian Assurance Solvency II ratios are credit spreads, longevity, lapse and equity. Credit spread and longevity risk arise primarily from annuity business. Equity risk and lapse risk stem primarily from unit-linked pensions business. Due to the matching of assets and liabilities, interest rate risk is less significant. Mortality, disability and other financial market risks are also less material risks.

The table below presents the impact of key economic sensitivities on the Solvency II ratios at the ARUK group, ReAssure and Guardian Assurance levels, as at 31 December 2015. The estimated ARUK group Solvency II ratios are calculated on a pro forma basis as described above.

	Indicative possible impact on Solvency II position as at 31 December 2015			
	Base Solvency II position	**UK equity markets fall by 20% and foreign currency increases relative to the £ by 10%**	**Interest rates fall by 50 basis points across the yield curve**	**Credit spreads increase by 150 basis points at all durations**
ARUK group	145%	145%	137%	132%
ReAssure (solo)	165%	167%	159%	161%
Guardian Assurance (solo)	153%	153%	144%	130%

We believe that the results of the sensitivities indicate that the solvency ratios are resilient to market stress events.

Reserves

Life and pension products give rise to long-term commitments that require reserves to be established to cover the expected future liabilities. For the company responsible, these obligations represent liabilities that should be funded by assets that generally match them as far as possible in value and duration. The following table sets forth a breakdown, as of 31 December 2014 and 2015, of reserves of ReAssure, Guardian Assurance and Ark Life by type of business on a Solvency I – Pillar I basis. Intangible assets are not permitted in the Pillar I assessment under the Solvency I framework. The reserves are presented in GBP, net of internal and external reinsurance arrangements.

	ReAssure		**Guardian Assurance**		**Ark Life**		**Total**	
	As of 31 December							
	2014	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**
	(GBP in thousands)							
Unit-linked business[1]	14,250,953	17,551,495	1,994,432	1,782,651	1,541,610	1,504,194	17,786,995	20,838,340
Index-linked business[2]	892,054	771,873	146,395	140,280	702,860	575,079	1,741,309	1,487,232
With-profit business	1,080,887	992,977	1,779,485	1,546,028	-	-	2,860,372	2,539,005
Non-profit/non-linked business	7,273,676	6,629,968	8,376,729	8,066,346	15,223	15,270	15,665,628	14,711,584
Third-party administration services	-	-	-	-	-	-	-	-
Total	**23,497,570**	**25,946,313**	**12,297,041**	**11,535,305**	**2,259,692**	**2,094,543**	**38,054,303**	**39,576,161**

(1) Includes non-unit-linked liabilities that are attributable to the index-linked business

(2) Includes non-index linked liabilities that are attributable to the index-linked business.

Solvency II requires insurance companies to hold technical provisions to cover expected future insurance or reinsurance contractual liabilities, the value of which should be a best estimate (corresponding to the probability-weighted average of future cash-flows relating to the insurance, calculating the expected present value of future cash-flows using the relevant risk-free interest rate term structure) and an additional risk margin (based on cost of holding regulatory capital). Solvency II contemplates measures to ensure that short-term market movements are treated appropriately (*i.e.*, the full extent of short-term volatility in asset process does not need to be recognized) in light of the long-term nature of own funds of insurance companies, as fixed income investments are exposed to credit spread fluctuations and impact the value of assets and own funds, even though they do not impact return as the investments are held to maturity. Fluctuations can be addressed through Matching Adjustments, volatility adjustments ("**Volatility Adjustments**") and transitional measures (to smooth the transition from Solvency I to Solvency II). Insurance companies have choices of which of their long-term business (typically annuities) would be included in the Matching Adjustment and Volatility Adjustment applications. Consequently, the extent to which a company has annuity business, and includes it in either the Matching Adjustment or Volatility Adjustment can have a significant impact on Solvency II technical provisions.

The PRA has granted approval, effective 1 January 2016, in respect of ReAssure and Guardian Assurance:

- a Matching Adjustment to the risk-free interest rate term structure;
- a Volatility Adjustment to the relevant risk-free interest rate term structure; and
- a transitional deduction to Solvency II technical provisions.

The Matching Adjustment forms a key component of the discount rate for business with long-term guarantees and is assumed to be a constant addition to the risk-free curve designed to reflect the stable characteristics of certain liabilities, which permits insurers to be long-term investors, and reduce exposure to short-term spread movements. The Matching Adjustment applies to annuities in payment, reducing the value of these liabilities and also reducing the associated capital requirement.

The Volatility Adjustment (an add-on to the discount rate, therefore reducing liabilities) can be applied to any business where the Matching Adjustment is not applied and is also applicable to the with-profit business. The transitional deduction to Solvency II technical provisions aligns overall excess assets (pre-buffer) under Solvency II to the Pillar 2 equivalent under the Solvency I framework (allowing for individual capital guidance).

The transitional deduction can be applied to business that is also subject to the Matching Adjustment (though a reduced deduction must be calculated). The transitional deduction reduces linearly over the course of 16 years. As at 31 December 2015, Guardian Assurance included approximately £820 million in transitional deduction to reduce its technical provisions as of that date.

In addition, a risk margin is required under Solvency II, which is a component of the Solvency II technical provisions. This risk margin is calculated at the entity level and is designed to represent the SCRs to transfer existing liabilities to a third-party. Moreover, under the Solvency II regime, additional technical provisions are carried out at the group level to recognise expenses relating to the insurance business that are incurred outside a life company. Such technical provisions were not recognised under the Solvency I regime.

Investment Strategy

Our investment strategy is governed by a focus on the dynamics of assets and liabilities, along with their associated diversification effects. Our investments are generally tailored to match, in so far as possible, the nature, term and potential volatility of our liabilities.

Asset-liability management ("**ALM**") is a method for anticipating and addressing the financial market sensitivities that arise from potential mismatches in duration between assets and liabilities; ALM, along with sound capital management, is therefore essential to our investment process. ALM measures investment risk and performance relative to a benchmark defined by the financial market sensitivities of the best-estimate economic liabilities. Such sensitivities can arise, among other sources, from using market interest rates to gauge the current discounted value of future cash flows.

The assets backing shareholder business are high quality fixed income securities (principally government bonds, agencies, supranationals and investment grade corporate bonds, as well as illiquid assets such as infrastructure and commercial mortgage loans or bonds). The portfolio is managed so as to match the liabilities' cash flow profile and currency. Derivatives may be used for the management of interest rate and foreign exchange rate risks between assets and liabilities. We believe we have a well-developed risk management system in place that controls the level of risk in the portfolio and we frequently monitor the asset-liability matching position.

Policyholders bear the risk of the investment strategy for the assets backing policyholder business (unit-linked and with-profit). The investment strategy for unit-linked funds is determined by the fund choices made by the policyholder, although asset allocation decisions are required for certain managed funds. An ALM exercise is carried out bi-weekly to minimise mismatching risks on policyholder assets to the shareholder. The investment performance of the policyholder assets impacts the value of future margins on policyholder business to the shareholder.

Policyholders also generally bear the risk of the investment strategy for the assets backing with-profit funds. For with-profit business, the investment strategy is set by ReAssure's and Guardian Assurance's board of directors, taking into account recommendations of the Investment Committee and Fairness Committee, as required by the PPFM. The investment strategy also takes into account the risk appetite documented in the run-off plan that is related to the financial strength of the fund. One of ReAssure's with-profit funds has a capital support facility, which must also be taken into account when setting the investment strategy following a Part VII Transfer. The Guardian With-Profit Fund's investment policy is set out in the relevant PPFM policy. The Guardian With-Profit Fund is not subject to explicit support mechanisms from outside the fund. An ALM exercise is carried out quarterly, to monitor the matched position of the policyholder assets, although the risk of mismatch is borne by the estate of each fund.

Our investments are managed in line with defined investment mandates that can be assigned either internally to Swiss Re Group Asset Management (or other Swiss Re Group units, such as Treasury) or externally through outsourcing arrangements with asset managers. The investment mandates typically include a mandate benchmark, performance objectives and defined investment guidelines. A dedicated team in Swiss Re Group Asset Management oversees the corresponding external mandates. Actual performance and risk taking are rigorously monitored against these external mandates in the same manner as for the assets managed internally.

As of 31 December 2015, our investment portfolio (including cash and cash equivalents) was £44.3 billion. The following table sets out the components of our investment portfolio as of 31 December 2015.

Asset Class Analysis	**Shareholder and Non-Profit**	**With Profit**	**Unit-Linked**	**Total**	**in %**
			(GBP in millions, except ratios)		
Equities & Investment Funds	1	1,570	17,441	19,012	43
Fixed Income	17,177[(1)]	2,274	2,100	21,551	49
Cash & Short-Term Investments	1,392	150	1,069	2,611	6
Property	3	274	530	807	2
Other Investments	240	5	52	297	1
Total	**18,813**	**4,274**	**21,192**	**44,278**	**100**

(1) Includes £13.8 billion in corporate securities and securitized products, of which approximately 5% were "AAA" rated securities, 9% were "AA" rated securities, 36% were "A" rated securities, 44% were "BBB" rated securities and 6% were sub-investment grade and unrated securities, as at 31 December 2015.

Risk Management

Risk management is one of the Swiss Re Group Corporate Functions (the other being Finance) (the "**Swiss Re Group Corporate Functions**") that supports the Business Units. Risk management is defined at the Swiss Re Group level and managed at the Life Capital Business Unit level. At the Life Capital Business Unit level, our risk profile is managed through a number of methods, including capital management buffers (which is part of an overarching risk appetite framework), asset liability matching, operational risk monitoring and stress and scenario testing.

Capital management buffers. The primary mechanism for determining the capital requirements of our insurance subsidiaries is the completion of financial modelling (including comprehensive scenario testing) consistent with best practice Solvency II standards, which reflect the insurance companies' adopted risk appetite, supplemented if required by any mandatory additional regulatory requirements or pragmatic board requested additional capital margins so as to ensure constant maintenance of the capital standards set. Supporting this, the Risk Committee may also require stress testing to validate solvency under specific scenarios (most notably prior to any transaction that will materially reduce the level of capital buffer maintained). For purposes of Solvency II reporting, we set out to ensure that the life companies are expected, based on current prudent expectations, to be solvent on both an Internal Model and a Standard Formula basis.

- Our with-profit funds are managed in accordance with the provisions of the relevant PPFM, run-off plan, and any prior scheme of transfer. For the Windsor With-Profit Fund, a run-off plan has been put into effect that evaluates the distributable surplus. A similar run-off plan has been implemented for the National Mutual With-Profit Fund. The run-off plan also takes into account certain principles established as part of the original demutualisation. For the Guardian With-Profit Fund, subject to any minimum guaranteed amount, the long term aim is to pay 100% of asset shares on surrender, death and maturity. Consistent with these requirements, the ability of the funds to meet their capital requirements will be assessed taking into account any additional board approved management actions that are not already reflected within the Solvency II assessment. In particular, recourse to past miscellaneous surplus to meet the SCR, plus capital add-ons is permitted.

- For non-ring fenced funds, the primary capital management target of an insurance company in the Issuer Group is to maintain a minimum excess Solvency II capital resources of 20% of Solvency II SCR, subject to the discretion of the board and on the interaction of the buffer with any specific capital margins required by either a court order or the PRA. There is an additional floor that the target capital should exceed the exposure to the Swiss Re Group (measured as 50% of the internally retroceded longevity risk). This target will from time to time be reviewed by the board. Excess capital should be managed to within a range of 90% to 110% of the target capital. Where reliance on transitional measures is required to cover the SCR, the insurance entities' dividend paying capacity is restricted in any given period to any separately identifiable undistributed excess from any previous period, plus surplus arising in the period, less the amount of phasing-in set out in the transitional plan for that given period. To the extent that a specific material risk event crystallizes, or there is a fundamental change in the perception of the potential liability for a specific insurance risk category necessitating increased capital resources after applying a consistent risk appetite standard, ARUK and its subsidiaries will seek additional financial resources through, for example, reinsurance arrangements or capital injections, as set out in the capital management policy. The level of resources sought would be such as to maintain capital level in excess of capital requirements, at a level consistent with those applicable before the given change in perception or actual event. The precise form of those additional resources may utilize any form of acceptable intra-group financial instrument including effective risk transfer from ARUK to other Swiss Re Group entities as opposed to increasing absolute financial resources in ARUK.

The capital position of the Issuer Group's insurance companies is formally reported to management committees at least monthly, with full valuations at least twice a year. At the relevant company board's discretion, an additional buffer may be held to ensure the solvency target capitalisation is maintained at all times. Any dividend calculation will maintain the buffer set by the company's board but it is possible that experience variations may temporarily cause resources to fall below that level.

Material new business transactions will be subject to Swiss Re Group approval in addition to the explicit approval of the relevant boards of the legal entities.

- ***Asset liability matching* (*interest rate risk and liquidity risk*).** Our non-linked asset liability matching exercise is performed monthly, (previously on a Solvency I Pillar I basis and now matching Solvency II technical provisions). The approach focuses separately on index-linked and non index-linked business. The asset liability profile for non index-linked business is very closely matched and monitored on a monthly basis by our Asset Liability Management Committee, considering the relationship between all non-linked assets and liabilities at the valuation date based on specified time intervals. Actual market data are used alongside an approximate valuation of the relevant liabilities, which is based on the results of the previous quarter's valuation, updated for the expected run-off of the business and revised valuation rates of interest. For index-linked business, the position is less well-matched but this business is relatively small in comparison to non-index linked business and we monitor that sufficient assets exist to meet any shortfall. Currently asset liability matching in relation to the unit-linked business is carried out twice weekly (matching to the discounted face value of units) to minimise the shareholder risk and ensure close matching.

  As of 31 December 2015, ReAssure did not have any market derivative hedges within its non-profit fund. We have implemented asset strategies within our with-profit funds, without the use of derivatives, to hedge against equity exposure in the Windsor Life With-Profit Fund and interest rate exposure arising from guaranteed annuity rates in the National Mutual With-Profit Fund.

  As of 31 December 2015, Guardian Assurance had a number of derivatives-based hedging positions in place, including portfolios of interest rate swaps and options on interest rate swaps in its non-profits and with-profit businesses for the purposes of interest rate reduction and ALM (including an option on an interest rate swap within the Guardian With-Profit Fund, to hedge the with-profit deferred annuities that offer a guaranteed cash option which were "out of the money"), foreign exchange forwards and futures in the non-profits business for the reduction of foreign exchange risk around the Guardian Loan Opportunity ("**GLO**") and infrastructure portfolios, equity and bond futures and foreign exchange forwards in the unit-linked business and a number of equity index options.

We may in the future seek to manage market risks, among others, in a number of ways, including by entering into arrangements such as credit default swaps and put options, which could reduce our overall exposure to market risk.

During 2015, ReAssure took measures to mitigate equity price risk. Derivative financial instrument contracts have been entered into to manage the risk to asset management charge income caused by volatility in the equity markets. This was not renewed for 2016.

- ***Operational risk monitoring.*** Operational risk for us is defined as "the risk of direct or indirect loss, resulting from inadequate or failed internal processes, people and systems, or from external events." Our Operational Risk Policy (described below) exists as a way of ensuring that management is aware of the risks of the organisation and that these risks are being considered appropriately. A series of risk control policies have been created which aim to break down operational risk in to specific areas, such as data security, compliance, financial crime and group risk.

  Key scenarios currently considered in the estimation of operational risk capital include (i) modelling and analytics (which considers the impact of small unintentional data errors); (ii) outsourcer failure (which considers the additional costs resulting from the failure of one of our outsource partners to meet agreed service standards); and (iii) external compliance (which considers the costs of a penalty from a material compliance or regulatory failing or impact of changes in regulation and interpretation thereof). Risks are identified through a combination of formal and informal approaches which include business area meetings, project planning and discussions with third-party service providers. Risks are assessed through structured analysis, which considers how likely risks are to occur and their potential impact. All operational risks are monitored and evaluated on an ongoing basis to ensure appropriate controls are in place and are working effectively.

- ***Stress and scenario testing.*** Stress and scenario testing covers capital stress testing, reverse stress testing and selected scenario analysis. Capital stress tests are covered as part of Pillar I and Pillar II assessments (at least annually, or on a trigger event). Reverse stress tests are carried out at least annually, to identify scenarios that would make a company's business model unviable; business model failures is defined by ReAssure's board of directors as exhaustion of capital/liquidity, loss of confidence of external parties and/or inability to transact new business. Scenario analysis is used to define multiple (groups of) risk factors to which a company may be exposed, and quantify the potential capital and risk profile impacts if these scenarios were to occur. Contingency planning considers how significant downside scenarios may require changes in the relevant business strategy. Selected scenario analysis is also performed in response to requests from ReAssure's board of directors or regulatory request; we review the need to perform such analyses on a quarterly basis.

  In addition, in an effort to effectively manage the risks associated with ReAssure's and Guardian Assurance's businesses, we have implemented a number of policies that are monitored on a regular basis and updated as necessary.

  Our key risk metrics include a capital coverage ratio (we aim to maintain an appropriate buffer above minimum regulatory capital) and variance in earnings to plan (we have a low appetite for unexpected volatility in excess of disclosed sensitivities).

  Risk self-assessments and risk reporting continue to be areas in which we focus on ongoing improvement, to ensure that key stakeholders (including senior management and regulators) can receive prompt information for their decision making and that we can manage, monitor and report key risks effectively. In the fourth quarter of 2014, we updated the majority of our operational risk self-assessments in line with the Swiss Re Group methodology. This completed the core part of the operational risk framework and enabled first line of defence to complete a more meaningful self-assessment based on key operational risks, the tracking of all issues and actions on a single system, the logging of operational events on a single platform allowing improved root cause and lessons learned analysis and enhancements to our risk control platform.

  In addition, we have reviewed and revised ARUK's risk policies to take account of Solvency II requirements.

Competition

We operate in a highly competitive market. Key factors for success in the UK closed books market, such as industry knowledge and infrastructure requirements, migration and operational capabilities, relationships with regulators, adaptability to change and financial wherewithal, also act as barriers to entry, limiting the number of participants in the market.

The competitive environment continues to vary depending upon the size of the transaction and the type of business involved. For example, since the implementation of the UK Pensions Reform, the market activity involving the sale of annuity businesses has increased substantially. At the same time, the number and type of acquirers for such assets have also increased, as some life insurers are now seeking to make up for the loss of organic growth in annuities via acquisitions.

In respect of existing in-force business, we compete with a wide range of companies in the United Kingdom, including mainstream life re/insurers, specialist insurers, private equity firms and other closed book consolidators. The nature of our competitors heavily depends on the constitution of the book being considered. Were we to seek closed books in other jurisdictions, the competitive landscape would shift accordingly.

Employees

As of 31 December 2014 and 2015, we employed approximately 1,649 and 1,758 employees, respectively. As at 31 March 2016, we employed approximately 250 employees in the Guardian Group. Our employees include our customer service teams across three sites in the United Kingdom, as well as specialised service professionals (including advisers in our Asset Management, Mergers and Acquisitions and various Corporate teams (such as Finance, Legal and Human Resources)).

Since 2005, we have transferred in 1,718 employees as part of six transactions.

Governmental, Legal and Arbitration Proceedings

In the ordinary course of business, we are involved in lawsuits, arbitrations and other formal and informal dispute resolution procedures, the outcomes of which will determine our rights and obligations under insurance, reinsurance and other contractual agreements. In some disputes, we seek to enforce our rights under an agreement or to collect funds owing to us. In certain other matters, we resist attempts by others to collect funds or enforce their alleged rights if we believe that such other parties are not rightfully entitled to collect such funds or enforce such alleged rights. These disputes arise from time to time and ultimately are resolved through both informal and formal means, including negotiated resolution, arbitration and litigation. Our agreements with ceding companies and those to which we transfer risk under reinsurance arrangements typically provide that disputes are required to be finally settled by arbitration.

Interruption in Business

During the past three years, we have not experienced any material business interruption.

THE ADMIN RE® BUSINESS

The Operational Structure of the Admin Re® Business

The key operating subsidiaries in the Admin Re® Business are:

- ReAssure, a company that is authorised by the PRA and regulated by the PRA and FCA as a life assurer and subject to regulatory solvency capital and compliance requirements relating to life assurance companies; and

- ARUKSL, a service company established in 2012 that conducts administration of insurance business for ReAssure and third parties (including Aviva), and is regulated by the FCA.

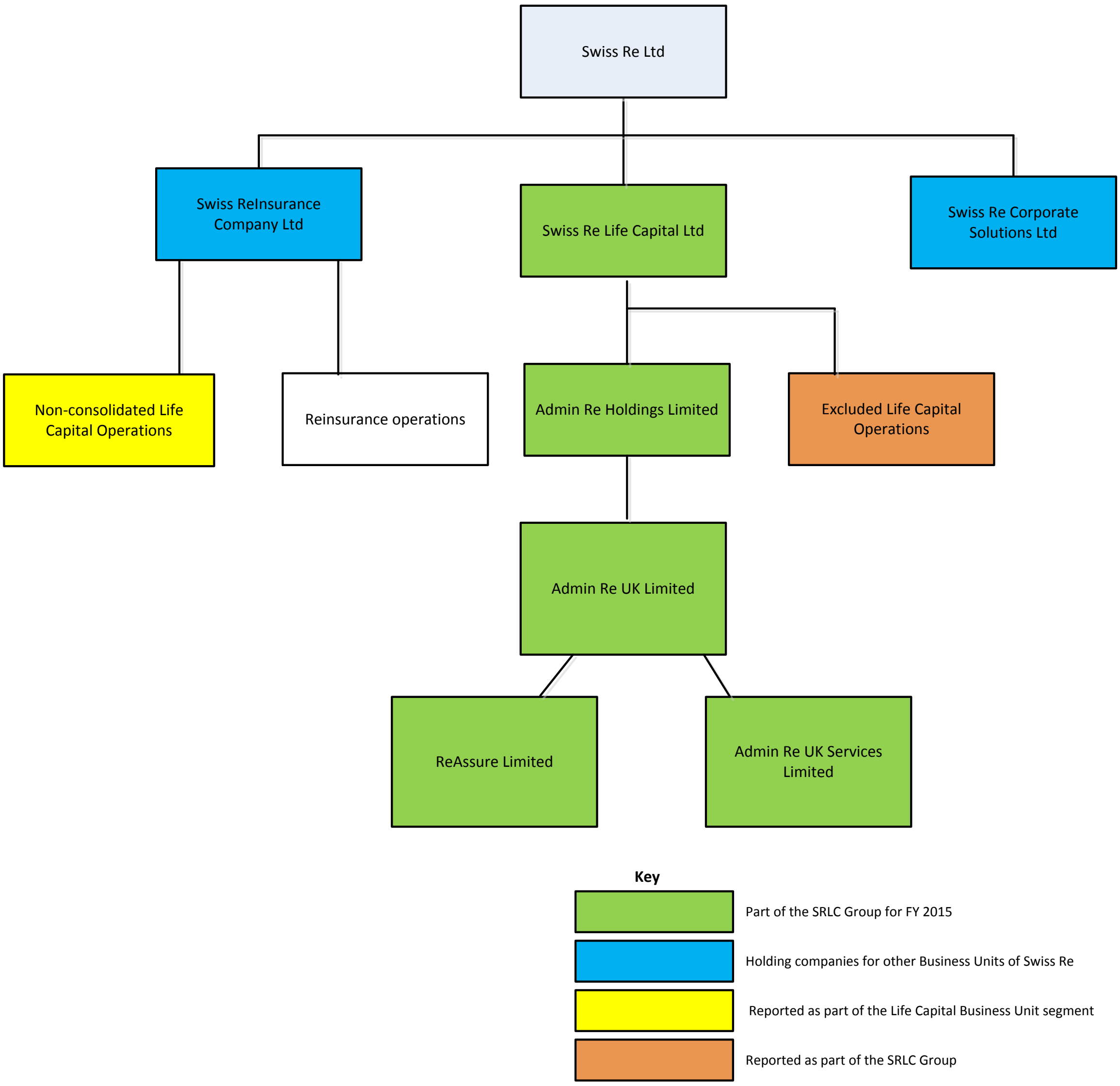
The Admin Re® Business also includes ARUK, an intermediate holding company and the top company in the EEA, for which we report group Solvency II tests to the PRA. ARUK reports to the PRA under Solvency II and all of ARUK's subsidiaries are required to maintain capital resources consistent with regulatory requirements and adopted risk appetites. ReAssure and Guardian Assurance are authorized by the PRA and regulated by the PRA and the FCA as life assurers and are subject to regulatory solvency capital and compliance and conduct risk requirements relating to life assurance companies.

We generate revenues principally from ReAssure, as well as from ARUKSL's external outsourcing arrangements, including with Aviva, on behalf of whom we administer policies.

Unlike open life businesses, we are not required to allocate significant capital to support the writing and distribution of new insurance products, which means that the capital requirements of our operating life companies decline as policies mature, releasing excess capital in the form of cash. As a holding company, the Issuer's principal sources of funds are dividends, amounts that may be borrowed from banks (including the Revolving Credit Facility) or through the issuance of debt securities in the capital markets, interest and repayment of principal on intercompany loans that have been made to its subsidiaries, and equity injections. Dividends received from the Admin Re® Business consist principally of profits from ReAssure (premium and fee income) and income from third-party administration management that flows into ARUKSL, investment income and capital released as books run-off, and in all cases and at all times are subject to regulatory capital restrictions at the ReAssure and ARUK levels, with the majority of income flows being directly or indirectly subject to PRA or CBI consent. ARUK relies on dividends received from ReAssure to meet its cash needs, mainly to fund any expense overruns, pension contributions, non-routine investments for ARUK or ARUKSL and Issuer Group overhead expenses for services received from the Swiss Re Group that are not charged to ReAssure, as well as shareholder dividends to SRLC. Unlike ReAssure, ARUK has no direct access to other liquid assets.

While there are no explicit restrictions imposed by our regulators on dividend flows or management actions in respect of dividends, material changes to dividend payments are subject to regulatory review and generally require confirmation of non-objection from the PRA. ARUK's ability to pay dividends from profit generated is subject to internal and regulatory capital requirements. While our Solvency II capital position is currently being finalised with the PRA, we expect to broadly retain our current dividend policy. In the past four years, ARUK paid dividends to SRLC of £319 million (2012), £219 million (2013), £313 million (2014) and £151 million (2015), the last of which was lower than in prior years due principally both to uncertainties around our Solvency II position at the time of payment and to the payment of £24.8 million in dividends from ReAssure to ARUKFL (of which £12.6 million was paid from ARUKFL to SRLC), which amount would otherwise have been paid directly to SRLC. The 2016 dividend is expected to be declared during the second quarter of 2016.

The following schematic shows the key entities that comprise the Swiss Re Group (highlighting the SRLC Group), pre-acquisition of the Guardian Group:



Fund Structure

In the Solvency I environment, ReAssure operated four core funds (one of which was the shareholder fund and the other three of which contained long-term insurance business), each with different attributes and respective benefits to policyholders and the shareholder. Each of the funds with long term business was required by PRA regulations to ensure that it has sufficient capital to meet its capital requirements at all times, and each has defined investment criteria for financial assets and valuation methodologies for insurance liabilities (see "*Our Business—Capital Requirements and Reserves*").

In the Solvency II environment, ReAssure's core funds are arranged in accordance with the alignment of interests. ReAssure operates long-term business that is subdivided for the purposes of Solvency II reporting. The long-term business includes:

- ring-fenced funds, which are subject to restrictions on transfers of assets in and out of the funds, and include the National Mutual With-Profit Fund and the Windsor Life With-Profit Fund, and the Matching Adjustment fund of ReAssure; and

- ReAssure's residual fund, which is not ring-fenced.

Each of these funds has different attributes and respective benefits to policyholders and the shareholder.

Each of the funds with long term business is required by PRA regulations to ensure that it has sufficient capital to meet its capital requirements at all times, and each has defined investment criteria for financial assets and valuation methodologies for insurance liabilities (see "*Our Business—Capital Requirements and Reserves*"). Under Solvency II, the shareholder is entitled to 100% of the surplus arising on the business other than the Windsor Life With-Profit Fund (shareholder entitlement of 10% of surplus) and the National Mutual With-Profit Fund (shareholder has no entitlement to any future surplus). Surplus arising in the Matching Adjustment fund can be extracted subject to board approval.

Ring-fenced funds

National Mutual With-Profit Fund. This comprises the with-profit business (and a small number of non-profit policies) original written by the National Mutual Life Assurance Society (National Mutual) and held in the National Mutual Fund of NM Pensions Limited when the latter was acquired by the Swiss Re Group. The business was transferred to Windsor Life (now ReAssure) in 2007. The fund is closed to new business (apart from a small number of increases to existing policies) and is being run so as to distribute all its surplus assets over time to with-profit policies as they mature or otherwise discontinue. The operation of the fund is subject to the terms of a court-approved document entered into at the time the business was transferred to Windsor Life. It imposes a number of restrictions (such as the charges that can be levied on the fund, the business that can be written in it and the extent to which the fund can be used to support the other business in ReAssure), designed to safeguard the interests of policyholders in the fund.

Windsor Life With-Profit Fund. This comprises significantly smaller volumes of with-profit business than that in the National Mutual With-Profit Fund. Much of it originated from Gresham Life Assurance Society Limited, whose business was transferred to Windsor Life (now ReAssure) in 1992. The fund is closed to new business (apart from a small number of increases to existing policies) and is being run so as to distribute all its surplus assets over time as the with-profit policies mature or otherwise discontinue. The fund also contains a much larger block of non-participating business acquired over the years from a variety of companies. This business is held in a ring-fenced 'account' called the "Defined Book." ReAssure's residual fund is entitled to 100% of the surplus emerging on the Defined Book. This entitlement arises via a combination of a previous scheme of transfer and a subsequent inter-fund notional reinsurance arrangement from 2012 (the Defined Book Buyout). In accordance with its PPFM, we are required to run ReAssure so as to avoid using any surplus assets relating to the with-profit business to meet the capital requirements of ReAssure's residual fund (including the shareholders' interest in the Defined Book).

We anticipate that a new with-profit fund will be established in ReAssure following the Part VII Transfer of Guardian Assurance's long-term insurance business into ReAssure, to which the majority of the business in the Guardian With-Profit Fund will be allocated. The remainder of Guardian Assurance's business is expected to be allocated to the ReAssure's residual fund. We also anticipate that certain annuity business acquired from Phoenix pursuant to the Part VII Transfer will transfer to the ReAssure's residual fund.

Matching Adjustment fund. This comprises only annuities in payment, other than index-linked annuities. ReAssure and Guardian Assurance intend to submit new Matching Adjustment applications to the PRA, that will be aligned to one another, in advance of the proposed Part VII Transfer.

Residual fund

The remaining long-term insurance business in ReAssure comprises ReAssure's residual fund, which includes a mix of non-profit and unit-linked policies arising from a number of transactions, and which is not ring-fenced.

The shareholder/policyholder split of each ReAssure's long-term business funds is as follows:

Fund	Shareholders/Policyholders	Notes
National Mutual With-Profit Fund	100% of the profits owned by existing policyholders.	Closed to new business in 2002. Only permits customers with invested funds to continue to invest their premiums.

Fund	Shareholders/Policyholders	Notes
Windsor Life With-Profit Fund	A 90:10 with-profit business, with future surpluses passed principally to policyholders in the form of "bonuses" (which can be regular bonuses or final bonuses) that are added to the guaranteed benefits of policyholders and determine the final benefits paid out on with-profit policies. ReAssure's residual fund is entitled to 100% of the surplus emerging on the Defined Book. This entitlement arises via a combination of a previous scheme of transfer and a subsequent inter-fund notional reinsurance arrangement from 2012 (the Defined Book Buyout). 10% of profits arising within the Windsor Life With-Profit Fund are potentially available for release to the shareholder, subject to applicable requirements, including without limitation, regulatory solvency and capital requirements.	Closed to new business in July 2012 and only permits customers with invested funds to continue to invest their premiums
ReAssure's Matching Adjustment fund	Surplus arising in the Matching Adjustment fund can be extracted subject to board approval.	
ReAssure's residual fund	100% of the profits arising within the residual fund are potentially available for release to the shareholder, subject to applicable requirements, including without limitation, regulatory solvency and capital requirements.	

The with-profit policies in ReAssure's funds benefit from two types of guarantees. Most policies have a guaranteed minimum cash value at their maturity date (the Windsor Life With-Profit Fund contains a number of with-profit annuities in payment which have guaranteed minimum payments each year). The level of the guarantee depends on the type of policy and is increased periodically through the addition of bonuses. For some policies, the guarantee extends across a range of dates, with the level being recalculated as appropriate.

A cash guarantee ensures a minimum cash value at maturity or surrender. The cost of the annuity guarantees in the National Mutual With-Profit Fund as of 31 December 2015 was valued at £112.3 million. The cost of the annuity guarantee in the Windsor Life With-Profit Fund as of the same date was valued at £29.4 million. The cost of cash guarantees under the with-profit policies in the National Mutual With-Profit Fund and the Windsor Life With-Profit Fund as of 31 December 2015 were valued at £8.3 million and £13.7 million, respectively. ReAssure's unit-linked policies in general have no guarantees of significance, although a small number of policies benefit from a guaranteed minimum annuity rate at retirement. The relatively small number of non-profit policies within the Windsor Life With-Profit Fund and National Mutual With-Profit Fund (excluding those in the defined book in the Windsor Life With-Profit Fund) have fixed guarantee benefits, in the form of either a payment at or from a specified date in the future or a series of regular payments throughout life.

Business and Product Mix of the Admin Re® Business

We offer a range of products within the core life business, together with third-party administration arrangements. Our business includes:

- ***Linked business***, which includes our unit-linked business (the substantial majority of which relates to pension business) and a number of index-linked annuities. In respect of unit-linked products, policyholders hold units in policyholder unit series that are linked to asset funds where the underlying investments are held. The policyholder benefits are linked to the performance of these asset funds. We invest assets in accordance with the stated objective for the particular policyholder fund series which the policyholder has selected and we receive a fee (referred to as the "annual management charge") for the management of these investments, asset liability matching and unit pricing operations. The level of the annual management charges varies by policyholder unit series and depends upon the policy type and originating company. Other fees are received for general policy administration, with the structure and level of these fees also varying depending on policy type and originating company. Policyholder fund prices are generally calculated daily and disclosed via the publication of the unit price for each policyholder fund series. The policyholder generally bears the underlying investment risk other than on a few minor products;

- ***Non-profit non-linked business***, the majority of which relates to annuities, with all surplus capital generated available for shareholders. Policyholders benefits are determined by the terms of the products at inception and investment risk is not borne by the policyholder;

- ***With-profits business***, which includes (i) "conventional" with-profit products, where the policyholder receives a "regular" bonus (generally annually) and in the case of most products also a "final" bonus on encashment such that the payout meets the target requirements and (ii) "unitised" products which generally receive a "regular" bonus in the form of regular increases in the underlying unit price of the relevant policyholder unit series (which cannot be clawed back, i.e., withdrawn, once declared), together with a "final" bonus on encashment (which can be changed, since they aim to target 100% of asset share). Policyholders share the risks of investment and insurance associated with each with-profit fund, and are entitled to a share of any profits payable through regular and final bonuses. Policyholder benefits are also "smoothed" (which generally involves an evaluation of the discretionary element of policyholder benefits in the calculation of policy payouts) in line with the disclosure applicable to each fund. We invest the assets in a diverse portfolio covering a wide range of asset classes and geographical regions in order to manage market risk. If there is a shortfall in a fund, the shareholder may be required to contribute additional capital (which historically has not been required). To the extent that discretionary augmentations have taken place in respect of asset shares (i.e., the retrospective accumulation of cashflows, which represent the value of each policy within the pooled with-profit fund) in ReAssure's with-profit funds, these can be clawed back if necessary under permitted management actions, to protect the solvency of the pooled with-profit fund (if clawed back, the asset share would reduce, which in turn would reduce final bonus rates, as these are set to target 100% of asset share as a payout); and

- ***Third-party administration arrangements***, which generates fee income on a per policy administered basis. We currently have external outsourcing arrangements, including with Aviva, which generate income.

Related Liabilities

Our liabilities are valued by reference to a number of assumptions to be made including in relation to policyholder demographics, the economic environment and our expenses.

Assumptions are set at the time the contract is issued or, in the case of contracts acquired by purchase, at the purchase date. The assumptions are based on projections from past experience, making allowance for possible adverse deviation. The interest rate assumption for the non-profit annuities is set at the time of pricing/acquisition and for protection business is set with reference to economic conditions at the time of the valuation. Assumed mortality rates are generally based on experience multiples applied to relevant Actuarial mortality tables based on industry experience. Liabilities for these policies can be increased with a charge to earnings if it is determined that future cash flows, including investment income, are insufficient to cover future benefits and expenses.

Demographic assumptions relate to longevity (which is required to assess the length of the potential payment period for annuity policies), mortality (which is crucial for insurance products sensitive to changes in policyholder mortality rates, such as term assurance products) and persistency (early cessation of policies affects the value of future premiums, benefits and profitability of a contract). Demographic assumptions are determined using a combination of historical data on policyholder behaviour specific to our business and the industry as a whole (although principally the former).

Economic assumptions relate to discount rates (which are used to place a present value on future cashflows), credit default rates (which are required to make an allowance for non-receipt of asset income due to credit failure of counterparties) and other economic factors, including inflation.

Expense assumptions relate to our expected expenses, including administration expenses, investment expenses and future expense inflation.

Unit-Linked Liabilities. The liabilities are unit-related without any allowance for actuarial funding of units. We earn administration margins on these products and the total value to the Issuer Group is the present value of future profits.

Non-Profit Non-Linked Liabilities. The principal element of these liabilities relate to annuities in payment from vested deferred annuity policies, and to a lesser extent protection policies providing life and disability cover. Liabilities for these policies generally are calculated using a gross premium valuation method based on assumptions as to investment yields, mortality, expenses, withdrawals and lapses. The method is prospective as it takes into account expected future cash flows inherent in the contract from the valuation date until expiry of the contract obligations. Cash flows include primarily premiums, claims, commission, tax and expenses, with margins added for prudence to reflect the uncertainties of the underlying best estimates. Application of the gross premium valuation method could result in a negative liability provision.

With-Profit Liabilities. Benefits at the end of the policy term for conventional policies are defined in terms of a guaranteed minimum, while benefits for unitised policies are defined in terms of number and value of units held by the policy.

Expenses

Our key expense items are life and health benefits and return credited to policyholders, which in 2014 and 2015 represented 80.6% and 77.7%, respectively, of our total expenses. The balance includes expenses associated with management and governance of the Issuer Group, new business acquisitions and migration (including the transaction with HSBC), policy administration, our transformation initiatives, the support and development of our business infrastructure, as well as interest expense.

ReAssure currently has two significant management services agreements in place. The first is with ARUKSL, which covers the administration of the ReAssure business and pursuant to which ARUKSL charges ReAssure a fixed fee per policy, while incurring the majority of expenses itself. ReAssure's financial expense risks are therefore largely transferred to ARUKSL. The second management services agreement is with HCL, which performs the policy administration related to the ex-Barclays life-business. Other expenses outside of the management services agreements are controlled through robust business planning and budget cycle and, where appropriate, these are provided for in ReAssure's reserves.

Breakdown by Revenue Source and Expenses

The table below shows a simplified breakdown of our business by revenue source and expenses incurred.

	Non-profit non-linked business	With-profits business	Linked business	Third-party administration
Line items	Premiums for new annuity business Net investment income Net realised gains Life and health benefits	Fee income (annual management charges earned on assets under management) Interest credited to policyholders Acquisition costs	Fee income (annual management charges earned on assets under management) Investment result Interest credited to policyholders Acquisition costs	Expenses
Drivers	Investment returns on assets backing annuity portfolio (function of asset allocation strategy and offer of compelling products to prospective policyholders Regulatory environment	Investment market performance	Investment market performance Investment market movements impact fee income	

The Operations of the Admin Re® Business

Overview

There is a constant drive for insurers to understand, communicate with and service customers better. Once business has been acquired by us, we must work to retain the business by providing excellent customer services. In particular, the characteristics of the closed book industry provide a competitive advantage to participants that have customer-centric solutions, IT systems and infrastructure, which enable them to consolidate many of the complex tasks behind business integration, as well as to meet the demands of their customers. In addition, the ability to obtain and process policyholder information and other information enables us to develop and refine our assumptions and strategies.

We recognise that high-quality and reliable IT systems and infrastructure are of vital importance and we have established a comprehensive IT strategy to support the objectives of our broader business. Our IT strategy remains focused on the simplification of our administration systems, through the use of our single administration platform, as well as the upgrade of core systems and key infrastructure components. The aim of our strategy is to provide our business with IT systems and infrastructure that are reliable, scalable and can be extended cost effectively across our business.

Alpha platform

Alpha is our strategic core policy administration platform, which has been developed in-house and for which we own the intellectual property. The Alpha platform has the capability to administer a substantial majority of life and pension products in the United Kingdom and currently supports more than 25,000 different product variants that have been encountered through our historical acquisitions. Alpha delivers simplified and generic processes across a wide variety of products and has a high degree of automation, enabling transactions to be processed electronically without the need for manual intervention. We believe that our Alpha platform and associated infrastructure provides a solid base into which future acquired funds can be integrated.

We continue to invest in our Alpha platform, in an effort to achieve a more automated processing solution.

Outsourcing and distribution arrangements

Our existing operational model includes the use of external outsource partners. External outsource partners are used for, among other things, policy administration (such as the administration of approximately 0.5 million policies in the ex-Barclays portfolio, by HCL, as of 31 December 2015), investment management services (such as the management of approximately £19.3 billion of unit-linked and with-profit assets managed principally by Aberdeen Asset Management Limited and HSBC Global Asset Management, and the non-profit and shareholder assets managed by the Swiss Re Group and its external investment managers), custodian services (such as services provided by HSBC Bank plc as custodian), advisory services, annuity payment services, mailing services, IT development and management services (including offshore IT development), telephony services, storage and hardware services, property investment services and facilities management services.

While we are exposed to some level of concentration risk with outsource partners (due to the nature of the outsourced services market), we operate a policy to manage outsourcer service counterparty exposures and regularly review the impact from default of key outsource partners. We believe that we maintain strong relationships with our key outsource partners.

THE GUARDIAN BUSINESS

The Operational Structure of the Guardian Business

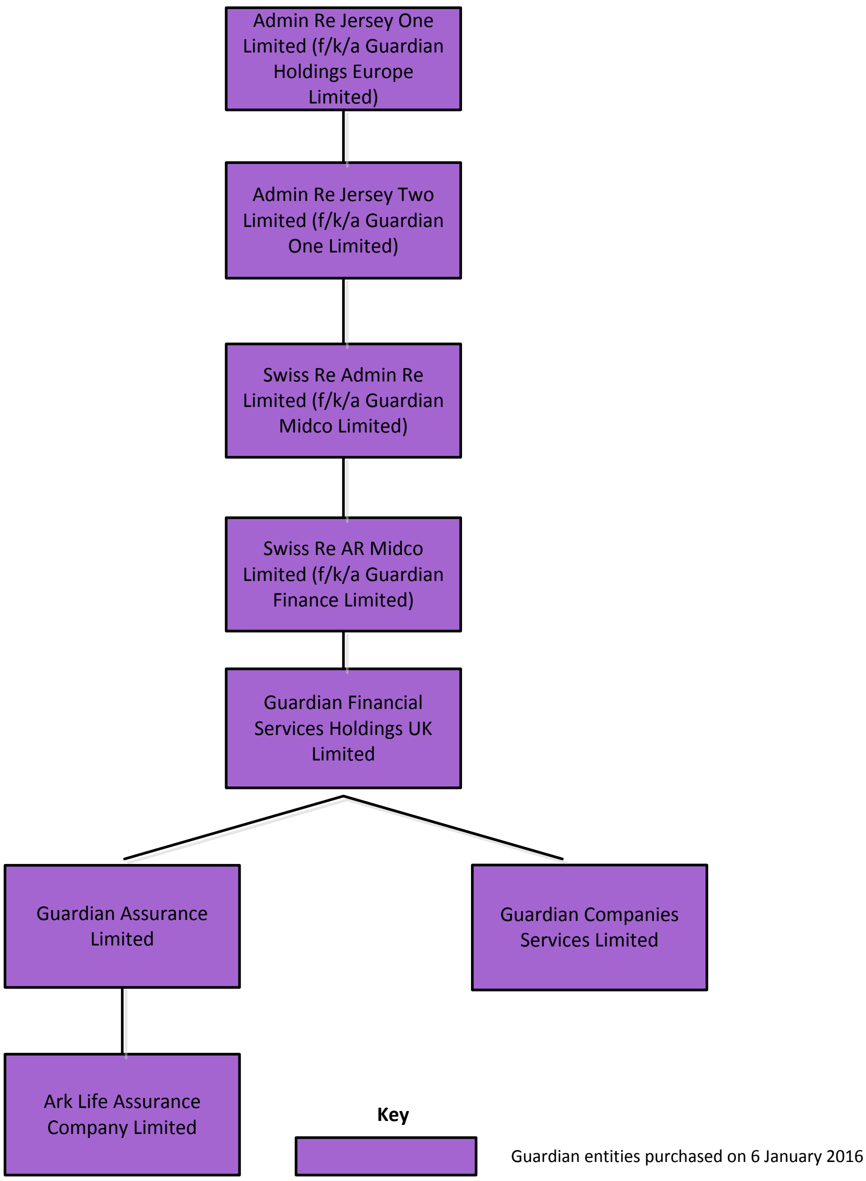
The Guardian Business's key operating subsidiaries are:

- Guardian Assurance, a company that is authorised by the PRA and regulated by the PRA and the FCA as a life assurer and subject to regulatory solvency capital and compliance requirements relating to life assurance companies;

- Ark Life, a company based in Dublin, Ireland, which is authorised and regulated by the CBI and whose principal activity is the transaction of life assurance and pension business in Ireland; and

- Guardian Companies Services Limited, a UK resident service company with an Irish branch, which conducts administration of insurance business for Guardian Assurance.

The following schematic shows the key entities that comprise the Guardian Group, pre-acquisition by the SRLC Group:



The Guardian Group Acquisition

The Guardian Group is being integrated into the Issuer Group, including via a Part VII Transfer of Guardian Assurance's long-term insurance business into Reassure that is expected to complete by the end of 2017, subject to regulatory approval. Ark Life continues to operate as a standalone entity.

The Guardian Group Acquisition is in line with our strategic goals and extends our position as an established market leader in the closed life assurance market in the United Kingdom. It represented an attractive opportunity to acquire illiquid assets (approximately 4.7% of the Guardian Group's asset portfolio as of 31 December 2015 was allocated to illiquid assets, based on the non-profit and shareholder asset portfolio of £10.3 billion as at 31 December 2015 and combined infrastructure and commercial mortgage loans or bonds of £484 million) and related hedging arrangements and provided an attractive opportunity to develop our mature credit portfolio (approximately 73% of the Guardian Group's non-profit and shareholder asset portfolio as of 31 December 2015 was allocated to investment grade credit assets). It also provided us with attractive diversification in terms of reserves (between pensions and annuities) and portfolio composition (achieving greater scale and a more balanced portfolio) through the addition of a large block of annuities (approximately 72% of the UK policies acquired are annuity policies).

In connection with the integration of the Guardian Group into our existing operating structure, we expect that the incremental cash generated thereby, including as a result of synergies once the businesses are fully integrated (which is expected by the end of 2017), will be greater than our existing run-off business. Additionally, we expect to create value by achieving capital and asset management synergies, for example by extracting capital and asset management benefits through a more diversified asset base and a more diversified product portfolio that allows for diversification benefits to reserving, and by achieving operational synergies, by consolidating head office and support functions, leveraging our Alpha policy administration system capabilities (we intend to migrate the majority of the Guardian Group's policies onto our Alpha platform by the end of 2017) and rationalising administration costs, which we expect will result in a lower administration unit cost per policy. The Guardian Group's business is anticipated to add an incremental £10 million per annum to our cost base from 2018 (decreasing from the Guardian Group's UK cost base of £44 million as at 31 December 2015).

The Part VII Transfer of Guardian Assurance's long-term insurance business into ReAssure, if approved, will also allow for further capital synergies to be realised. We will seek to secure cash flows from the closed books we have acquired across which to spread our fixed costs (which is also expected to lengthen the average duration of the run-off profile of our existing business by approximately one year). Further, we intend to implement various management actions. We also expect that this will create economies of scale for the Issuer Group, in that we will only need to carry out reporting, valuation and governance operating for one business instead of two and, merging the underlying risks creates a better diversified portfolio of risks for ReAssure and allows more efficient risk management.

We expect these benefits to start to accrue from completion of the Guardian Group Acquisition although these will be fully realised only once the business integration is complete. As part of the integration process we expect to rebrand Guardian Assurance to align the Guardian brand and certain aspects of the customer proposition with that of ReAssure prior to the Part VII Transfer.

Overview of operations

The Guardian Group acquires and manages closed books in the United Kingdom and, to a lesser extent, in Ireland. Its principal activity consists of the writing of long-term insurance business and it also has a run-off portfolio of general insurance business. The Guardian Group only writes new business in respect of increments and options under existing policies but maintains regulatory authorisations allowing new business to be written. The Guardian Group has two subsidiary life assurance companies, Guardian Assurance and Ark Life, which, while closed to new business, continue to focus on the provision of timely and accurate customer services and secure benefit payments to their policyholders across pensions, annuities, savings and protection products. The Guardian Group's major operations are located in Dublin and Lytham.

For the year ended 31 December 2015, the Guardian Group reported:

- Net premiums written of £21.2 million;
- Fee and commission income of £28.0 million;
- Investment income of £549.5 million;

- Total revenues of £517.3 million; and
- Net loss from continuing operations attributable to equity holders of £73.4 million.

As of 31 December 2015, its UK portfolio included approximately 0.7 million policies and its Irish portfolio included approximately 0.2 million policies. Policies are administered in-house by the Guardian Group's operations centres (primarily from its Lytham base) and outsourced to two third-party service providers. Head office and support functions are being consolidated and only the Lytham and Dublin sites will be retained. As at 31 December 2015, the Guardian Group had approximately £16.2 billion of assets under management.

With its unit-linked and savings business representing approximately 26% of its policies, and annuity and term business representing the balance of its policies, we expect that from a financial reporting perspective the Guardian Group acquisition will impact our income statement in terms of increased premiums from the annuity portfolio and increased fee income from annual management charges based on assets under management, investment performance results affecting net investment income and any realized gains/losses or impairments, and higher operating expenses related to the integration, and will impact our balance sheet to the extent of the increase in assets under management and additional unit-linked investments, including in Ark Life, and liabilities for life and health benefits (non-linked business) and policyholder liabilities (linked business) by the corresponding amounts.

History

The Guardian Group's business dates back to 1821, following the establishment of Guardian Fire & Life Limited, subsequently renamed Guardian Assurance in 1902. In 1968, Guardian Assurance merged with Royal Exchange Assurance Limited to form the Guardian Royal Exchange Group. In 1999, Guardian Assurance was acquired by Aegon UK, a UK insurance company. In 2001, Guardian Assurance was closed to new business and, in 2011, Aegon UK sold Guardian Assurance. The Guardian Group was established in 2001 as a platform to acquire attractive companies and closed books in the European life assurance sector.

In 2012, Guardian Assurance underwent a restructuring of its with-profit fund, whereby gross liabilities of £3.7 billion, in respect of immediate and deferred non-profit annuities and reinsurance assets of £1.1 billion were transferred to a newly created non-profit fund, together with the internal reinsurance of the with-profit deferred annuities that had no prospect of terminal bonus. Financial assets of £2.6 billion were transferred from the with-profit fund to the non-profit fund.

The Guardian Group's UK and Irish businesses have been built through the following key transactions between 2012 and 2015.

- In 2012, Guardian Assurance entered into an agreement with Phoenix Group, under which Phoenix Group reinsured 300,000 in-payment pension annuities, effective from 1 July 2012 to Guardian Assurance. The gross liabilities of the Guardian Group's non-profit fund accordingly increased by £5 billion, effective 1 July 2012, with an equivalent amount of financial assets received in support of these liabilities, which were fully transferred to Guardian Assurance on 5 July 2012. The assets accepted were in the form of UK gilts, corporate bonds and interest rate swaps. Prior to the closing of the transaction, Guardian Assurance raised additional capital of £420 million by issuing new ordinary shares to its parent.

- In 2012, Guardian Assurance entered into a longevity swap with RGA Global Reinsurance Company Limited and RGA International Reinsurance Company Limited, effective 1 July 2012, in respect of £1.5 billion of liabilities arising from the Phoenix in-payment pension annuities. The net effect of these reinsurance arrangements was to reduce the net liabilities of the non-profit fund by £98 million. As part of the terms of the longevity swap, collateral was required to be provided and £30 million of assets were set aside in terms of this collateral arrangement.

- In 2013, Guardian Assurance acquired the long-term business of Guardian Linked Life Assurance and Guardian Pensions Management Limited, along with the majority of shareholder fund assets of those companies via a Part VII Transfer. The purpose of the transaction was to consolidate the business within Guardian Assurance to improve operational efficiency and, following completion of the transfer, Guardian Linked Life Assurance and Guardian Pensions Management Limited applied to the PRA for de-authorisation, which was granted on 23 November 2013. These companies are now dormant.

- In 2014, Guardian Assurance acquired Ark Life, a closed life assurance company based in Dublin, Ireland, from Allied Irish Banks plc, which manages assets of approximately €4 billion across approximately 0.3 million policies. The transaction was structured as an acquisition of shares. The acquisition represents the implementation of the Guardian Group's objective of entering markets external to the UK and creating a platform for further acquisitions in the Irish domestic market with inwards reinsurance from the UK and continental Europe. Ark Life was closed to new business in April 2012.

- In 2014, Guardian Assurance entered into a reinsurance agreement with the with-profit funds held by Phoenix Group, to reinsure £1.7 billion of in-payment annuities. A Part VII transfer of the pension annuities acquired from Phoenix is expected to complete on 31 December 2016 into Guardian Assurance or, if the Part VII Transfer of Guardian Assurance's long-term insurance business into ReAssure completes before then, into ReAssure with the reinsurance transferring to ReAssure. The reinsurance is effective from 1 January 2014 and required premium was paid to the Guardian Group in August 2014.

- In 2014, Guardian Assurance entered into a reinsurance agreement with Randall & Quilter Insurance (Malta) Limited, to reinsure the entire legacy general insurance book of the Guardian Group. A Part VII transfer of this business is expected to complete later this year into Randall & Quilter Insurance (Malta) Limited in line with Guardian Assurance's intent to exit from non-life activities.

Funds Structure

In the Solvency I environment, Guardian Assurance operated three core funds (one of which was its shareholder fund and the other three of which contained long-term insurance business) and Ark Life operated one fund, each with different attributes and respective benefits to policyholders and the shareholder. Each of Guardian Assurance's funds with long term business was required by PRA regulations to ensure that it has sufficient capital to meet its capital requirements at all times, and each has defined investment criteria for financial assets and valuation methodologies for insurance liabilities. Ark Life's fund was required under CBI regulations to maintain sufficient capital and has defined investment criteria for financial assets and valuation methodologies for insurance liabilities.

In the Solvency II environment, Guardian Assurance's core funds are arranged in accordance with the alignment of interests. Guardian Assurance operates long-term business that is subdivided for the purposes of Solvency II reporting. The long-term business includes:

- ring-fenced funds, which are subject to restrictions on transfers of assets in and out of the funds, and include the Guardian With-Profit Fund and the Matching Adjustment fund of Guardian Assurance; and

- Guardian Assurance's residual fund, which is not ring-fenced.

Ark Life operates a non-ring fenced non-profit fund, which consists of non-linked life and disability business and unit-linked business.

Each of these funds has different attributes and respective benefits to policyholders and the shareholder.

Each of Guardian Assurance's funds with long term business is required by PRA regulations to ensure that it has sufficient capital to meet its capital requirements at all times, and each has defined investment criteria for financial assets and valuation methodologies for insurance liabilities (see "—*Capital Requirements and Reserves*"). Ark Life's fund was required under CBI regulations to maintain sufficient capital and has defined investment criteria for financial assets and valuation methodologies for insurance liabilities. Under Solvency II, the shareholder is entitled to 100% of the surplus arising on the business other than the Guardian With-Profit Fund (shareholder entitlement of 10% of surplus). Surplus arising in the Matching Adjustment fund can be extracted subject to board approval.

Ring-fenced funds

Guardian With-Profit Fund. This contains unit-linked and unitised with-profit business (where the non-unit cash flows are internally reinsured to Guardian Assurance's residual fund), conventional with-profit endowments, with-profit deferred annuities and residual annuities in payment (i.e., not internally reinsured into Guardian Assurance's residual fund), as well as term assurance, critical illness and other non-profit business. The Guardian With-Profit Fund was restructured in 2012 when the majority of the non-profit business transferred to the former Guardian Non-Profit Fund, together with the internal reinsurance of the with-profit deferred annuities that had no prospect of terminal bonus. The fund is closed to new business (apart from a small number of increases to existing policies) and is being run so as to distribute all its surplus assets over time to with-profit policies as they mature or otherwise discontinue.

Matching Adjustment fund. This comprises only annuities in payment. Guardian Assurance and ReAssure intend to submit new Matching Adjustment applications, that will be aligned to one another, in advance of the proposed Part VII Transfer.

Residual Funds

Guardian residual fund. The remaining long-term insurance business in Guardian Assurance comprises Guardian Assurance's residual fund, which includes two matching annuity portfolios containing the majority of the annuities in payment, unit-linked business, and certain unit-linked business written in the Guardian With-Profit Fund whose non-linked profits are fully reinsured to Guardian Assurance's residual fund.

Ark Life residual fund. This comprises non-linked life and disability business and unit-linked business.

The shareholder/policyholder split of each of Guardian Assurance's and Ark Life's long-term business funds is as follows:

Fund	Shareholders/Policyholders	Notes
Guardian With-Profit Fund	A 90:10 with-profit business, with future surpluses passed principally to policyholders in the form of "bonuses" (which can be regular bonuses or final bonuses) that are added to the guaranteed benefits of policyholders and determine the final benefits paid out on with-profit policies. There is a large block of non-profit unit linked business within the fund but all non-unit cash flows are reinsured to Guardian Assurance's residual fund. There is also a small amount of other non-profit business written in the fund. 10% of the profits arising within the Guardian With-Profit Fund (including those on the small amount of non-profit business) are potentially available for release to the shareholders, subject to applicable requirements, including without limitation, regulatory solvency and capital requirements	Closed to new business, except by contractual increment, with effect from July 1, 1999. The former Guardian With-Profit Fund was restructured from 1 January 2012 into the Guardian With-Profit Fund and a new Guardian Non-Profit Fund (now the Guardian residual fund under Solvency II reporting).
Guardian Assurance's Matching Adjustment fund	Surplus arising in the Matching Adjustment fund can be extracted subject to board approval.	
Guardian residual fund	100% of the profits arising within Guardian Assurance's residual fund are potentially available for release to the shareholder, subject to applicable requirements, including without limitation, regulatory solvency and capital requirements.	
Ark Life residual fund	100% of the profits arising within the Ark Life residual fund are potentially available for release to the shareholder, subject to applicable requirements, including without limitation, regulatory solvency and capital requirements.	

The with-profit and non-profit policies in Guardian Assurance's funds benefit from guaranteed cash options. Deferred annuities were written to provide a given level of annuity with the option to receive cash at a guaranteed rate per £1 of annuity. Although the cash options are significantly out of the money there are a series of options on interest rate swaps in place to protect the funds in the event that interest rates rise significantly and the options become valuable again.

Product Mix

The majority of the Guardian Group's business is annuities, which represented 57% of the Guardian Group's total policies (77% of Guardian Assurance's total policies) and 79% of the Guardian Group's net reserves as of 31 December 2015. The Guardian Group's with-profit business consists of "conventional" with-profit policies (such as endowments and unitised with-profit policies) and represented 11% of Guardian Group's net reserves as of 31 December 2015. The remainder of the Guardian Group's business includes individual pensions business and individual life business.

Investment Portfolio

The Guardian Group has a significant portfolio of derivative investments used mainly as interest rate and longevity overlays for the annuity business. At 31 December 2015, assets under management totalled £16.2 billion, including £9.2 billion of credit assets, with the balance being cash and government securities. In addition, assets supporting the with-profit business totalled £2.2 billion and assets supporting unit-linked business totalled £3.8 billion. As at 31 December 2015, the Guardian Group's with-profit portfolio was 45% equity securities, 43% credit and 12% cash and government securities as at the same date. As at the same date, the Guardian Group's unit-linked portfolio was 80% equity securities, 16% cash and government securities and 4% credit. The Guardian Group's assets under management are all managed by external fund managers and overseen by its in-house Group Investment Office, staffed by industry specialists in London.

The Guardian Group's investment portfolio provides us with a larger, well diversified and more competitive asset portfolio. Further, subject to market developments, regulatory non-objection and changes to Swiss Re's strategic asset allocation, we intend to implement various management actions, such as to increase the size and scope of our illiquid asset portfolio (principally commercial real estate and infrastructure debt) over the course of approximately four years, increase the scope and size of the Matching Adjustment portfolio and to adopt an underfunded units approach to partially hedge fee income from unit-linked funds. However, we are also prioritising de-risking components of the Guardian Group's portfolio as part of our overall reallocation plan. This includes selling down the leveraged loans and high yield portfolio, reducing exposure to subordinated financials, reducing and unwinding the interest rate swap portfolio and reducing single issuer concentration exposures, while reinvesting sale proceeds in investment grade corporate bonds as well as illiquid assets (such as infrastructure and commercial mortgage loans or bonds) with a focus on matching adjustment eligible bonds. Our target investment portfolio would generate more matching adjustment benefit and have significantly lower capital requirements as a result of the planned disinvestment of leveraged loans. While most of the de-risking is expected to be completed prior to the end of September 2016, subsequent reinvestment is expected to take longer due to liquidity constraints in the UK corporate bond market. The ability of the Guardian Group to make additional investments in illiquid assets currently is subject to discussion with the PRA.

The Operations of the Guardian Group's Business

Portfolio Administration

The Guardian Group has an in-house "Administrator" administration system and benefits from administration systems maintained by third-party administrators (Capita and Diligenta in the UK, Irish Life in Ireland). We expect to migrate from the Administrator system to our Alpha platform in 2017 and we may evaluate the possibility of insourcing the administration systems maintained by third-party administrators onto our Alpha platform in the future.

Outsourcing and distribution arrangements

The Guardian Group's operational model includes the extensive use of external outsource partners. External outsource partners are used for, among other things, policy administration (such as the administration of approximately 0.3 million in-force annuities by Capita and Diligenta (60,000 of which will only become formally owned by us following the Part VII transfer of the pension annuities acquired from the Phoenix Group into ReAssure) and approximately 0.2 million Ark Life policies by Irish Life) investment management services (such as the management of approximately £13.8 billion of non-profit, unit-linked and with-profit assets managed by Kames, Blackrock, MetLife, Renshaw Bay, Castle Hill and Standard Life (formerly Ignis) as of 31 December 2015), IT development and management services, telephony services, storage and hardware services and facilities management services. We anticipate that the Part VII transfer of the pension annuities acquired from Phoenix may introduce new outsourcing arrangements for ReAssure, to complement the existing arrangements that exist with outsource partners for Guardian Assurance.

We evaluate existing arrangements on an ongoing basis. A number of these arrangements will be subsumed into our existing arrangements with our outsourcing partners and other arrangements will either be retained or merged with our existing contracts.

While the Guardian Group is exposed to some level of concentration risk with outsource partners (due to the nature of the outsourced services market), it operates a policy to manage outsourcer service counterparty exposures and regularly review the impact from default of key outsource partners. We believe that we maintain strong relationships with the Guardian Group's key outsource partners.

Management Services

Guardian Assurance has a significant management services agreement in place with Guardian Companies Services Limited, which covers the administration of Guardian Assurance's business pursuant to which Guardian Companies Services Limited charges Guardian Assurance a fixed fee per policy, while incurring the majority of expenses itself. Guardian Assurance's financial expense risks are therefore largely transferred to Guardian Assurance Companies Services Limited. We aim to transfer the servicing arrangement that Guardian Companies Services Limited has with Guardian Assurance, to ReAssure, pursuant to the Part VII Transfer.

RELATIONSHIPS WITH THE REST OF THE SRLC GROUP AND THE SWISS RE GROUP

We form part of the SRLC Group, which in turn, together with certain operations that remain on the balance sheet of SRZ, comprises the Life Capital Business Unit. The Life Capital Business Unit is of one of the three Business Units that comprise the Swiss Re Group, the other two being the Reinsurance Business Unit and Corporate Solutions Business Unit.

Relationship with the Rest of the Swiss Re Group

The structure of the Swiss Re Group reflects the strategic focus on the distinct businesses represented by each of the three Business Units. Each Business Unit has its own differentiated client service model, is accountable for its own performance, and has its own specific strategies, with differentiated product and service delivery, to capitalise on growth opportunities.

The three Business Units are supported by various Swiss Re Group functions (the "**Group Functions**"), including: Group Finance, Group Risk Management, Group Underwriting, Group Asset Management, Group Operations and Group Strategy, each of which is represented by its own Group chief officer (known as a Group Function Head). Legal & Compliance and Group Human Resources are also Group Functions, though represented by the Group Chief Operating Officer. A service charter governs the relationship between SRLC, ReAssure and ARUKSL with Group Functions.

- ***Group Finance, Group Risk Management and Group Strategy*** support the Business Units by managing common resources and support functions, as well as the products and assets developed for and generated by the operations of the Swiss Re Group. These functions define the policies, guidelines and standards for our financial and risk management, and ensure compliance through monitoring of Business Unit activities. They serve as the centers of excellence and provide support to the Business Units, while also managing key corporate processes on our behalf.

- ***Group Underwriting*** proposes and implements underwriting strategies and ensures compliance with our underwriting standards.

- ***Group Asset Management*** prepares and proposes a strategic asset allocation, which is then approved by the Group EC, and manages invested assets.

- ***Group Operations*** provides services (such as HR, IT, and Legal & Compliance) and ensures compliance with our standards and external requirements.

SRL oversees the Business Units, defines the overall strategy for the entire Swiss Re Group and ensures its implementation, set targets for the Business Units, determines capital allocations among the Business Units, manages the financial profile of the entire Swiss Re Group and approves Business Unit strategies. SRL also continues to define and monitor adherence to group-wide policies, guidelines and standards, including the risk management framework.

We develop and implement our business strategy, are responsible for ensuring capital efficiency of our carriers and legal entities, and we are expected to manage our Business Unit income statement, balance sheet and risks in line with Swiss Re Group policies and guidelines. While capital is managed at the Swiss Re Group level and allocated to Business Units based on value-creation potential, we apply for capital based on our business plan, are expected to generate capital based on risk tolerances and our liquidity framework and distribute un-deployed capital to the Swiss Re Group.

Relationship with the Rest of the SRLC Group

We form part of the SRLC Group, and conduct its closed life book operations. The other operations of the SRLC Group are the Excluded Life Capital Operations, namely SRLC Management (a management entity that provides services to SRLC), ARUK Finance (which was formed to fund SRLC's operations, including initially to finance the acquisition of HSBC's UK pensions business and fund required capital) and ALHM (which operates within the Dutch market and specialises in the selective underwriting and management of life and accident & health (re)insurance risks, in particular risks associated with death and disability). See "*Introductory Note.*"

Related Party Transactions

We will record various related party transactions in our financial statements in respect of transactions with other members of the Swiss Re Group outside the Issuer Group. These include:

- insurance activities, for which we assume and cede certain insurance and reinsurance contracts to and from others;
- investment activities, which include loans, funding agreements and derivative transactions;
- financing activities, pursuant to which we borrow funds; and
- operating transactions in respect of services provided by others.

Transfer of longevity risks

ReAssure is party to three longevity swaps with third parties (which transfer the risk that members of pension schemes will live longer than expected) for which it earns fees for administration. ReAssure retrocedes approximately 90% of the risk under such swaps to subsidiaries of the Swiss Re Group outside the Issuer Group. The combined effect of these intra-group retrocessions is to reduce the longevity risk within ReAssure by approximately 50%. As of 31 December 2015, total liabilities (being the difference between future claims to be paid under the deal, less the premium received by the pension scheme for the mortality cover) covered by these three transactions amounted to £88.1 million on a gross basis (i.e., prior to reinsurance).

In addition, ReAssure is party to a mortality swap intra-group reinsurance arrangement with Swiss Reinsurance Company Ltd, to retrocede a substantial part of the longevity risk arising under a block of annuities.

Transfer of mortality and morbidity risks

There are several intra-group retrocession arrangements in place between Guardian Assurance and subsidiaries of the Swiss Re Group outside the Issuer Group that transfer mortality and morbidity risk out of Guardian Assurance. As of 31 December 2015, £2 million of mortality cover and £12 million of morbidity cover was retroceded, with a reduction of £14 million in gross liabilities resulting from these arrangements.

Ark Life has in place various reinsurance arrangements with Swiss Re Europe Holdings S.A. that transfer a portion of Ark Life's mortality and morbidity, and disability, risks to Swiss Re Europe Holdings S.A.. As of 31 December 2015, €8.9 billion of mortality cover and €1.4 billion of morbidity cover (including accelerated morbidity cover) was retroceded, with a reduction of €18 million in gross liabilities resulting from these arrangements.

Service agreements

We have entered into service agreements with members of the Swiss Re Group, under which they provides us with a range of asset management services, corporate services (including general management services, human resources, logistics, IT support, finance, treasury and accounting services, auditing services, risk management oversight and legal and compliance) and technical services (including actuarial services support and underwriting services support).

We obtain these services either at cost or at a markup on cost. The service agreements may be terminated by either party upon 365 days' written notice, upon the occurrence of certain bankruptcy-related events or if the other party ceases to be part of the Swiss Re Group.

The service agreements are complemented by a "service charter" between key entities in the Issuer Group, on the one hand, and the Swiss Re Group Corporate Functions and the Swiss Re Group Enabling Units, on the other hand.

Loan note

In connection with the novation of the Revolving Credit Facility and the Bilateral Credit Facility to the Issuer by SRLC, following a series of assignments of intra-group loan receivables, the Issuer holds a loan note in an aggregate principal amount of £387.9 million issued by SRLC. The loan note matures in five years and bears a fixed interest rate of 3.5% per annum. The loan note ranks senior in right of payment to any existing and future subordinated obligations of SRLC. As part of the novation, the Issuer also incurred intra-group debt due from SRAR Midco of £466.1 million, in addition to existing outstanding debt due from SRAR Midco of £243.9 million.

REGULATION

General

The business of insurance is regulated in most countries, although the degree and type of regulation varies significantly in different jurisdictions. The principal elements of direct supervision are licensing requirements, adequacy of technical provisions, available and required solvency capital and governance rules. In almost all jurisdictions, insurance supervisory authorities evaluate the creditworthiness of reinsurance recoverables (indirect reinsurance supervision). Today, there is increased direct supervision of our insurance operations. Direct supervision enables supervisory authorities to intervene in the affairs of an insurer at an early stage should its financial position deteriorate or its risk governance proves to be insufficient. Given the global nature of insurance businesses, mutual recognition of supervisory systems is of increasing importance. Furthermore, the financial crisis has resulted in additional regulatory reforms. Government intervention in the insurance market, worldwide, continues to evolve.

In addition, our operations are subject to extensive government regulation including, for example, in relation to the processing of personal data.

Our foreign subsidiaries and branches must comply with the respective regulations of their home and host countries. ARUK reports to the PRA under Solvency II and all of ARUK's subsidiaries are required to maintain capital resources consistent with regulatory requirements and adopted risk appetites. As our principal operating subsidiary, ReAssure is authorised by the PRA as a life assurer, we are subject to considerable regulation in the United Kingdom. The Guardian Group's principal operating subsidiaries include Guardian Assurance, which is authorised by the PRA as a life assurer, and Ark Life, which is authorised and regulated by the CBI as a life assurer and is subject to regulation in Ireland. Neither the Issuer nor SRAR Midco is authorised or regulated by the PRA or the FCA.

The Issuer is not subject to Swiss insurance regulations and is not authorised or regulated by FINMA, in each case, on a standalone basis but, as a subsidiary of SRL, the Issuer is subject to insurance group supervision (*Gruppenaufsicht*) in the context of FINMA's oversight of the Swiss Re Group. Such group supervision involves the supervision of insurance groups as a whole, including with respect to certain aspects of corporate governance, as well as solvency, risk management systems and risk concentration, and prescribes the calculation of risk-based solvency margins on a group-wide basis under the SST (which corresponds to Pillar I and Pillar II under the former Solvency I UK regulatory regime). In addition, all major intra-group transactions must be reported to FINMA.

Set forth below is a summary of material insurance regulations applicable or that may become applicable to our operations, and is not intended to be a comprehensive description of such regulations. We believe that all of the companies in the Issuer Group are in compliance with the applicable laws and regulations pertaining to their business and operations.

United Kingdom

UK Prudential and Conduct Regulation

We are subject to the dual supervision of the PRA for prudential issues and the FCA for conduct issues. We are subject to Solvency II requirements effective 1 January 2016. ARUK reports to the PRA under Solvency II and all of ARUK's subsidiaries are required to maintain capital resources consistent with regulatory requirements and adopted risk appetites. ReAssure and Guardian Assurance are authorized by the PRA and regulated by the PRA and the FCA as life assurers and are subject to regulatory solvency capital and compliance and conduct risk requirements relating to life assurance companies. ARUKSL, which provides policy administration for ReAssure and third parties, is regulated by the FCA. ReAssure and Guardian Assurance operate long-term insurance business and are required under the Solvency II regime and PRA regulations to maintain sufficient capital at the entity level and in respect of certain ring-fenced funds, including, but not limited to, their with-profit funds. The Issuer itself and SRAR Midco are not authorised or regulated by the PRA or the FCA.

UK authorised assurers are subject to dual regulation by the PRA and FCA under FSMA and must comply with their rules and guidance made under FSMA and those set out in the FCA Handbook, PRA Handbook and additional PRA rulebooks (in particular provisions contained in the General Prudential sourcebook, which are of general applicability, and provisions applicable only to insurers which are found in the Prudential sourcebook for Insurers), the PRA Rulebook, and the FCA Handbook of Rules and Guidance, (together, the "**FS Handbook**"). Key parts of the FS Handbook include:

- "Threshold Conditions" which are minimum conditions necessary for a firm to be authorised and are prescribed under FSMA and issued by both the PRA and the FCA;

- "Fundamental Rules" made by the PRA and "Principles for Businesses" made by the FCA, which are high level principles for conducting financial services business in the United Kingdom, including requirements to maintain adequate financial resources, TCF in line with Principle 6 of the Principles for Businesses, and communicate with customers in a manner that is clear, fair and not misleading;

- Detailed rules relating to insurers' capital resources, including a requirement that an insurer must (on a solo basis and, where applicable, at group level) maintain at all times capital resources equal to or in excess of a capital resources requirement calculated in accordance with the FS Handbook, and rules concerning the types of capital that are eligible to meet that requirement;

- Conduct of business rules regulating the day-to-day conduct of business standards to be observed by firms in carrying on regulated activities; and

- Rules relating to the systems and controls an insurer must have and the standard of conduct required to be observed by individuals occupying certain key functions within insurers.

All UK authorised assurers are assigned one of four conduct classifications (C1-C4), and where the FCA is a company's sole regulator or the group is also regulated by the PRA with subsidiaries that are prudentially regulated by the FCA, such assurer will also be assigned one of four prudential classifications (P1-P4). Both classifications are based on the regulatory view of the potential impact that the firm/group on the respective regulators objectives. In practical terms the entities within the group are regulated according to the highest rating within the group (a C2 conduct classification and a P3 prudential classification). For C2 firms, proactive supervision is on a two year cycle. P3 firms are considered to be prudentially non-significant and their failure, even if disorderly, is considered unlikely to have a significant impact. As such, the FCA relies more on such firms' own assessment of their financial resource requirements and focus on monitoring alerts that arise form inconsistencies and/or prudential failings. P3 firms may be subject from time to time, to prudential assessment by the FCA as part of a peer group exercise, i.e., a cross-firm review of capital and liquidity standards. In addition, ReAssure and Guardian Assurance are each involved in periodic summary meetings with the PRA, pursuant to which the PRA reviews its risk profile and challenges and validates the supervisory strategy and work plan of the supervisory team.

We are required to maintain a minimum level of assets (referred to as regulatory capital) in excess of our liabilities. Up until 31 December 2015, the UK regulatory regime for insurance and assurance companies required companies to maintain capital levels upon the higher of two assessment techniques – Pillar I, which was a UK specific legacy assessment technique, and Pillar II, which overlaid fundamental risk assessment methodology upon a realistic assessment of a company's specific liabilities. Each UK-domiciled assurance company in the Issuer Group, currently ReAssure and Guardian Assurance, maintained sufficient capital as mandated by the PRA. This was then aggregated for IGD purposes, as implemented by the PRA, to set regulatory capital adequacy at the ARUK group level. The IGD capital surplus represented aggregated surplus capital (on a PRA-consistent basis) of the Issuer Group's regulated entities, less the borrowings of such entities.

For insurance companies covered by Solvency II (comprising the Solvency II Directive, delegated acts, binding technical standards and guidance), the former prudential rules were effectively replaced by Solvency II rules. Solvency II sets out the new solvency regime that, with effect from 1 January 2016, replaced the former EU regulatory framework for the prudential supervision of insurers and reinsurers (as set out in the EU Insurance Directives, and implemented in the United Kingdom under FSMA and the FS Handbook). Solvency II adopts a three-pillar approach to prudential regulation:

- Pillar I, which relates to quantitative requirements, covering technical provisions, capital requirements and the rules on valuation;
- Pillar II, which covers risk management, governance requirements, the "own risk and solvency assessment" and supervisory review; and
- Pillar III, which covers public and supervisory reporting and disclosure.

Although the Solvency II Directive has some similarities to the former UK regime set out in the FS Handbook, the implementation of the Solvency II regime has resulted in important changes to the regulation of insurers in the EU, including the introduction of the SCR, which can be calculated using a prescribed methodology known as the "Standard Formula" (which represents the default methodology for calculating capital requirements), an approved Internal Model (which companies can apply to use, to calculate the whole of or part of the capital requirement, if they believe that the Standard Formula is not appropriate for part or all of their business (or the underlying risks), subject to approval from the PRA) or a combination of the two. Solvency II provides less flexibility for our regulators to exercise discretion with respect to supervisory decisions and, under Solvency II, EIOPA has an increased role and will be able to exercise certain powers potentially affecting UK insurers, such as powers to resolve disagreements between national supervisors and to act as a coordinator in "emergency situations." EIOPA may also issue binding technical standards and monitor compliance by Member States.

Under Solvency II, both ReAssure and Guardian Assurance's target level of capital buffer is 20% of the SCR. This is set with a reference to a one-in-ten year stress and remains subject to discretion of the boards of ReAssure and Guardian Assurance and on the interaction of the buffer with any specific capital margins required by either a court order or the PRA.

Actions of our regulators could have the effect of increasing capital requirements to which we are subject. We are in contact with the PRA in terms of capital requirements for purposes of Solvency II reporting. Our ultimate aim is to have an Internal Model approved by the PRA for ARUK, ReAssure's residual fund, Guardian Assurance's residual fund, ARUKSL and the Admin Re® Staff Pension Scheme. Preparation of an application for such approval remains a key priority for us in 2016 and 2017. Key changes in the scope of our Internal Model from our previous application will be the inclusion of the Guardian Business (although any future application will be based on the post-Part VII Transfer position) and a proposed move to a partial Internal Model with the Standard Formula approach used for with-profit funds (including the Windsor Life With-Profit Fund, the National Mutual With-Profit Fund and the Guardian With-Profit Fund). Until our Internal Model is approved, we are using the Standard Formula approach for Solvency II reporting, which is expected to be more onerous than the Internal Model. While the PRA can require add-ons to the Standard Formula, the PRA has communicated that zero capital add-on is suitable for ReAssure and Guardian Assurance. On a Standard Formula basis, the solvency ratios under the Solvency II regime are similar to the solvency ratios under the Solvency I regime. See "*Our Business—Capital Requirements and Reserves.*"

The PRA has granted approval, effective 1 January 2016, for (i) a Matching Adjustment to the risk-free interest rate term structure; (ii) a Volatility Adjustment to the relevant risk-free interest rate term structure; and (iii) transitional deduction to Solvency II technical provisions, in each case, for ReAssure and Guardian Assurance. The Matching Adjustment forms a key component of the discount rate for business with long-term guarantees and is assumed to be a constant addition to the risk-free curve designed to reflect the stable characteristics of certain liabilities, which permits insurers to be long-term investors, and reduce exposure to short-term spread movements. The Matching Adjustment applies to annuities in payment, reducing the value of these liabilities and also reducing the associated capital requirement. The Volatility Adjustment (an add-on to the discount rate, therefore reducing liabilities) can be applied to any business where the Matching Adjustment is not applied and is also applicable to the with-profit business. The transitional deduction can be applied to business that is also subject to the Matching Adjustment (though a reduced deduction must be calculated). The transitional deduction reduces linearly over the course of 16 years. ReAssure and Guardian Assurance intend to submit new Matching Adjustment applications, that will be aligned to one another, in advance of the proposed Part VII Transfer.

Solvency II reports are required by the PRA for ARUK, Guardian Assurance and ReAssure for the year ended 31 December 2015. We are currently progressing towards meeting these requirements.

Following the completion of the Part VII Transfer of Guardian Assurance's policies into ReAssure, ReAssure will need to reflect the change in risk profile of the combined portfolio of policies and confirm reporting requirements with the PRA.

Supervision and enforcement under FSMA

The statutory objectives of the FCA are to protect the consumers, to enhance the integrity of the UK financial system and to help maintain competitive markets and promote effective competition in the interests of consumers. The statutory objectives of the PRA with respect to insurers are to promote the safety and soundness of insurance firms and to contribute to the securing of an appropriate degree of protection for those who are or may become policyholders. The PRA is required to advance these general objectives by seeking to ensure that the business of PRA-authorized firms is carried on in a way that avoids any adverse effect on the stability of the U.K. financial system and by seeking to minimize the adverse effect that the failure of a PRA-authorized firm could be expected to have on the stability of the U.K. financial system. With respect to policyholder protection, the PRA's role is to ensure that there is a reasonably high probability that an insurer is able to meet claims from, and material obligations to, policy holders as they fall due, and to make sure that where an insurer is unable to meet such claims and obligations, the adverse consequences for policyholders are minimized by ensuring that the insurer fails in an orderly manner. The PRA and the FCA have a statutory duty to coordinate with each other in the exercise of their functions.

The PRA's approach to supervising reinsurers is based on the same principles as its supervision of primary insurers. However, the PRA has stated that reinsurance may give rise to a greater degree of connectivity with other parts of the financial system than is usually seen with primary insurance business and that undertaking an appropriate degree of supervision of the reinsurance business transacted in the United Kingdom will therefore be an important element in meeting the PRA's objectives.

Subject to the exemptions prescribed under FSMA, no person may carry out regulated activities in the United Kingdom without authorization by the FCA and/or the PRA. Regulated activities include effecting and carrying out contracts of insurance. The activities a company is permitted to undertake are normally specified in a permission ("**Permission**") that is granted if certain threshold conditions in the FCA Authorization Manual and the PRA Authorization Manual (which are minimum conditions necessary for a firm to be authorized) are satisfied. (Permissions previously granted by the FSA have been transferred to the PRA and/or the FCA, as applicable.) The grant of the Permission delivers authorization. Our active U.K. subsidiaries hold Permissions for life insurance and for investment business (including the management of collective investment schemes, the provision of discretionary asset management services, the provision of advisory and/or dealing services and the safeguarding and administration of assets). These subsidiaries must also comply with conduct of business rules, rules relating to systems and controls and the applicable rules regarding adequacy of financial resources.

These Permissions are specified by company in the Financial Services Register maintained by the FCA. Our reinsurance and wholesale non-life insurance business is now carried on by U.K. branches of our Luxembourg-regulated carriers, which we discuss further below. These U.K. branches are subject to supervision and fees from the FCA as the EU passport principles extend to conduct supervision and consumer protection at present. This is a significant additional regulatory cost of the new U.K. system.

Under the FSMA and the Solvency II regime, the directors and senior management of, and those performing a key function for, an authorized insurance company, are required to satisfy ongoing "fit and proper" tests, and to set up and operate appropriate systems and controls. They are also otherwise subject to over-arching standards and codes of conduct applicable to the company and to designated Approved Persons (those who are individually and personally responsible for defined areas of functional accountability ("**Approved Persons**")) (the "**Approved Persons regime**"). The codes and standards include integrity; skill, care and diligence; the need to ensure adequate capital resources and an effective risk management system. The Approved Persons regime has been amended and supplemented by the PRA's new senior insurance manager regime ("**SIMR**"). SIMR identifies certain functions as senior insurance manager functions ("**SIMFs**"). SIMR extends a similar, though not quite as extensive, regime to authorised insurers that the PRA is applying to banks and certain other authorized financial services firms under its "senior managers" regime. The holders of SIMF positions are subject to an enhanced Approved Persons regime which seeks to allocate and document the individual accountabilities of an insurer's senior management. SIMR also imposes requirements on authorized firms to maintain appropriate statements of responsibility for each key function holder and each SIMF. In the future, it is expected that the PRA will further supplement SIMR with a certification regime and a requirement on authorized firms to provide regulatory references to a new employer where an employee or ex-employee is to take up a new position as a SIMF, Approved Person or key function holder at another firm that is authorized or regulated by the PRA Both the FCA and the PRA must consent to appointments of Approved Persons (including SIMFs) for dual-regulated firms and can levy fines and sanctions against Approved Persons, SIMFs and other regulated persons for non-compliance with regulatory conduct rules and standards.

Regulated companies are further subject to the rules and guidance set out in a series of Prudential Sourcebooks issued by the FCA and the PRA. The Prudential Sourcebooks set out a framework for the calculation of adequacy of financial resources and the proper management of categories of risk including credit, market, liquidity, operational, insurance and group risk.

Regulated companies are supervised under a regular and exception reporting framework (in accordance with Solvency II requirements) as well as by periodic visits. The FCA and PRA have substantial powers of enforcement against firms and individuals concerning both prudential and conduct of business rules breaches.

In the aftermath of the financial crisis, consideration is being given to whether and how any changes in the regulatory approach to supervision of banks should apply to insurers. Some changes have already been evident with respect to insurers. The PRA's supervisory approach had become more intensive with greater challenge to management about the outcomes of management decisions, although there is recognition that insurers are not systemic in the same way that banks are. In addition, stress testing remains an important part of the supervisory framework. As noted above, there has also been a strengthening in the application of the Approved Persons regime, by the introduction of SIMR, the commencement of the key function holder aspects of the Solvency II regime and by extending the range of roles covered to ensure that those persons who are likely to exert a significant influence on a firm fall within the scope of the Approved Persons regime.

In particular:

- the scope and application of the controlled function and SIMF requirements have been extended to include those persons employed by an unregulated (non-EU and non-EEA) parent undertaking, holding company or other group entity, whose decisions or actions are regularly taken into account by the governing body of a regulated firm or who otherwise exert significant influence over the authorized firm or its governing body;

- the definition of the significant management controlled function (CF29) has been extended to include all proprietary traders who are not senior managers but who are likely to exert significant influence on a firm; and

- the application of the Approved Persons regime to U.K. branches of overseas firms based outside the EEA is being amended under SIMR.

Consumer complaints and compensation

We operate under the compulsory jurisdiction of the Financial Ombudsman Service ("**FOS**"), which has been set up under FSMA. The FOS operates independently of our UK regulators and addresses disputes for certain categories of complaints made by customers against UK authorised persons. The Financial Services Compensation Scheme ("**FSCS**"), which has been established under FSMA, provides compensation to certain categories of customers who suffer losses as a consequence of the inability of a UK regulated firm to meet its liabilities arising from claims made in connection with regulated activities. The handling of consumer complaints is also subject to the FCA's rules and principles-based requirements, including in respect of TCF.

Conduct Risk

The concept of conduct risk has been introduced by the FCA, which is the risk of financial and/or reputational detriment that adversely affects the customer due to failings of the firm at any stage in the customer lifecycle. This approach builds on the TCF concept and is a more proactive approach whereby customer impact and potential for detriment should be considered as an integral part of a firm's initiatives. ReAssure's conduct strategy has been approved by its board of directors. All entities in the Issuer Group apply ReAssure's approach and, Guardian Assurance's board of directors have agreed to follow such approach. The conduct strategy is based on several foundations and various activities to embed the strategy (particularly to address staff awareness, behaviours and culture) continue to be implemented, to ensure that customers' interests are at the heart of how the business is run and to enforce strong conduct outcomes. The foundations for the conduct strategy include a TCF statement (which addresses the firm's processes designed to deliver fair outcomes such as culture, product design, performance and service delivery), internal behaviours (focused on staff performance), external behaviours (focused on ensuring customers are acting in a manner consistent with our expectations in light of our approach to TCF, and refining our approach if they do not); and compliance and risk oversight (covering governance committees, self-assessment, assurance and capital assessment). Customer outcomes are proactively assessed and proactive actions are taken where outcomes are not as expected.

TCF is one of the fundamental principles underlying the FCA's regulatory regime to address conduct risks and pervades its supervisory approach to all financial firms. The FCA reiterated its commitment to this principle in its 2015-2016 business plan that was published in March 2014. Under the terms of FSMA, the FCA has a strategic objective of ensuring that relevant markets function well and, in response to high-profile regulatory failures and a perceived divergence between the sophistication of financial products and the financial literacy of consumers, the FCA has increased its emphasis on addressing the root causes of conduct risk (defined as the risk that firm behaviour will result in poor outcomes for customers) across financial markets, which includes the need for consumer protection. In particular, the FCA stated in its July 2013 paper "*Approach to advancing its objectives*" that the six retail outcomes set out during the Financial Services Authority's (the predecessor to the FCA) TCF initiative remains central to its consumer protection objective, and has become a central part of the interaction with the firms regulated by the FCA.

The FCA has avoided defining TCF. Given the wide range of activities and business models of regulated firms, the FCA has instead identified six consumer outcomes that explain what it would like TCF to achieve for consumers rather than articulate what TCF means for each type of firm, including that consumers can be confident they are dealing with firms where TCF is central to the firm's corporate culture, and that products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly. TCF should work at all levels of a firm – both on an individual product level as well as across the business operations of the firm. The FCA has indicated that conduct risk should be at the forefront of how firms deal with customers and has made it clear that it will continue to challenge firms rigorously where there are issues and take decisive action where necessary.

TCF has always been our key objective, and is central to our business model and culture. We have undertaken initiatives to demonstrate our commitment to delivering this throughout our operations and processes. Decisions take account of the risks and impact on our customers, and focus on delivering consistently good customer service and products that meet customers' needs, helping customers receive outcomes consistent with the six guiding regulatory principles.

Our focus on taking on conduct responsibilities remains a key priority for 2016 and beyond through both business-as-usual activities and projects demonstrating our strong commitment to delivering fair customer outcomes.

Change of control

In the United Kingdom, the approval of the PRA or the FCA is required under FSMA of any person proposing to acquire or increase "control" over a UK regulated firm. Supervisory approval is also required where a person who is already a controller of a UK regulated firm, proposes to increase its control in excess of certain thresholds set out in FSAM. Approval of the PRA was obtained prior to completion of the Guardian Group Acquisition. "Control" over a UK regulated firm is acquired if the acquirer:

- holds 10% or more (20% or more if the UK regulated firm is an insurance intermediary) of the shares or voting power in that UK regulated firm or in its parent undertaking; or
- is able to exercise significant influence over the management of the firm by virtue of the acquirer's shares or voting power in the UK regulated firm or its parent undertaking.

Where a UK regulated firm is dual regulated, the PRA will process the change of control application, although the FCA may make representations to the PRA and/or may require the PRA to object to, or impose conditions on, the approval in certain circumstances. Where the UK regulated firm is solely regulated by the FCA (such as an insurance intermediary), the FCA will process the change of control application and the PRA will have a similar role in this process to that described above. However, if the FCA regulated firm is part of a group which contains a PRA regulated firm, the PRA must be consulted when processing the change of control application.

European Union

The regulatory framework within the United Kingdom is shaped to a certain degree by directives emanating from the EU. These directives are implemented into national legislation within each Member State. The directives are written at a high level and set minimum standards for national legislatures to adopt. National governments in Member States may not pass laws that fail to meet the minimum standards, but may (unless the directive is a "maximum harmonisation" directive) impose legal requirements that go beyond those required. The following EU regulations have particular relevance for our business.

Data Protection

We obtain, use and process personal data relating to living individuals to enable us to administer our clients' policies, provide services to our customers, maintain our own accounts and records and support and manage our staff. Such details include personal details, family details, lifestyle and social circumstances, financial details, employment and education details, details relating to goods or services provided and we process sensitive classes of information, which may include physical or mental health details, among other things. We must therefore comply with the requirements established by the Data Protection Act 1998 (the "**DPA**"), which came into force in March 2000 and gives effect to an EU Directive, regulating the obtaining, use and processing of personal data relating to living individuals. Personal data includes any data about an individual (known as a "**data subject**") by which he or she can be identified (including, for example, a name, address, age, bank or credit card details). The data do not in any sense need to be private. The DPA applies to both computerised data and to certain sets of manual data such as address books and filing systems. It lays down certain principles which, in general, must be followed by those who hold personal data. Breach of the DPA may give rise to criminal or civil liability and other enforcement action can be taken, including the revocation of licenses and issuance of enforcement notices.

On 25 January 2012, the European Commission published its draft EU Data Protection Regulation (2012/011 CD). The current form of the draft regulation proposes substantial changes to the EU data protection regime, involving the replacement of the current UK data protection laws by a directly effective EU regulation. This proposed EU regulation would impose a substantially higher compliance burden on us, including expanding the requirement for informed opt-in consent by customers to processing of personal data and granting customers a "right to be forgotten," restrictions on the use of personal data for profiling purposes, disclosure requirements of data sources to customers and increasing the maximum level of fine for compliance failures from its current level in the United Kingdom of £500,000 to 2% of global turnover, among other requirements. The final rules on the EU Data Protection Regulation are expected in the summer of 2016, with a two-year implementation period.

The UK Information Commissioner's Office (the "**ICO**") is an independent governmental authority responsible for maintaining, upholding and promoting the best business practices and legislative requirements for processing personal data and safeguarding the information rights of individuals and their rights to access their personal data. ARUK, ARUKSL, ReAssure and Guardian Assurance are each registered with the ICO as a data controller.

We are committed to maintaining high standards of data protection, client information and information security and aim to ensure that the latest security software and technologies are employed in conjunction with our security and compliance expertise. We have obtained the licenses we require to operate our business.

Markets in Financial Instruments Directive II

The Markets in Financial Instruments Directive II ("**MiFID II**") and the Markets in Financial Instruments Regulation ("**MiFIR**") introduce changes which are intended to make financial markets more efficient and resilient, increase transparency of both equity and non-equity markets, reinforce supervisory powers, and strengthen investor protection. Member States are required to adopt measures to transpose and/or implement MiFID II by 3 January 2018. MiFIR is scheduled to apply from 3 January 2018. A number of elements of MiFID II and MiFIR need to be further specified in delegated acts to be adopted by the Commission (the "**Level 2 measures**"). The European Securities and Markets Authority ("**ESMA**") published a consultation and discussion paper on the Level 2 measures in May 2014. On 19 December 2014, ESMA published a final report containing its technical advice to the Commission, as well as a consultation paper with draft technical standards. ESMA submitted final binding technical standards to the European Commission in June, September and January 2015 respectively.

Ireland

Currently, we operate business in Ireland through Ark Life.

The Irish legal framework governing insurance business is set out in pre-existing domestic legislation, as amended and supplemented by national laws which implement EU legislative provisions. The framework is further supported by guidance notes and policy papers issued by the CBI.

A life assurance company operating in Ireland must hold an authorisation (which is subject to a number of conditions, including a minimum guarantee fund) granted either by the CBI, which is the competent authority responsible for the regulation and supervision of life assurance undertakings in Ireland, or by the competent insurance authority in its home Member State. Ark Life currently holds an authorisation granted by the CBI.

Life assurers in Ireland are also required to have a board of directors whose members have individually met the CBI's fitness and probity tests, with a majority of independent non-executive members, committees governing audit, risk, compliance and investment (each with set terms of reference), a managing director/general manager dedicated on a full time basis with clear delegated powers and reporting obligations, an appointed actuary, a compliance officer, an internal audit function, a financial control function and, to the extent required, an investment management function. All directors, senior executives and the compliance officer are subject to the fitness and CBI's probity regime and any appointments to the board, senior executive positions and compliance officer position require prior CBI approval.

Under the Insurance Act, 1989, the CBI has extensive powers to request a wide range of information from insurers, to carry out investigations of the business of an insurer and of connected persons, as well as powers of intervention where it considers an insurer is or may be unable to meet its liabilities or unable to provide the required solvency margin or where the insurer fails to comply with insurance legislation or has inadequate reinsurance arrangements. In such cases, it can direct the insurer to take such measures as it deems appropriate. The CBI can also revoke an authorisation where no business is being carried on for two consecutive years or suspend an authorisation where business has ceased temporarily. Further, the CBI has significant powers under the Insurance (No. 2) Act, 1983 to seek the appointment of an administrator to an insurer who can, upon court appointment, take over the management of the business of an insurer with a view to placing it on a sound commercial footing. In addition, the CBI may petition for the winding up of a life company on the grounds of it being unable to pay its debts under the Insurance Act, 1936.

The Central Bank and Financial Services Authority of Ireland Act, 2004 provides the CBI with powers to impose sanctions for prescribed contraventions of legislation or regulatory rules under its sanctions regime. If the CBI has reasonable cause to suspect that a regulated life assurance undertaking and/or person concerned in the management of such undertaking has committed or is committing a "prescribed contravention" it may commence an investigation or examination, potentially leading to an enquiry and sanctions being applied. At any time up to the conclusion of an inquiry, the CBI may enter into a binding settlement agreement with the undertaking and/or a person concerned in its management to resolve the matter.

An Irish head office life insurer is required to establish and maintain technical reserves and an adequate solvency margin and guarantee fund in respect of its entire business. Detailed rules regarding the calculation/determination of the solvency margin and guarantee fund are set out in an annex to the 1994 Regulations. The annual accounts of the Irish insurance company must be forwarded to the CBI annually together with a set of completed regulatory returns and compliance certificates. In addition, the appointed actuary must carry out an investigation into the financial condition of the insurance company's business on an annual basis which must be submitted to the CBI.

Solvency II places additional reporting obligations on insurance undertaking in Ireland, including requiring them to submit their written policies and procedures for risk management, internal control and (where relevant) outsourcing, to the CBI for prior approval, requiring them to submit their ORSA and solvency capital requirement assessments to the CBI and requiring them to report internal audit findings to the CBI, who determines what actions are to be taken and ensure those actions are carried out.

Prior CBI approval is required for certain acquisitions and disposals, both direct and indirect, in the ownership/voting rights of Irish life companies.

The Irish Consumer Protection Code incorporates both a rigorous set of common rules applicable to most entities regulated by the CBI and other sector specific rules relevant to firms offering certain products and services. All regulated life assurance companies within the scope of the Consumer Protection Code are required to draw up a terms of business outlining the basis on which services are to be provided and which must be given to consumers prior to commencement of services.

Key Regulatory Developments

As is the case across many financial services industries, the industry in which we operate is undergoing, and can be expected to continue to undergo, significant regulatory change. In particular, the UK life insurance sector underwent significant regulatory change in 2014 and 2015, including as a result of the UK Pensions Reform, tax reforms on pension savings, publication in March 2015 of the FCA's final report on its retirement income market study (which reinforced the importance of consumer choice), the implementation of the Solvency II regulatory regime effective 1 January 2016 and the new SIMR.

In addition, the FCA's thematic reviews (including on retirement income, sales practices for annuities and the fair treatment of long-standing customers in life insurance) have been carried over from its 2014-2015 business plan and are expected to affect the UK life industry going forward. In its 2015-2016 business plan, the FCA reaffirmed its focus on the pensions landscape (in respect of policy, supervision, market studies and thematic work), with the intent of ensuring that firms have improved their practices since the publication of the FCA's thematic report on annuities in December 2014. In this thematic report, the FCA expressed concerns relating to the existing UK annuity market warning that firms with large back books could be taking advantage of consumer inertia and using the 'value' that they gain from existing customers to support low rates and introductory offers for new customers while long-term customers holding legacy products that have since been closed to new members could be potentially paying more due to their inability to switch to less costly products. It concluded that the existing annuity market was not working well for many consumers and that the increasing proportion and number of people with defined contribution schemes (due in part to the withdrawal of defined benefit schemes and the roll-out of auto enrolment) is increasing risks in this area as more people rely on the income annuities or other fixed income products provide for their retirement. The FCA has already proposed various remedies designed to support consumer choice in the annuities market and is in the process of completing the next phase of its work on annuity comparisons as part of its wider review of its rules in the pensions and retirement area. Additionally, the FCA announced, in its 2015-2016 business plan, its intent to conduct market studies and thematic work in respect of retirement sales practices of pension providers and the outcomes consumers receive from the products and services they buy at retirement.

Further, the UK Government has indicated that it intends to change the tax rules to allow people already in receipt of an annuity to sell that income to a third party, subject to agreement from their annuity provider; the proceeds of the sale could then be taken directly or drawn down over a number of years and would be taxed at their marginal rate, in the same way as those taking their pension after April 2015. The UK Government sought views on its proposal to remove the barriers that currently deter annuity holders from accessing the value of their annuity in a consultation that closed on 18 June 2015 but has since delayed launch of a secondary annuity market until April 2017.

The Irish life insurance sector may become subject to significant regulatory change going forward. Following an Irish Government-commissioned Review of the Irish Pension System, which recommended the establishment of a universal defined-contribution pension model that would eventually cover almost all Irish workers in the public and private sectors, the Irish Government announced earlier this year that it was planning for the introduction of universal pension coverage in Ireland. The Irish Government has appointed an expert group to assess the implementation of a mandatory occupational pensions system. While it remains to be seen what measures will be introduced in Ireland as part of pension reform, it is possible that the Irish Government may implement similar or more extensive reforms than those implemented in the United Kingdom, which will impact future persistency and strategic risk, as we address the implications on product strategy and increased frequency of customer transactions in our business.

More generally, we are seeing increasing regulatory and political pressure to ensure pension schemes provide value for money. Specifically, there are concerns about the scale of policy administration charges and the impact these have on retirement income in an era of low investment returns. Key developments in this area include the introduction of a voluntary initiative by the ABI to make pensions charges and costs clearer, a reduction in charges by providers and the review into the UK defined contributions workplace pensions market in 2013 by the Office for Fair Trading, with pensions providers required to carry out a review of their back book pension charges and implement Independent Governance Committees to oversee ongoing value for money of these schemes. Whilst the current focus of regulation is biased towards workplace pensions, this is likely to extend to individual pensions in the medium term.

IT resilience is also a key focus area for the FCA and the PRA. They are increasingly viewing cyber risk as a primary threat to solvency because of the significant, rapid and unexpected impact of security incidents affecting healthcare insurers in the UK and the inability of such insurers to effectively respond to the events in question.

These regulatory developments have placed, and will continue to place, pressure on our resources, as we respond to regulatory and policy changes and adapt to the changing environment. There are also potential reputational and conduct implications to consider, and our dividend paying capacity may be constrained. In particular, the FCA's thematic review of legacy charges and the end of compulsory annuitisation are the two key developments that may drive direct losses as opposed to mere adverse persistency experience. ReAssure's exposure to the risk of lower annuity sales is limited by the fact that it no longer generates significant volumes of annuities and instead supports customers who wish to purchase an annuity to access the At Retirement panel-based solution supported by LV=, a provider of, among other things, guaranteed income options (which provides customers with a tool to shop around), and this service is being extended to Guardian Assurance.

Management have already been developing strategic and operational responses to regulatory developments and, we anticipate that transaction opportunities are likely to increase as companies who are unable to provide a viable response to changes decide to exit the market.

UK Pensions Reform

In an unexpected move, the UK government announced in March 2014 significant changes to the annuity market with far reaching implications for life insurers serving the UK market. Beginning April 2015, by reason of the UK Pensions Reform, effective compulsory annuitisation came to an end; individuals became entitled to flexibly withdraw funds (as a lump sum or otherwise) from their defined contribution pension schemes when they reach the minimum pensionable age (normally 55). Under the pre-April 2015 arrangements, most pensioners effectively were required to buy an annuity upon retirement. The market for annuities only generated around one-fifth of UK life insurance sales, but it represented around two-thirds of major UK insurers' new business profits. This change in law has prompted various responses: insurers have launched new products to capture and retain cash flows, others have shifted capital to other lines including bulk annuity business (where life companies assume pension liabilities from corporates along with the related assets.

The UK government has also introduced a requirement designed to ensure that any person retiring with assets in a defined contribution pension scheme has access to free and impartial guidance on alternatives for their retirement assets. Guidance is to be provided by independent parties, rather than the pension schemes or providers. New FCA rules also impose additional new requirements on pension providers to ensure customers understand their alternatives and the risks associated with the customer's choice of product.

In addition, as a result of tax reforms, the 55% tax rate on pension savings passed on in the event of death was abolished from April 2015, making annuities less attractive to retirees.

The full extent of the changes are expected to affect the industry going forward, and will impact future persistency and strategic risk as ReAssure, Guardian Assurance and ARUKSL deal with the implications on product strategy and increased volume of customer transactions. From a solvency perspective, no credit is taken for future vesting annuities (other than those with a guaranteed rate associated) and hence any reduction in vesting rates will not directly impact our solvency position. However, the changes are expected to increase the attrition rate of 'mid-sized' unit-linked pension savings funds, where the fund is currently too large to take as a triviality payment, but too small to deliver an annuity of any value. On the other hand, some policyholders in the accumulation phase may be minded to increase premiums. Our future persistency best estimates and risk assumptions are being reviewed in light of this.

Moreover, the laws on workplace pensions have changed in recent years to introduce the requirement for every employer in the UK to automatically enrol their eligible employees into a workplace pension scheme (as opposed to having employees opt to join a workplace pension scheme) and, to implement a cap on the charges that companies can impose on auto enrolment workplace pension schemes (0.75% per year of funds under management from 6 April 2015), which is lower than what many companies currently charge. The introduction of auto enrolment commenced in July 2012 and is staged so that employers become subject to their new duties in order of their size. Implementation is scheduled to complete in 2018. However, individuals retain the responsibility for the decision about whether to save in a workplace pension, so those who consider that pension saving is not in their best interest have the right to opt out. In addition, in response to the UK Pension Commission's recommendation that the UK government should provide a default national private pension saving scheme, the government set up a scheme for employers to join called NEST, to meet the needs of workers with earnings around or below average, working in small and medium firms, to whom the financial services industry would not otherwise deliver appropriate pension provision. NEST imposes an annual management charge of 0.3% on the total value of a member's fund each year, and a contribution charge of 1.8% points on each new payment into a member's retirement pot. These regulatory changes alter the landscape for pension providers in the UK and may have an adverse impact on customer behaviour; as more people move into auto-enrolment compliant schemes, there is an increased risk of higher lapse rates in respect of existing policies. See "*Risk Factors—We operate in an industry that has recently been the subject of significant regulatory change. Changes in governmental policy and regulation may have an adverse impact on the industry in general and on our business, financial and condition and results of operations.*"

FCA thematic reviews

In March 2014, the FCA published a consultation paper relating to good practice for unit-linked funds, based on key findings from its thematic review into unit-linked governance in 2013, before publishing the final guidelines. Oversight of third parties is a key focus of the final guidelines, including over outsource partners and service providers. We participated in the thematic review and received feedback from the FCA. We performed a gap analysis against the final guidelines and no significant gaps were identified.

In 2014, as part of its 2014-2015 business plan, the FCA announced a thematic review of a representative sample of historical life insurance, pension and endowment policies in order to assess and monitor the fair treatment of long-standing customers in life insurance. The scope of the FCA's review includes firms' strategies with regard to their legacy product portfolios, the performance of legacy products, customer treatment and communication and the level of exit charges. We were not asked to participate in this thematic review. The outcome of the FCA's review was published in March 2016 and we are in the process of conducting a gap analysis to determine any actions that are required to be taken. The FCA had indicated that it will be consulting on guidance to provide industry participants with additional detail on actions they should be taking to treat closed book customers fairly and will be seeking voluntary industry solutions to capping or removing exit and/or paid-up charges on investments that were the subject of the thematic review. This will be in addition to the new mandated rulemaking to cap exit charges for customers cashing in on, and taking certain other action relating to, pension savings from age 55. Six of the eleven firms subject to the review have been referred to the FCA enforcement division for investigation in respect of communications around exit and paid-up charges.

In addition, the FCA has launched thematic reviews on annuities and complaints and increased scrutiny of conduct risk management information and accountability. In November 2014, the FCA concluded its thematic review of complaint handling and shared their full vision and findings for firms to review and improve on. The key focus of the FCA is on ensuring that the process of complaining is straightforward, transparent and fair to consumers, while allowing firms to handle complaints as efficiently as possible and for consumers to have effective access to the ombudsman service if they remain dissatisfied. ReAssure are in the process of implementing changes to complaint handling procedures to accommodate new rules on dispute resolution.

In December 2014, the FCA issued its thematic review paper on annuity sales practices which found evidence that some firms' sales practices were contributing to consumers not shopping around and switching products. At times, the paper concludes, consumers were purchasing the wrong type of annuity and therefore achieving adverse outcomes. We continue to perform a gap analysis against this paper in order to take the FCA's findings into account; however we anticipate that any changes we may be required to implement will be limited, as we have already developed a solution (the At Retirement panel-based solution) to facilitate customers' ability to shop around and made associated changes to the customer retirement journey and related customer communications. The FCA is expected to publish a paper on its annuities sales practices review in the fourth quarter of 2016. It is believed that the review will lead to practices to enhance transparency of in-house annuities and some form of review of historical practices dating back possibly to 2008, with potential liability for certain identified practices.

Independent Governance Committees

In line with FCA requirements, ReAssure has implemented an Independent Governance Committee ("**IGC**") to oversee the value for money of workplace pension arrangements. IGCs were required to have completed an analysis of the business during 2015 and agreed an action plan with firms. We have completed this analysis and agreed changes to our business propositions and processes, which make lower cost products available to customers and encourage them, where appropriate, to access such products. Initial implementation of agreed changes took place in April 2016 and customer actions will be monitored over the coming months to ensure that appropriate outcomes are being achieved.

FATCA and Common Reporting Standards

As part of the continued global pressure to address tax evasion and achieve global automatic exchange of information among participating jurisdictions, more than 40 jurisdictions, including the United Kingdom, have volunteered to be early adopters of the OECD-published Common Reporting Standards ("**CRS**"). Early adopting jurisdictions were required to be CRS-compliant by 1 January 2016.

Intergovernmental agreement between Jersey and the United Kingdom

On 22 October 2013, Jersey and the UK signed an intergovernmental agreement concerning the automatic exchange of tax information, which agreement was enacted into Jersey law as of 18 June 2014 by the Taxation (Implementation) (International Tax Compliance) (United Kingdom) (Jersey) Regulations 2014. The intergovernmental agreement is part of a package of measures intended to enhance existing arrangements in relation to the exchange of tax information in respect of UK residents, similar to the intergovernmental agreement that the government of Jersey has entered into with the US for the purposes of FATCA. Pursuant to the terms of the intergovernmental agreement, the Issuer will, on an annual basis, be required to provide certain information in relation to UK resident Noteholders and their holding of Notes to the relevant Jersey authority for onward transmission to H.M. Revenue & Customs ("**HMRC**") in the UK. This agreement ceases with effect from the 2015 reporting period and is replaced by reporting under the Common Reporting Standard.

Common Reporting Standard

The OECD has been actively engaged in working towards exchange of information on a global scale and has published a global Common Reporting Standard for multilateral exchange of information pursuant to which many governments have now signed multilateral agreements. A group of those governments, including Jersey, has committed to a common implementation timetable which will see the first exchange of information in 2017 in respect of accounts open at and from the end of 2015, with further countries committed to implement the new global standard by 2018. The Common Reporting Standard has been implemented in Jersey by the Taxation (Implementation) (International Tax Compliance) (Common Reporting Standard) (Jersey) Regulations which came into force on 1 January 2016. The Issuer may need to comply with the aforementioned exchange of information requirements as they progress and develop. Investors must satisfy any requests for information pursuant to such requirements.

Base Erosion and Profit Shifting

The law and any other rules or customary practice relating to tax, or its interpretation in relation to the Issuer, its assets and any investment of the Issuer may change during its life. In particular, both the level and basis of taxation may change. In particular, the OECD's on-going global BEPS project which intends to achieve a multinational framework on corporate taxation could substantially affect the tax treatment of the Issuer. Additionally, the interpretation and application of tax rules and customary practice to the Issuer, its assets and investors by any taxation authority or court may differ from that anticipated by the Issuer. Both could significantly affect returns to investors.

CERTAIN INFORMATION ABOUT THE ISSUER

Name, Incorporation, Registered Office, Duration, Purpose and Registration

Swiss Re Admin Re Limited (formerly known as Green Day Midco Limited and Guardian Midco Limited), was incorporated as a private company under the Jersey Companies Law on 22 July 2011. Although it is a private limited company the Issuer is subject to the Jersey Companies Law as though it were a public company and is required to have its accounts audited and filed. The Issuer changed its name, with effect from 1 April 2016, by special resolution passed on 30 March 2016. Its registered office and the principal executive offices are located at 22 Grenville Street. St. Helier, Jersey JE4 8PX. Its telephone number is +44 1534 676 000. The Issuer has no specified purpose or duration. As of the date of this Offering Memorandum, the Issuer's registration number is 108673. The Issuer's Articles of Association were last amended on 30 March 2016 (in order to account for the change in company name).

The Issuer is a holding company of the Issuer Group. The rights of shareholders of the Issuer are set forth in the Issuer's Articles of Association, and the Issuer is managed in accordance with its Articles of Association and Memorandum of Association.

Share Capital Structure

Authorised Share Capital. The authorised share capital of the Issuer is £3,562,899 divided into 3,562,899 shares, each with a par value of £1.00.

Issued Share Capital. The Issuer's issued share capital is £2,738,045 divided into 2,738,045 shares, each with a par value of £1.00 (the "**Issuer Shares**"). The Issuer Shares have the rights and are subject to the conditions contained in the Issuer's Articles of Association. There are no additional types of shares with a higher or limited voting power, privileged dividend entitlement or any other preferential rights, nor are there any other securities representing a part of the Issuer's share capital. Each share carries the right to one vote. All of the Issuer Shares are fully paid and validly created under Jersey law.

Any share in the Issuer (including any share created on an increase or other alteration of share capital) may be issued with such preferred, deferred or other special rights, or such restrictions, whether in regard to distributions, return of capital, bonus issues, voting or otherwise, as the Issuer may from time to time, by special resolution, determine. The Board of Directors may issue shares in the Issuer to any person and without any obligation to offer such shares to the existing shareholders (whether in proportion to the existing shares held by them or otherwise).

Alteration of Share Capital. Article 5 of the Issuer's Articles of Association provides that the Issuer may, by altering is Memorandum of Association by special resolution, alter its share capital in any manner permitted by the Jersey Companies Law. Subject to the provisions of the Jersey Companies Law, the Issuer may, by special resolution, reduce its share capital in any way.

Share Premium Account and Reserve Fund. There shall be transferred to a share premium account as required by the Jersey Companies Law, the amount or value of any premium paid up on shares issued by the Issuer. The Board of Directors may from time to time (i) transfer amounts to a share premium account from any other account of the Issuer other than its capital redemption reserve or nominal capital account; or (ii) set aside any part of the profits of the Issuer to create a reserve fund, and may apply the same either by employing it in the business of the Issuer or by investing it in such a manner as they think fit. Any reserve fund created pursuant to the aforementioned may be applied for the purpose of maintaining the property of the Issuer, replacing wasting assets, meeting contingencies, forming an insurance fund, or for any other purpose for which the profits of the Issuer may lawfully be used, and until the same shall be applied it shall remain as a reserve of profit.

Capitalisation. The Issuer may, upon the recommendation of its Board of Directors, resolve that it is desirable to capitalise any sum standing to the credit of its share premium account, capital redemption reserve, profit and loss account or other account or reserve of the Issuer and that the Board of Directors be authorized and directed to appropriate the amount resolved to be capitalised to the shareholders in the proportion in which such amount would have been divisible amongst them had the same been applicable and had been applied in making a distribution, and to distribute such amount on their behalf, either in or towards paying up the amounts, if any, for the time being unpaid on any shares held by such shareholders respectively, or in paying up in full either at par or at such premium as the said resolution may provide, any unissued shares or, subject to the Jersey Companies

Law, debentures of the Issuer, such shares or debentures to be allotted and distributed, credited as fully paid up, to and amongst such shareholders in the proportions aforesaid, or partly in one way and partly in another. The Issuer may not capitalise any undistributed profits that are required to be applied in paying dividends in respect of any share entitled to a fixed or preferential dividend.

Distributions and dividends. The Board of Directors may authorise and pay distributions (in cash or otherwise) at any time in accordance with the Jersey Companies Law. In addition, subject to the provisions of the Jersey Companies Law and the Issuer's Articles of Association, a distribution may be declared and paid as a dividend. A distribution declared and paid in accordance with the provisions of Article 32.3 of the Issuer's Articles of Association and identified as a dividend shall be a dividend.

The Issuer Shares

The Issuer Shares are registered shares with a par value of £1.00 each.

Every shareholder is entitled (i) without payment, to one certificate for all his or her shares of each class and, when part only of the share comprised in a certificate is sold or transferred, to a new certificate for the remainder of the shares so comprised; or (ii) upon payment of such sum for each certificate as the Board of Directors shall from time to time determine, to several certificates each for one or more of his shares of any class.

The Issuer Shares are freely transferable, without any limitations, *provided* that the Issuer shall have a first and paramount lien on every share (not being a fully paid share) for all monies, whether presently payable or not, called or payable at a fixed time in respect of such shares; and the Issuer shall also have a first and paramount lien on all shares (other than fully paid shares) registered in the name of a single shareholder for all the debts and liabilities of such shareholder or his estate to the Issuer, in accordance with Article 10 of the Issuer's Articles of Association.

As at 31 December 2015, the Issuer had no treasury shares and no outstanding convertible debt securities, exchangeable debt securities or debt securities with warrants attached.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

The Issuer is a wholly owned indirect subsidiary of SRL, and, while the Issuer has its own board of directors, significant aspects of its operations and business are impacted by decisions made by the SRL Board of Directors and the Swiss Re Group Executive Committee. We have established a governance framework within the context of the powers that are delegated by SRL to us.

None of the members of the SRLC Board of Directors, the Executive Committee for the Life Capital Business Unit or the Issuer's board of directors (the "**Board of Directors**") have any private interest or other duties which conflict or could potentially conflict with their duties to us.

The Issuer

Under the Issuer's Articles of Association, the Issuer may by ordinary resolution determine the maximum and minimum number of members on the Board of Directors. Unless and until otherwise so determined, and unless otherwise required by the Jersey Companies Law, the number of directors (excluding alternate directors) is not subject to a maximum but is to consist of at least one member. Although it is a private company, the Issuer is subject to the Jersey Companies Law as though it were a public company and is therefore required to have at least two directors. A director may at his sole discretion and at any time and from time to time appoint any person (other than a person disqualified by law from being a director of a company) as an alternate director to attend and vote in his place at any meetings of the Board of Directors at which he is not personally present. The Board of Directors may from time to time appoint one or more of their number to be the holder of any executive office on such terms and for such periods as they may determine, which appointment shall be subject to termination if the person ceases to be a director. Subject to the Issuer's right to determine the maximum and minimum number of members on the Board of Directors, the Board of Directors have power at any time and from time to time to appoint any person to be a director, either to fill a casual vacancy or as an addition to the existing Board of Directors.

The following are the members of the Board of Directors:

Name	Birth Year	Position
Neil Allerton	1967	Director
David Gott	1965	Chairman
Ian Patrick	1967	Director
Neil Rolfe	1974	Director

Neil Allerton, Director. Neil Allerton was appointed to the Issuer's Board on 6 January 2016. Mr. Allerton serves as Head of Integration at Life Capital, a position he has held since 2014. He joined Admin Re® in 2011, as a director in Admin Re®'s Global Operations team, having previously worked for KPMG's Integration & Separation financial services practice. Prior to his role at KPMG, Mr. Allerton worked for more than 13 years at Barclays Bank, covering a wide variety of roles including as Chief Operating Officer for Barclays Wealth Managers in Western Europe, director of business development, international retail and commercial banking (including responsibility for due diligence and integration planning) and associate director of group corporate planning.

Mr. Allerton is a British citizen. He graduated with a BA in Economics from Durham University. Mr. Allerton is a qualified Chartered Accountant, having qualified as a Chartered Accountant with KPMG in 1993.

David Gott, Head of Pricing Life Capital. David Gott was appointed to the Issuer's Board on 6 January 2016, and was appointed as Head of Pricing at Admin Re® in April 2011 (since renamed Life Capital). From 2010 to 2011, Mr. Gott headed up Swiss Re's Life & Health in-force transactions team. Based in the UK, this role focused on delivering pricing for the spectrum of in-force transactions for Swiss Re's life insurance clients. Encompassing structured capital solutions, longevity swaps and Admin Re® acquisitions, these transactions provide bespoke capital and risk transfer benefits for life insurers worldwide. Prior to this, Mr. Gott worked in Hong Kong, leading Swiss Re's Life & Health product hub, with responsibility for pricing control and underwriting risk management in the Asia Pacific region. Mr. Gott joined Swiss Re in 1987, and through various roles in Europe, Africa, North America and Asia, has built up a wealth of experience in the pricing and financial management of life, health and medical re/insurance business.

Mr. Gott is a British citizen. He graduated from Imperial College of Science and Technology in London with a degree in mathematics and is a fellow of the Institute of Actuaries in London.

Ian Patrick, Director. Ian Patrick was appointed to the Issuer's Board on 6 January 2016 and was appointed as Chief Financial Officer Life Capital with effect from 1 January 2016. Prior to this, he served as CFO of Admin Re® from May 2013. Before joining Swiss Re, Mr. Patrick was the Group CFO of Towergate Partnership, a role he held since 2006. Mr. Patrick was part of Towergate's rapid growth through acquisitions, which saw it move from a start-up to the UK's largest SME and specialist insurance broker comprising underwriting, broking, broker network and software businesses. Prior to joining Towergate, Mr. Patrick worked in various senior finance roles with the UK-listed motor insurer Highway, ultimately as Group CFO. He also trained with BDO Binder Hamlyn and gained experience in the oil and gas business and futures and options trading.

Mr. Patrick is a British citizen. He is a member of the Institute of Chartered Accountants of Scotland. He graduated from the University of Stirling with a degree in Accountancy.

Neil Rolfe, Director. Neil Rolfe was appointed to the Issuer's Board on 6 January 2016. Mr. Rolfe serves as Head of Tax at Admin Re®, a position he has held since 2012, with additional responsibility as the finance lead on transactions (in addition to tax). Prior to this, Mr. Rolfe worked for five years at Ernst & Young as an associate partner and director, primarily responsible for developing the life tax practice and regulatory capital practices in the UK. From 1997 to 2007, Mr. Rolfe held various roles at PwC, working in the insurance and asset management teams of PwC.

Mr. Rolfe is a British citizen. He graduated with a BSc in Material Science and Engineering from Brunel University. Mr. Rolfe is a member of the Institute of Chartered Accountants of England and Wales.

Regulated Entities

As regulated entities, each of ARUK, ReAssure, Guardian Assurance, Ark Life and ARUKSL are also required to have standalone board of directors (which include independent board members). ReAssure and Guardian Assurance each also have board and management committees, including:

- ***Board committees:*** an Audit/Risk Committee and a Fairness Committee and Board Investment Committee; and

- ***Management committees:*** Life Management Committee (which reports directly back to ReAssure's and Guardian Assurance's standalone boards of directors), Treating Customers Fairly Committee (which reports directly to ReAsssure's and Guardian Assurance's Fairness Committees/With Profits Committees), Asset and Liability Management Committee (which reports directly to ReAssure's and Guardian Assurance's Board Investment Committees) and the Risk Committee (which reports directly to ReAssure's and Guardian Assurance's Audit/Risk Committees) that report to the SRLC Board of Directors and/or the board of directors of ReAssure, Guardian Assurance and ARUKSL.

In addition, ReAssure's and Guardian Assurance's management committees have joint oversight functions and interact with outsource partners, including ARUKSL and Guardian Companies Services Limited (which in turn oversee respective subcontractors, including notably Capita and Diligenta), Aberdeen Asset Management Limited and HSBC Global Asset Management (in respect of the unit-linked and with-profit assets managed by them), SRZ and its external investment managers (in respect of the remaining assets managed by them), HCL (in the form of a joint executive review board) and LV= (in respect of the partnership arrangement).

In accordance with the CBI's Corporate Governance Requirements for Insurance Undertakings, Ark Life has established its own independent governance arrangements and has established three key committees: an audit committee, a risk committee and an investment committee. Each board committee has clearly defined terms of reference, responsibilities, procedures and powers.

SRLC

The SRLC Board of Directors is constituted as follows:

Name	Birth Year	Position
Walter B. Kielholz	1951	Chairman
Renato Fassbind	1955	Vice Chairman and Lead Independent Director
Raymond K.F. Ch'ien	1952	Director
Mary Francis	1948	Director
Rajna Gibson Brandon	1962	Director
C. Robert Henrikson	1947	Director
Trevor Manuel	1956	Director
Carlos E. Represas	1945	Director
Philip K. Ryan	1956	Director
Sir Paul Tucker	1958	Director
Susan L. Wagner	1961	Director

Biographical Information

Walter B. Kielholz, Chairman, non-executive director. Walter B. Kielholz was elected to the Board of Directors of SRZ in 1998 and was appointed to the Board of Directors of SRL and the SRLC Board of Directors in 2011 (in connection with the formation of SRL). He was Vice Chairman from 2003 to April 2009 and has been Chairman of the Board of Directors since May 2009. He chairs the Chairman's and Governance Committee.

Mr. Kielholz began his career at the General Reinsurance Corporation, Zurich, in 1976 where he held several positions in the US, UK and Italy before assuming responsibility for the company's European marketing. In 1986, he joined Credit Suisse, where he was responsible for relationships with large insurance groups. He joined Swiss Re in 1989 where he became an Executive Board member in 1993 and was Chief Executive Officer from 1997 to 2002. He was also a member of the Board of Directors of Credit Suisse Group AG from 1999 to 2014 and served as Chairman from 2003 to 2009. Mr. Kielholz is Vice Chairman of the Institute of International Finance, a member of the European Financial Services Round Table, a member of the Board of Trustees of Avenir Suisse and Chairman of the Zurich Art Society.

Mr. Kielholz is a Swiss citizen. He graduated with a business finance and accounting degree from the University of St. Gallen, Switzerland.

Renato Fassbind, Vice Chairman, non-executive and lead independent director. Renato Fassbind was elected to the SRZ Board of Directors and the Board of Directors of SRL and the SRLC Board of Directors in 2011. He was appointed as Vice Chairman in 2012 and as Lead Independent Director in 2014. Mr. Fassbind chairs the Audit Committee and is a member of the Chairman's and Governance Committee and the Compensation Committee.

After two years with Kunz Consulting AG, Mr. Fassbind joined F. Hoffmann-La Roche AG in 1984, becoming Head of Internal Audit in 1988. From 1986 to 1987, he worked as a public accountant with Peat Marwick in New Jersey, USA. In 1990, he joined ABB Ltd as Head of Corporate Staff Audit and, from 1997 to 2002, was Chief Financial Officer and member of the Group Executive Committee. In 2002, he joined Diethelm Keller Holding Ltd as Group Chief Executive Officer. From 2004 to 2010, he was Chief Financial Officer and member of the Executive Board of Credit Suisse Group AG. Mr. Fassbind is a member of the Boards of Directors of Nestlé S.A. and Kühne + Nagel International Ltd.

Mr. Fassbind is a Swiss citizen. He graduated with a PhD in economics from the University of Zurich, Switzerland, and as Certified Public Accountant in Denver, USA.

Raymond K. F. Ch'ien, non-executive and independent director. Raymond K.F. Ch'ien was elected to the SRZ Board of Directors in 2008 and appointed to the Board of Directors of SRL (in connection with the formation of SRL) and the SRLC Board of Directors. He is a member of the Audit Committee and the Investment Committee.

Raymond K.F. Ch'ien was Group Managing Director of Lam Soon Hong Kong Group from 1984 to 1997 and Chairman of CDC Corporation from 1999 to 2011. He is Chairman of the Board of Directors of Hang Seng Bank Ltd and a member of the Boards of Directors of China Resources Power Holdings Company Ltd and the Hong Kong and Shanghai Banking Corporation Ltd. Mr. Ch'ien is also a member of the Economic Development Commission of the Government of the Hong Kong SAR, Honorary President of the Federation of Hong Kong Industries and a Trustee of the University of Pennsylvania.

Mr. Ch'ien is a Chinese citizen born. He graduated with a PhD in economics from the University of Pennsylvania, USA.

Mary Francis, non-executive and independent director. Mary Francis was elected to the Board of Directors of SRL, the SRLC Board of Directors and the SRZ Board of Directors in April 2013. She is a member of the Audit Committee and the Finance and Risk Committee.

Ms Francis joined the UK Civil Service in 1971, focusing on financial and economic policy. She held a number of senior positions including Financial Counsellor at the British Embassy in Washington DC from 1990 to 1992, Private Secretary to the Prime Minister from 1992 to 1995 and Deputy Private Secretary to the Queen from 1995 to 1999. Between 1999 and 2005 she was Director General of the Association of British Insurers. She was a non-executive director of the Bank of England from 2001 to 2007 and a member of the board of directors of Aviva plc from 2005 to 2012. Ms Francis is a member of the Board of Directors of Ensco plc and a senior advisor to Chatham House.

Ms Francis is a British citizen. She graduated with a Master of Arts from the Newnham College at the University of Cambridge, United Kingdom.

Rajna Gibson Brandon, non-executive and independent director. Rajna Gibson Brandon was elected to the SRZ Board of Directors in 2000 and appointed to the Board of Directors of SRL (in connection with the formation of SRL) and the SRLC Board of Directors. She is a member of the Finance and Risk Committee and the Investment Committee.

Ms. Gibson Brandon is a Professor of Finance at the University of Geneva and Director of the Geneva Finance Research Institute. She is also President of the Scientific Council of the Swiss Training Centre for Investment Professionals / AZEK. Ms Gibson Brandon held professorships at the University of Lausanne from 1991 to 2000 and the University of Zurich from 2000 to 2008. She was a member of the Swiss Federal Banking Commission from 1997 to 2004.

Ms Gibson Brandon is a Swiss citizen. She graduated with a PhD in economics and social sciences from the University of Geneva, Switzerland.

C. Robert Henrikson, non-executive and independent director. C. Robert Henrikson was elected to the Board of Directors of SRL, the SRLC Board of Directors and the SRZ Board of Directors in 2012. He chairs the Compensation Committee and is a member of the Chairman's and Governance Committee and the Finance and Risk Committee.

Mr. Henrikson was Chairman and Chief Executive Officer of MetLife, Inc. from 2006 to 2011. Before, he held senior positions in MetLife's individual, group and pension businesses and became Chief Operating Officer of the company in 2004. Mr. Henrikson is a former Chairman of the American Council of Life Insurers and of the Financial Services Forum, Director Emeritus of the American Benefits Council and a former member of the U.S. President's Export Council. He is a member of the Boards of Directors of Invesco Ltd and AmeriCares. He is also a member of the Boards of Trustees of Emory University, the S.S. Huebner Foundation for Insurance Education and Indian Springs School.

Mr. Henrikson is a US citizen. He graduated with a Bachelor of Arts from the University of Pennsylvania, USA, and a Juris Doctorate from Emory University, USA.

Trevor Manuel, non-executive and independent director. Trevor Manuel was elected to the Board of Directors of SRL, the SRLC Board of Directors and the SRZ Board of Directors in 2015. He is a member of the Investment Committee.

Mr. Manuel was a minister in the South African government for more than 20 years, serving under the presidents Mandela, Mbeki, Motlanthe and Zuma. He served as Finance Minister from 1996 to 2009. Before his retirement from public office in 2014, he was Minister in the presidency responsible for South Africa's National Planning Commission. Throughout his career, he assumed a number of ex officio positions on international bodies, including the United Nations Commission for Trade and Development (UNCTAD), the World Bank, the International Monetary Fund, the G20, the African Development Bank and the Southern African Development Community. He also served on a number of voluntary public interest commissions including Africa Commission, Global Commission on Growth and Development, Global Ocean Commission, and the New Climate Economy. Trevor Manuel is a member of the Boards of Directors of SABMiller plc and Old Mutual plc, member of the International Advisory Board of Rothschild Group, Deputy Chairman of Rothschild South Africa, Chancellor of the Cape Peninsula University of Technology, Professor Extraordinaire at the University of Johannesburg, Honorary Professor at the University of Cape Town and Trustee of the Allan Gray Orbis Foundation Endowment.

Mr. Manuel is a South African citizen. He holds a National Diploma in Civil and Structural Engineering from the Peninsula Technikon, South Africa, and completed an Executive Management Programme at the Stanford University, USA.

Carlos E. Represas, non-executive and independent director. Carlos E. Represas was elected to the SRZ Board of Directors in 2010 and appointed to the Board of Directors of SRL in 2011 (in connection with the formation of SRL), as well as to the SRLC Board of Directors in 2011. Carlos E. Represas is a member of the Compensation Committee.

Between 1968 and 2004, Mr. Represas held various senior positions at Nestlé in the US, Latin America and Europe, including Executive Vice President and Head of the Americas of Nestlé S.A. in Switzerland from 1994 to 2004. He was Chairman of the Board of Nestlé Group Mexico from 1983 to 2010. Mr. Represas is a member of the Boards of Directors of Bombardier Inc. and Merck & Co. Inc. He is also non-executive Chairman Latin America of Bombardier Inc., President of the Mexico Chapter of the Latin American Chamber of Commerce in Switzerland and a member of the Latin America Business Council.

Mr. Represas is a Mexican citizen. He graduated with a degree in economics from the National University of Mexico, Mexico, and a degree in industrial economics from the National Polytechnic Institute, Mexico.

Philip K. Ryan, non-executive and independent director. Philip K. Ryan was elected to the Board of Directors of SRL, the SRLC Board of Directors and the SRZ Board of Directors in 2015. He chairs the Finance and Risk Committee and is a member of the Chairman's and Governance Committee and the Audit Committee.

Mr. Ryan held various positions with Credit Suisse from 1985 to 2008, including Chairman of the Financial Institutions Group (UK), Chief Financial Officer of Credit Suisse Group (Switzerland), Chief Financial Officer of Credit Suisse Asset Management (UK) and Managing Director of CSFB Financial Institutions Group (USA/UK). He was Chief Financial Officer of the Power Corporation of Canada from January 2008 until May 2012. In that capacity, he was a director of IGM Financial Inc., Great-West Lifeco Inc., and several of their subsidiaries, including Putnam Investments. Mr. Ryan is a member of the Board of Directors of Medley Management, Inc., Advisory Board member of NY Green Bank, Adjunct Professor at NYU Stern School of Business and member of the Smithsonian National Board.

Mr. Ryan is a US citizen. He earned an MBA from the Kelley School of Business, Indiana University, USA, and a Bachelor of Industrial Engineering from the University of Illinois, USA.

Sir Paul Tucker, Non-executive and independent director. Sir Paul Tucker was first elected to the Board of Directors of SRL and the SRLC Board of Directors in 2016. He was the Deputy Governor of the Bank of England from 2009 to 2013. He held various senior roles at the Bank of England from 1980 onwards, including as a member of the Monetary Policy Committee, Financial Policy Committee, Prudential Regulatory Authority Board and Court of Directors. He also served as a member of the Steering Committee of the G20 Financial Stability Board and as a member of the Board of the Bank for International Settlements. Sir Paul Tucker is Chairman of the Systemic Risk Council, and a fellow at the Harvard Kennedy School of Government. He is also a member of the board of the Financial Services Volunteers Corps, and a member of the Advisory Committee of Autonomous Research.

Sir Paul Tucker is a British citizen. He graduated from Trinity College, Cambridge, with a BA in Mathematics and Philosophy. In 2014, he was granted a knighthood for his services to central banking.

Susan L. Wagner, non-executive and independent director. Susan L. Wagner was elected to the Board of Directors of SRL, the SRLC Board of Directors and the SRZ Board of Directors in 2014. She chairs the Investment Committee and is a member of the Chairman's and Governance Committee and the Finance and Risk Committee.

Ms Wagner is a co-founder of BlackRock, where she served as Vice Chairman and a member of the Global Executive and Operating Committees before retiring in mid-2012. Over the course of her nearly 25 years at BlackRock, she served in several roles such as Chief Operating Officer, Head of Strategy, Corporate Development, Investor Relations, Marketing and Communications, Alternative Investments and International Client Businesses. Ms Wagner serves on the Boards of Directors of BlackRock, Inc. and Apple Inc. and is a member of the Boards of Trustees of the Hackley School and Wellesley College.

Ms Wagner is a US citizen. She graduated with a BA in English and economics from Wellesley College, USA, and earned an MBA in finance from the University of Chicago, USA.

Swiss Re Life Capital Business Unit

The following are the members of the Executive Committee for the Life Capital Business Unit:

Name	Birth Year	Position
Thierry Léger	1966	Chief Executive Officer Life Capital
Bob Ratcliffe	1955	Chief Executive Officer Admin Re®
Ian Patrick	1967	Chief Financial Officer Life Capital
Matt Cuhls	1974	Chief Executive Officer ARUK
Carl Christensen	1976	Chief Executive Officer Protection Partners (EMEA)
Philip Walker	1965	Chief Executive Officer Protection Partners (US)
Reto Toscan	1973	Chief Executive Officer elipsLife

Thierry Léger, Chief Executive Officer Life Capital. Thierry Léger, a Swiss and French citizen born in 1966, holds an Executive MBA from the University of St. Gallen, as well as a Master’s degree in Civil Engineering from the Swiss Federal Institute of Technology (ETH) in Zurich. He started his career in the civil construction industry before joining Swiss Re as an engineering underwriter in 1997. In 2001, Mr Léger joined Swiss Re New Markets, providing non-traditional solutions to insurance clients. From 2002 to 2006, he served as a member of Swiss Re’s executive team in France, heading the sales team. From 2006 to 2013, Mr Léger took increasing responsibility for Swiss Re’s largest clients, ultimately becoming the head of the newly-created Globals division in 2010.

Mr Léger is a Swiss and French citizen. He holds a Master's degree in Civil Engineering from the Swiss Federal Institute of Technology, Zurich (ETH) and an Executive MBA from the University of St. Gallen.

Bob Ratcliffe, Chief Executive Officer Admin Re®. Bob Ratcliffe was appointed Chief Executive Officer of Admin Re® in March 2011. In 2008, Bob Ratcliffe became Chief Operating Officer of Swiss Re Asset Management and member of the Asset Management Executive Team. He had joined Swiss Re in 2001 and held a number of senior positions within capital markets-related areas. Prior to Swiss Re, Mr Ratcliffe was Group Chief Credit Officer of National Westminster (NatWest) Bank Group from1998 to 2000 where he had already held a variety of leading corporate and risk management positions. From 1992 to 1997, he was Head of Risk North America, as well as Global Head of Credit at Greenwich Capital.

Bob Ratcliffe is a British citizen. He is a member of the Chartered Institute of Bankers.

Matt Cuhls, Chief Executive Officer ARUK. Matt Cuhls was appointed Chief Executive Officer of ARUK in April 2016. In 2013, Mr. Cuhls became Chief Executive Officer of ReAssure and, in January 2016, he became Chief Executive Officer of Guardian Assurance following the Guardian Group Acquisition. Mr. Cuhls has been with ReAssure and its predecessor companies since 2000. During this time, he has performed a variety of operational and oversight roles, holding senior management positions in Risk, Internal Audit, Compliance and

Project Governance. Prior to his appointment as Chief Executive Officer of ARUK, Mr. Cuhls served as Chief Risk Officer of the ARUK group.

Matt Cuhls is a British citizen. He holds Master's degrees from Manchester Business School and the University of Oxford.

Carl Christensen, Chief Executive Officer Protection Partners EMEA. Carl Christensen was appointed Chief Executive Officer Protection Partners EMEA with effect from 1 January 2016. Prior to this, he served as Chief Operating Officer for Swiss Re Protection Partners since August 2013. His main focus was the build-up of Swiss Re's primary manufacturing capability within Europe and the on-boarding of new distributors who wish to use a white label offering. Prior to joining Swiss Re, Mr Christensen worked at Swiss Life International for 10 years and during this tenure built up a number of new insurance carriers in Europe, Middle East and Asia. He started his career as a management consultant, spending the last 13 years in the primary life and health industry in a number of different senior management positions.

Mr Christensen is a Swedish citizen. He holds a degree in International Business & Management from the University of Oxford Brooks, United Kingdom.

Philip Walker, Chief Executive Officer Protection Partners US. Phil Walker was appointed as Chief Executive Officer of Life Capital's Protection Partners in the United States with effect from 21 March 2016. From 2005 to 2011, Mr. Walker was CEO of Heritage Union Services LLC, the parent of Heritage Union Life Insurance Company where he served as Chairman and Chief Executive with responsibility for the formation and capitalisation of the group's risk-bearing and services groups. Mr. Walker co-founded Heritage Union and directed its growth from a startup to its sale in 2011. Mr Walker has also held senior roles with Envera Health, Paradigm Partners International, Capital One and Thomas Cook Group.

Mr. Walker is a dual citizen of Great Britain and the United States of America. He graduated from the Bishop's University with a degree in Finance.

Reto Toscan, Chief Executive Offices elipsLife. Reto Toscan has been Chief Executive Officer of elipsLife since March 2011. In his current role, Mr Toscan is overseeing the development of business in Europe as one-stop shop for all risk products for corporate customers. elipsLife became wholly owned by Swiss Re in October 2011. Prior to joining Swiss Re, Mr Toscan was involved in building up the insurance company Sympany for seven years, most recently as a member of the Executive Board and Head of Market of the Sympany Insurance Group. In this position, he was in charge of the private and corporate customer business while, at the same time, serving as the CEO of Sympany Insurances Ltd. Mr Toscan started his professional career in the industrial sector with Landert Motoren, followed by Siemens Switzerland.

Mr Toscan was born in 1973 and is a Swiss citizen. He holds a degree in economics from the HWZ University of Applied Sciences Zürich, Switzerland.

TAXATION

Jersey Taxation

Income Tax

If the Issuer were to be tax resident in Jersey, it would be liable to be charged to tax at a rate of 0% under Schedule D under the Income Tax (Jersey) Law 1961 (the "Income Tax Law") in respect of (i) the income or profits of any trade carried on by the Issuer in Jersey or elsewhere, (ii) any interest of money, whether yearly or otherwise, or other annual payment paid to the Issuer, whether such payment is made within or out of Jersey, (iii) dividends and other distributions of a company regarded as resident in Jersey paid to the Issuer, (iv) income arising to the Issuer from securities out of Jersey and (v) any other income of the Issuer that is not derived from the ownership or disposal of land in Jersey. It is not expected that the Issuer will be in receipt of income charged to tax under any Schedule under the Income Tax Law other than Schedule D.

The Issuer is not entitled to make any deduction or withholding for or on account of Jersey income tax from any interest or other payments on the Notes. Noteholders (other than residents of Jersey) are not subject to any tax in Jersey in respect of the acquisition, ownership, sale, exchange or other disposition of the Notes.

The attention of Jersey resident investors is drawn to Article 134A of the Income Tax Law and other provisions of the Income Tax Law, the effect of which may be to render any gains in respect of their Notes and/or distributions made in respect of them chargeable to Jersey income tax.

Stamp Duties

No stamp duties are payable in Jersey on the acquisition, ownership, exchange, sale or other disposition inter vivos of Notes. Stamp duty of up to 0.75% is payable on the grant of probate or letters of administration in Jersey in respect of a deceased individual (i) who died domiciled in Jersey, on the value of the entire estate (including any Notes or interests therein) and (ii) otherwise, on the value of so much of the estate (including any Notes or interests therein), if any, as is situated in Jersey.

European Union Taxation

On 14 February 2013 the European Commission published the Commission's Proposal for a Directive for a common FTT in the participating Member States. However, Estonia has since stated that it will not participate.

The Commission's Proposal has a very broad scope and could, if introduced, apply to certain dealings in Notes (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

Joint statements issued by participating Member States indicated an intention to implement the FTT by 1 January 2016 but this deadline was not met. The Commission's Proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. The scope of any such tax is uncertain and additional Member States may decide to participate.

Prospective Noteholders are advised to seek their own professional advice in relation to the FTT.

United Kingdom Taxation

The following applies only to persons who are the beneficial owners of Notes and is a summary of the Issuer's understanding of current law and practice in the United Kingdom relating only to UK withholding tax treatment of payments of interest (as that term is understood for UK tax purposes) in

respect of Notes. It does not deal with any other United Kingdom tax implications of acquiring, holding or disposing of Notes. Some aspects do not apply to certain classes of persons (such as dealers and persons connected with the Issuer) to whom special rules may apply. The United Kingdom tax treatment of prospective Noteholders depends on their individual circumstances and may be subject to change in the future. Prospective Noteholders who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice.

Payment of Interest on the Notes

Under the "quoted Eurobond exemption", payments of interest on the Notes may be made without deduction of or withholding on account of United Kingdom income tax provided that the Notes are and continue to be listed on a "recognized stock exchange" within the meaning of section 1005 of the Income Tax Act 2007 (the "**Income Tax Act 2007**"). The Luxembourg Stock Exchange is a recognized stock exchange. Securities will be treated as listed on the Luxembourg Stock Exchange if they are listed in Luxembourg in accordance with provisions corresponding to those generally applied in EEA states and admitted to trading on the Euro MTF Market. Provided, therefore, that the Luxembourg Stock Exchange does not cease to be a recognized stock exchange and the Notes are and remain so listed, interest on the Notes will be payable without withholding or deduction on account of United Kingdom tax on the basis of this exemption.

In cases where no exemption from or exception to the duty to withhold applies, an amount must generally be withheld from payments of interest on the Notes on account of United Kingdom income tax at the basic rate (currently 20%). However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Noteholder, HMRC can issue a notice to the Issuer to pay interest to the Noteholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

United States Taxation

FATCA

See "*Risk Factors—Risks Relating to the Notes—There is a possibility of U.S. reporting and withholding tax on payments under the Notes*." for a discussion of a possibility that a U.S. withholding tax may apply on payments under the Notes. No additional amounts shall be payable on account of any taxes payable or required to be withheld or deducted pursuant to any U.S. withholding tax that is imposed or collected by reason of FATCA Provisions in accordance with Condition 8 (*Taxation*) or Condition 13 (*Substitution*).

SUBSCRIPTION AND SALE

The Joint Lead Managers have, pursuant to a Subscription Agreement (the "**Subscription Agreement**"), dated May 23, 2016, jointly and severally agreed to subscribe or procure subscribers for the Notes at the issue price of 99.748% of the principal amount of Notes, less a combined management and underwriting commission as specified in the Subscription Agreement. The Issuer will also reimburse the Joint Lead Managers in respect of certain of their expenses, and has agreed to indemnify the Joint Lead Managers against certain liabilities, incurred in connection with the issue of the Notes. The Subscription Agreement may be terminated in certain circumstances prior to payment of the Issuer.

Selling Restrictions

United Kingdom

Each Joint Lead Manager has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

United States

The Notes have not been, and will not be, registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States and may not be offered, sold or resold within the United States (as defined in Regulation S), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state or local securities laws. The Notes are not being offered in the United States or to U.S. persons. The Issuer has not registered, and will not register, as an investment company under the Investment Company Act, and purchasers of Notes will not have the protections of the Investment Company Act.

Each Joint Lead Manager has agreed that it will not at any time offer or sell the Notes (i) as part of their distribution (ii) or otherwise within the United States or to, of for the account or benefit of, any person who is a U.S. person, and it will have sent to each dealer to which it sells Notes at any time a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. The Notes are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S.

General

No action has been taken by the Issuer or any of the Joint Lead Managers that would, or is intended to, permit a public offer of the Notes in any country or jurisdiction where any such action for that purpose is required. Each Joint Lead Manager has acknowledged that no representation is made by the Issuer that any action has been or will be taken in any jurisdiction, by the Issuer, that would permit a public offering of the Notes, or possession or distribution of the Offering Memorandum or any other offering material, in any country or jurisdiction where action for that purpose is required. Accordingly, each Joint Lead Manager has undertaken that it will not, directly or indirectly, offer or sell any Notes or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

TRANSFER RESTRICTIONS

Because the following restrictions will apply with respect to the Notes, purchasers of the Notes are advised to consult legal counsel prior to making an offer, resale, pledge or transfer of any of the Notes. References to Notes in this section should, as appropriate, be deemed to refer to the Notes themselves and/or beneficial interests therein.

The Notes have not been, and will not be, registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States and may not be offered, sold or resold within the United States (as defined in Regulation S), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state or local securities laws. The Notes are not being offered in the United States or to U.S. persons. The Issuer has not registered, and will not register, as an investment company under the Investment Company Act, and purchasers of Notes will not have the protections of the Investment Company Act.

GENERAL INFORMATION

Authorisations

The issuance of the Notes was authorised by the Issuer by resolutions of the Board of Directors passed on 22 April 2016.

Listing

There is currently no public market for the Notes. Application has been made to the Luxembourg Stock Exchange, in its capacity as market operator of the Euro MTF Market under the Luxembourg act relating to prospectuses for securities (loi relative aux prospectus pour valeurs mobilières), and for the Notes to be admitted to the Official List of the Luxembourg Stock Exchange and to be admitted for trading on the Euro MTF Market thereof. There can be no assurance that the Notes offered hereby will be listed and admitted to trade on the Euro MTF Market. References in this Offering Memorandum to the Notes being "**listed**" (and all related references) will mean that the Notes have been admitted to the Official List and have been admitted to trading on the Euro MTF Market. The Euro MTF Market of the Luxembourg Stock Exchange is not a regulated market pursuant to the provisions of Directive 2004/39/EC on markets in financial instruments.

Listing Agent

BNP Paribas Securities Services is acting solely in its capacity as listing agent for the Issuer in connection with the Notes and is not itself seeking admission of the Notes to the Euro MTF Market.

Clearing Systems

The Notes have been accepted for clearance and settlement through the facilities of Euroclear and Clearstream.

The ISIN for the Notes is XS1421827269. The Common Code for the Notes is 142182726.

Information on Business Outlook for the Issuer Group

During the first quarter of 2016, we had net income of $350 million compared to net income of $375 million for the first quarter of 2015, calculated on a pro forma basis (*i.e.,* on the same basis as reflected under "*Unaudited Condensed Pro Forma Financial Information,*" including to reflect the adjustment to interest expense on indebtedness to reflect the impact of the novation of the Revolving Credit Facility and the Bridge Facility in both the current and prior year). Underlying net income in the first quarter of 2016 reflected additional favourable actuarial valuation impacts. In addition, we achieved a return on investments of 4.6% and a return on equity of 23.4% in the first quarter of 2016.

We generated gross cash of negative $38 million in the first quarter of 2016 (no comparable figure for 2015 is available as the Guardian Group did not report gross cash generated for the first quarter of 2015). Gross cash generation for the first quarter of 2016 reflected the fact that, beginning in January 2016, gross cash generation is calculated by reference to the Solvency II regime, which is more sensitive to economic movements than under the Solvency I regime. As a result, significant movements in interest rates and credit spreads can have, and did have in the current period, a more pronounced impact on reported gross cash generation. In addition, falling interest rates and increases in credit spreads served to reduce our solvency ratios for the first quarter of 2016. A decrease in equity prices over the first quarter of 2016 had a broadly neutral impact. ReAssure's estimated Solvency II ratio as at 31 March 2016 was 156% (9% lower than its estimated Solvency II ratio as at 31 December 2015). Guardian Assurance's estimated Solvency II ratio as at 31 March 2016 was 153% (unchanged from 31 December 2015). There was a significant offset in capital requirements in Guardian Assurance for the first quarter of 2016 relating to asset restructuring (including the sale of assets in the GLO portfolio, trading into higher-rated bonds and improving the matching of the asset portfolio).

We expect to continue to pursue selective acquisition opportunities within the closed book market in the United Kingdom. We seek to optimise capital and asset management to maximise cash generation and return on equity. We aim to achieve gross cash generation of between $1.2 to $1.5 billion over 2016 to 2018. Our focus remains on our operating platform to achieve operational efficiencies.

Statement of no material adverse change

Save and except for the effects of the combination of the Admin Re® Business and the Guardian Business following the Guardian Group Acquisition, there has been no significant change in the trading position or the financial position of the Issuer since 31 December 2015, the end of the last financial period for which financial information for the Issuer has been published. See "*Financial and Other Information Included or Incorporated by Reference in this Offering Memorandum*" and "*Unaudited Condensed Pro Forma Financial Information*."

Litigation

Except as may otherwise be indicated in this Offering Memorandum (see "*Our Business— Governmental, Legal and Arbitration Proceedings*"), we have not been involved in any litigation, governmental, or arbitration proceedings, including any such proceedings which are pending or threatened of which we are aware, during the 12 months preceding the date of these listing particulars which may have, or have had in the recent past, a significant effect on our financial position or profitability.

Independent Auditors

The SRLC Group Financial Statements are presented in accordance with U.S. GAAP and have been audited by PricewaterhouseCoopers AG, Birchstrasse 160, CH-8050 Zurich, as independent auditors, as stated in their report included therein. PricewaterhouseCoopers AG is a member of EXPERTsuisse – Swiss Expert Association for Audit, Tax and Fiduciary.

The Guardian Holdings Financial Statements are presented in accordance with IFRS and have been audited by Ernst & Young LLP, 25 Churchill Place, Canary Wharf, London E14 5EY, United Kingdom, as independent auditors, as stated in their report included therein. Ernst & Young LLP is registered to carry out audit work by the Institute of Chartered Accountants in England and Wales.

The Issuer Financial Statements are presented in accordance with IFRS and the Jersey Companies Law and have been audited by Ernst & Young LLP, 25 Churchill Place, Canary Wharf, London E14 5EY, United Kingdom, as independent auditors, as stated in their report included therein. Ernst & Young LLP is registered to carry out audit work by the Institute of Chartered Accountants in England and Wales.

Documents Available

Printed copies of this Offering Memorandum and documents that are incorporated by reference in this Offering Memorandum can be obtained free of charge at the offices of the Agent at 33 rue de Gasperich Howald-Hesperange L-2085 Luxembourg. Documents that are incorporated by reference in this Offering Memorandum will be published on the official website of the Luxembourg Stock Exchange (*http://www.bourse.lu*).

Copies of the Agency Agreement, the Issuer's Articles of Association and the Issuer's Memorandum of Association will be available at the offices of the Agent at 33 rue de Gasperich Howald-Hesperange L-2085 Luxembourg, during normal business hours, so long as any of the Notes is outstanding.

Copies of future published audited consolidated financial statements and unaudited interim semi-annual consolidated financial statements of the Issuer Group will be available from the website http://www.swissre.com, following the link to "Investors – Financial information" and "About us – Corporate governance – Corporate regulations," respectively. With respect to the comparatives included in the Issuer Group's consolidated financial statements as of and for the six months ending 30 June 2016 and as of and for the year ending 31 December 2016, see "*Financial and Other Information Included or Incorporated by Reference in this Offering Memorandum*." Except for the Issuer Financial Statements, no information contained on the Swiss Re Group web site, or on any other web site, is incorporated herein by reference.

Other Relationships

Certain of the Joint Lead Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer, and its affiliates in the ordinary course of business. In addition, in the ordinary course of their business activities, the Joint Lead Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or its affiliates. Certain of the Joint Lead Managers or their affiliates that have a lending relationship with the Issuer or its affiliates routinely hedge their credit exposure to the Issuer or its affiliates consistent with their customary risk management policies. Typically, they would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the Issuer's securities, including potentially the Notes. Any such short positions could adversely affect future trading prices of the Notes. The Joint Lead Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

INDEX TO THE FINANCIAL STATEMENTS INCLUDED IN THIS OFFERING MEMORANDUM

Income statement

For the years ended 31 December

USD millions	Note	2014	2015
Revenues			
Premiums earned	3	319	**232**
Fee income from policyholders		343	**318**
Net investment income – non-participating business	5	667	**528**
Net realised investment gains/losses – non-participating business	5	141	**321**
Net investment result – unit-linked and with-profit business	5	1 305	**772**
Total revenues		2 775	**2 171**
Expenses			
Life and health benefits	3	–1 008	**–545**
Return credited to policyholders		–1 091	**–780**
Acquisition costs	3	–131	**–96**
Other expenses		–295	**–246**
Interest expenses		–25	**–16**
Total expenses		–2 550	**–1 683**
Income before income tax expense		225	**488**
Income tax expense/benefit	9	7	**–2**
Net income attributable to common shareholder		232	**486**

The accompanying notes are an integral part of the Group financial statements.

Statement of comprehensive income

For the years ended 31 December

USD millions	2014	2015
Net income attributable to common shareholder	232	**486**
Other comprehensive income, net of tax:		
Change in unrealised investment gains/losses[1]	300	**–99**
Change in foreign currency translation	–219	**–186**
Change in adjustment for pension benefits		**–1**
Total comprehensive income attributable to common shareholder	313	**200**

[1] During 2015, the Group revised the methodology for the loss recognition and shadow loss recognition testing. Based on the results of the loss recognition testing, no adjustment was required. Therefore, the revision has no impact on the net income of the Group. Based on the results of the shadow loss recognition testing, an additional shadow loss reserve, net of tax, of USD 112 million was recognised for 2014, impacting "Acquired present value of future profits", "Deferred tax assets", "Deferred and other non-current tax liabilities" and "Net unrealised investment gains/losses, net of tax" in accumulated other comprehensive income. Comparatives are adjusted accordingly.

Reclassification out of accumulated other comprehensive income

For the years ended 31 December

2014 USD millions	Unrealised investment gains/losses[1,2]	Foreign currency translation[1,3]	Adjustment from pension benefits[4]	Accumulated other comprehensive income
Balance as of 1 January	526	100	–63	563
Change during the period	532	–219	–5	308
Amounts reclassified out of accumulated other comprehensive income	–162		5	–157
Tax	–70			–70
Balance as of period end	826	–119	–63	644

2015 USD millions	Unrealised investment gains/losses[1,2]	Foreign currency translation[1,3]	Adjustment from pension benefits[4]	**Accumulated other comprehensive income**
Balance as of 1 January	826	–119	–63	**644**
Change during the period	164	–186	–2	**–24**
Amounts reclassified out of accumulated other comprehensive income	–314		5	**–309**
Tax	51		–4	**47**
Balance as of period end	**727**	**–305**	**–64**	**358**

[1] Reclassification adjustment included in net income is presented in the ''Net realised investment gains/losses - non-participating business'' line. This line also includes a shadow adjustment, please refer to Note 4 "Acquired present value of future profits (PVFP)".
[2] Comparatives are adjusted as explained in footnote 1 of the comprehensive income table.
[3] Reclassification adjustment is limited to translation gains and losses realised upon sale or upon complete or substantially complete liquidation of an investment in a foreign entity.
[4] Reclassification adjustment included in net income is presented in the ''Other expenses'' line.

The accompanying notes are an integral part of the Group financial statements.

Balance sheet

As of 31 December

Assets

USD millions	Note	2014	2015
Investments	5, 6		
Fixed income securities available-for-sale, at fair value (amortised cost: 2014: 12 359; 2015: 11 410)		14 174	**12 413**
Policy loans, mortgages and other loans		1 198	**1 084**
Short-term investments, at fair value		1 028	**458**
Other invested assets		365	**387**
Investments for unit-linked and with-profit business (including fixed income securities trading: 3 680 in 2014 and 4 069 in 2015, equity securities trading: 19 151 in 2014 and 21 965 in 2015)		24 431	**27 423**
Total investments		41 196	**41 765**
Cash and cash equivalents		997	**1 339**
Accrued investment income		289	**268**
Premiums and other receivables		8	**4**
Reinsurance recoverable on unpaid claims and policy benefits	3	256	**880**
Acquired present value of future profits[1]	4	599	**1 261**
Income taxes recoverable		33	**43**
Deferred tax assets[1]	9	392	**336**
Other assets		284	**164**
Total assets		44 054	**46 060**

[1] During 2015, the Group revised the methodology for the loss recognition and shadow loss recognition testing. Based on the results of the loss recognition testing, no adjustment was required. Therefore, the revision has no impact on the net income of the Group. Based on the results of the shadow loss recognition testing, an additional shadow loss reserve, net of tax, of USD 112 million was recognised for 2014, impacting "Acquired present value of future profits", "Deferred tax assets", "Deferred and other non-current tax liabilities" and "Net unrealised investment gains/losses, net of tax" in accumulated other comprehensive income. Comparatives are adjusted accordingly.

The accompanying notes are an integral part of the Group financial statements.

Liabilities and equity

USD millions	Note	2014	2015
Liabilities			
Unpaid claims and claim adjustment expenses		385	**308**
Liabilities for life and health policy benefits		14080	**13125**
Policyholder account balances		22632	**26196**
Unearned premiums		171	**158**
Funds held under reinsurance treaties		249	**221**
Reinsurance balances payable		101	**52**
Income taxes payable		9	**82**
Deferred and other non-current tax liabilities[1]		982	**737**
Accrued expenses and other liabilities		364	**348**
Long-term debt	8	855	**808**
Total liabilities		39828	**42035**
Equity			
Common shares, 100 registered shares with CHF 1000 par value		0	**0**
Additional paid-in capital		3929	**3929**
Accumulated other comprehensive income:			
Net unrealised investment gains/losses, net of tax[1]		826	**727**
Foreign currency translation, net of tax		–119	**–305**
Adjustment for pension and post-retirement benefits, net of tax		–63	**–64**
Total accumulated other comprehensive income		644	**358**
Retained earnings		–347	**–262**
Total equity		4226	**4025**
Total liabilities and equity		44054	**46060**

[1] During 2015, the Group revised the methodology for the loss recognition and shadow loss recognition testing. Based on the results of the loss recognition testing, no adjustment was required. Therefore, the revision has no impact on the net income of the Group. Based on the results of the shadow loss recognition testing, an additional shadow loss reserve, net of tax, of USD 112 million was recognised for 2014, impacting "Acquired present value of future profits", "Deferred tax assets", "Deferred and other non-current tax liabilities" and "Net unrealised investment gains/losses, net of tax" in accumulated other comprehensive income. Comparatives are adjusted accordingly.

The accompanying notes are an integral part of the Group financial statements.

Statement of shareholder´s equity

For the years ended 31 December

USD millions	2014	2015
Common shares		
Balance as of 1 January	0	**0**
Changes during the period		
Balance as of period end	0	**0**
Additional paid-in capital		
Balance as of 1 January	3 929	**3 929**
Changes during the period		
Balance as of period end	3 929	**3 929**
Net unrealised investment gains/losses, net of tax[1]		
Balance as of 1 January	526	**826**
Changes during the period	300	**–99**
Balance as of period end	826	**727**
Foreign currency translation, net of tax		
Balance as of 1 January	100	**–119**
Changes during the period	–219	**–186**
Balance as of period end	–119	**–305**
Adjustment for pension and other post-retirement benefits, net of tax		
Balance as of 1 January	–63	**–63**
Changes during the period		**–1**
Balance as of period end	–63	**–64**
Retained earnings		
Balance as of 1 January	–172	**–347**
Net income attributable to common shareholder	232	**486**
Dividends on common shares	–407	**–401**
Balance as of period end	–347	**–262**
Shareholder's equity	4 226	**4 025**

[1] During 2015, the Group revised the methodology for the loss recognition and shadow loss recognition testing. Based on the results of the loss recognition testing, no adjustment was required. Therefore, the revision has no impact on the net income of the Group. Based on the results of the shadow loss recognition testing, an additional shadow loss reserve, net of tax, of USD 112 million was recognised for 2014, impacting "Acquired present value of future profits", "Deferred tax assets", "Deferred and other non-current tax liabilities" and "Net unrealised investment gains/losses, net of tax" in accumulated other comprehensive income. Comparatives are adjusted accordingly.

The accompanying notes are an integral part of the Group financial statements.

Statement of cash flow

For the years ended 31 December

USD millions	2014	2015
Cash flows from operating activities		
Net income attributable to common shareholder	232	**486**
Adjustments to reconcile net income to net cash provided/used by operating activities:		
Depreciation, amortisation and other non-cash items	71	**108**
Net realised investment gains/losses	–595	**–332**
Income from equity-accounted investees, net of dividends received	–9	**–7**
Change in:		
Technical provisions and other reinsurance assets and liabilities, net[1]	475	**–108**
Funds held by ceding companies and under reinsurance treaties	–14	**–15**
Reinsurance recoverable on unpaid claims and policy benefits	25	**2**
Other assets and liabilities, net[1]	–237	**–9**
Income taxes payable/recoverable	–18	**–61**
Net cash provided/used by operating activities	–70	**64**
Cash flows from investing activities		
Fixed income securities:		
Sales	2 458	**3 038**
Maturities	480	**488**
Purchases	–2 617	**–3 035**
Net purchase/sale/maturities of short-term investments[1]	–96	**556**
Cash paid/received for acquisitions/disposal and reinsurance transactions, net		**360**
Net purchases/sales/maturities of other investments[1]	31	**–63**
Net purchases/sales/maturities of investments held for unit-linked and with-profit business[1]	715	**1 186**
Net cash provided/used by investing activities	971	**2 530**
Cash flows from financing activities		
Policyholder account balances, unit-linked and with-profit business:[1]		
Deposits	244	**496**
Withdrawals	–1 574	**–2 290**
Issuance/repayment of long-term debt	904	
Issuance/repayment of short-term debt	–644	
Dividends paid to parent	–407	**–401**
Net cash provided/used by financing activities	–1 477	**–2 195**
Total net cash provided/used	–576	**399**
Effect of foreign currency translation	–57	**–57**
Change in cash and cash equivalents	–633	**342**
Cash and cash equivalents as of 1 January	1 630	**997**
Cash and cash equivalents as of 31 December	997	**1 339**

[1] The Group aggregated investments related to unit-linked and with-profit business. These investments were formerly included in "Other assets and liabilities, net", "Net purchase/sale/maturities of short-term investments" and "Net purchase/sale/maturities of other investments". Additionally, related deposits and withdrawals were reclassified from "Technical provisions and other reinsurance assets and liabilities, net" in the operating cash flow to "Policyholder account balances, unit-linked and with-profit business" in the financing cash flow. Comparatives are adjusted accordingly.

Interest paid was USD 43 million and USD 14 million for the years ended 31 December 2014 and 2015, respectively.
Tax paid was USD 13 million and USD 65 million for years ended 31 December 2014 and 2015, respectively.
The accompanying notes are an integral part of the Group financial statements.

Notes to the Group financial statements

1 Organisation and summary of significant accounting policies

Nature of operations
The Swiss Re Life Capital Group, which is headquartered in Zurich, Switzerland, comprises Swiss Re Life Capital Ltd (the parent company, "SRLC") and its subsidiaries (collectively, the "Group"). The Group acquires individual closed blocks of in-force long-term life, pensions and health business through reinsurance, legal transfers of books of business to the Group, the purchase of a majority interest in a life insurance company or a combination thereof. The principal products administered are long-term life and pension products, permanent health insurance and critical illness products and retirement annuities.

SRLC is a wholly owned subsidiary of Swiss Re Ltd. Swiss Re Ltd is the ultimate parent company of the Swiss Re Group, which consists of four business segments: Property & Casualty Reinsurance, Life & Health Reinsurance, Corporate Solutions and Admin Re®, which includes SRLC and its subsidiaries. The presentation of each segment's balance sheet is closely aligned with the segment legal entity structure. Due to the sale of Admin Re® US to a third party in 2012, certain blocks of Admin Re® segment business were retained by subsidiaries of Swiss Reinsurance Company Ltd and therefore are not part of the consolidation scope of the Group.

Basis of presentation
The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) and comply with Swiss law. All significant intra-group transactions and balances have been eliminated on consolidation.

Principles of consolidation
The Group's financial statements include the consolidated financial statements of SRLC and its subsidiaries. Voting entities which SRLC directly or indirectly controls through holding a majority of the voting rights are consolidated in the Group's accounts. Variable interest entities (VIEs) are consolidated when the Group is the primary beneficiary. The Group is the primary beneficiary when it has power over the activities that impact the VIE's economic performance and at the same time has the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. Companies which the Group does not control, but over which it directly or indirectly exercises significant influence, are accounted for using the equity method or the fair value option and are included in other invested assets. The Group's share of net profit or loss in investments accounted for under the equity method is included in net investment income. Equity and net income of these companies are adjusted as necessary to be in line with the Group's accounting policies. The results of consolidated subsidiaries and investments accounted for using the equity method are included in the financial statements for the period commencing from the date of acquisition.

Use of estimates in the preparation of financial statements
The preparation of financial statements requires management to make significant estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as the related disclosure, including contingent assets and liabilities. The Group's liabilities for unpaid claims and claim adjustment expenses and policy benefits for life and health include estimates for premium, claim and benefit data. In addition, the Group uses certain financial instruments and invests in securities of certain entities for which exchange trading does not exist. The Group determines these estimates based on historical information, actuarial analyses, financial modelling and other analytical techniques. Actual results could differ significantly from the estimates described above.

Foreign currency remeasurement and translation
Transactions denominated in foreign currencies are remeasured to the respective subsidiary's functional currency at average exchange rates. Monetary assets and liabilities are remeasured to the functional currency at closing exchange rates, whereas non-monetary assets and liabilities are remeasured to the functional currency at historical rates. Remeasurement gains and losses on monetary assets and liabilities and trading securities are reported in earnings. Remeasurement gains and losses on available-for-sale securities, investments in consolidated subsidiaries and investments accounted for using the equity method are reported in shareholder's equity.

For consolidation purposes, assets and liabilities of subsidiaries with functional currencies other than US dollars are translated from the functional currency to US dollars at closing rates. Revenues and expenses are translated at average exchange rates. Translation adjustments are reported in shareholder's equity.

Valuation of financial assets

The fair value of the majority of the Group's financial instruments is based on quoted prices in active markets or observable inputs. These instruments include government and agency securities, commercial paper, most investment-grade corporate debt, most high-yield debt securities, exchange-traded derivative instruments, most mortgage- and asset-backed securities and listed equity securities. In markets with reduced or no liquidity, spreads between bid and offer prices are normally wider compared to spreads in highly liquid markets. Such market conditions affect the valuation of certain asset classes of the Group, such as some asset-backed securities as well as certain derivative structures referencing such asset classes.

The Group considers both the credit risk of its counterparties and own risk of non-performance in the valuation of derivative instruments and other over-the-counter financial assets. In determining the fair value of these financial instruments, the assessment of the Group's exposure to the credit risk of its counterparties incorporates consideration of existing collateral and netting arrangements entered into with each counterparty. The measure of the counterparty credit risk is estimated with incorporation of the observable credit spreads, where available, or credit spread estimates derived based on the benchmarking techniques where market data is not available. The impact of the Group's own risk of non-performance is analysed in the manner consistent with the aforementioned approach, with consideration of the Group's observable credit spreads. The value representing such risk is incorporated into the fair value of the financial instruments in a liability position as of the measurement date. The change in this adjustment from period to period is reflected in realised gains and losses in the income statement.

For assets or derivative structures at fair value, the Group uses market prices or inputs derived from market prices. A separate internal price verification process, independent of the trading function, provides an additional control over the market prices or market input used to determine the fair values of such assets. Although management considers that appropriate values have been ascribed to such assets, there is always a level of uncertainty and judgement over these valuations. Subsequent valuations could differ significantly from the results of the process described above. The Group may become aware of counterparty valuations, either directly through the exchange of information or indirectly, for example, through collateral demands. Any implied differences are considered in the independent price verification process and may result in adjustments to initially indicated valuations. As of 31 December 2015, the Group has not provided any collateral on financial instruments in excess of its own market value estimates.

Investments

The Group's investments in fixed income and equity securities are classified as available-for-sale (AFS) or trading. Fixed income securities AFS are carried at fair value, based on quoted market prices, with the difference between amortised cost and fair value recognised in shareholder's equity. Trading fixed income and equity securities are carried at fair value with unrealised gains and losses recognised in earnings. A trading classification is used for securities that are bought and held principally for the purpose of selling them in the near term or for securities where the Group has decided to apply the fair value option.

For fixed income securities AFS that are other-than-temporary impaired and there is not an intention to sell, the impairment is separated into (i) the estimated amount relating to credit loss, and (ii) the amount relating to all other factors. The estimated credit loss amount is recognised in earnings, with the remainder of the loss amount recognised in other comprehensive income. In cases where there is an intention or requirement to sell, the full other-than-temporary impairment is recognised in realised investment losses. Subsequent recoveries of previously recognised impairments are not recognised in earnings.

Interest on fixed income securities is recorded in net investment income when earned and is adjusted for the amortisation of any purchase premium or discount. Dividends on equity securities are recognised as investment income on the ex-dividend date. Realised gains and losses on sales are included in earnings and are calculated using the specific identification method.

Policy loans, mortgages and other loans are carried at amortised cost. Interest income is recognised in accordance with the effective yield method.

Short-term investments are measured at fair value with changes in fair value recognised in net income. The Group considers highly liquid investments with a remaining maturity at the date of acquisition of one year or less, but greater than three months, to be short-term investments.

Other invested assets include investments in equity accounted companies, deposits and time deposits, collateral receivables, derivative financial instruments and investment real estate. Investments in limited partnerships where the Group's interest equals or exceeds 3% are accounted for using the equity method. Investments in limited partnerships where the Group's interest is below 3% and equity investments in corporate entities which are not publicly traded are accounted for at estimated fair value with changes in fair value recognised as unrealised gains/losses in shareholder's equity.

Investments in real estate that the Group intends to hold for the production of income, including properties that back liabilities from unit-linked and with-profit business, are carried at depreciated cost, net of any write-downs for impairment in value. Depreciation on buildings is recognised on a straight-line basis over the estimated useful life of the asset. Land is recognised at cost and not depreciated. Impairment in value is recognised if the sum of the estimated future undiscounted cash flows from the use of the real estate is lower than its carrying value. Impairment in value, depreciation and other related charges or credits are included in net investment income. Investment in real estate held for sale is carried at the lower of cost or fair value, less estimated selling costs, and is not depreciated.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, short-term deposits, certain short-term investments in money market funds, and highly liquid debt instruments with a remaining maturity at the date of acquisition of three months or less.

Modifications of insurance and reinsurance contracts

The Group accounts for modifications of insurance and reinsurance contracts that result in a substantially unchanged contract as a continuation of the replaced contract. The associated present value of future profits (PVFP) will continue to be amortised. The Group accounts for modifications of insurance and reinsurance contracts that result in a substantially changed contract as an extinguishment of the replaced contract. The associated PVFP is written off immediately through income and any new deferrable costs associated with the replacement contract are deferred.

Business combinations

The Group applies the acquisition method of accounting for business combinations. This method allocates the cost of the acquired entity to the assets and liabilities assumed based on their estimated fair values at the date of acquisition.

Admin Re® blocks of business can be acquired in different legal forms including reinsurance, legal transfers of books of business to the Group, the purchase of a majority interest in a life insurance company or a combination thereof. The Group's policy is to treat these transactions consistently regardless of the legal form of the acquisition. Accordingly, the Group records the acquired assets and liabilities directly on the balance sheet. Premiums, life and health benefits and other income statement items are not recorded in the income statement on the date of the acquisition.

The underlying assets and liabilities acquired are subsequently accounted for according to the relevant GAAP guidance. This includes specific requirements applicable to subsequent accounting for assets and liabilities recognised as part of the acquisition method of accounting, including present value of future profits and other intangible assets.

Acquired present value of future profits

The acquired present value of future profits (PVFP) of business in force is recorded in connection with the acquisition of life and health business. The initial value is determined actuarially by discounting estimated future gross profits as a measure of the value of business acquired. The resulting asset is amortised on a constant yield basis over the expected revenue recognition period of the business acquired, generally over periods ranging up to 30 years, with the accrual of interest added to the unamortised balance at the earned rate. The earned rate corresponds to either the current earned rate or the original earned rate depending on the business written. The rate is consistently applied for the entire life of the applicable business. For universal-life and similar products, PVFP is amortised in line with estimated gross profits, and estimated gross profits are updated quarterly. The carrying value of PVFP is reviewed periodically for indicators of impairment in value. Adjustments to reflect impairment in value are recognised in earnings during the period in which the determination of impairment is made.

Other assets

Other assets includes amounts arising from the application of the deposit method of accounting to reinsurance contracts, receivables related to investing activities and securities in transit, post-employment benefit plans in a net asset position, real estate for own use and other classes of property, plant and equipment.

The deposit method of accounting is applied to insurance and reinsurance contracts that do not indemnify the ceding company or the Group against loss or liability relating to insurance risk. Under the deposit method of accounting, the deposit asset or liability is initially measured based on the consideration paid or received.

Real estate for own use as well as other classes of property, plant and equipment are carried at depreciated cost. Depreciation on buildings is recognised on a straight-line basis over the estimated useful life. Land is recognised at cost and not depreciated.

The Group accounts for its pension and other post-retirement benefit costs using the accrual method of accounting. Amounts charged to expense are based on periodic actuarial determinations.

Income taxes

Deferred income tax assets and liabilities are recognised based on the difference between financial statement carrying amounts and the corresponding income tax bases of assets and liabilities using enacted income tax rates and laws. A valuation allowance is recorded against deferred tax assets when it is deemed more likely than not that some or all of the deferred tax asset may not be realised.

The Group recognises the effect of income tax positions only if sustaining those positions is more likely than not. Changes in recognition or measurement are reflected in the period in which a change in judgement occurs.

Contract classification

A contract that provides indemnification against loss or liability from specified events and circumstances that may occur or be discovered during a specified period is classified as an insurance or reinsurance contract. Insurance or reinsurance contracts are classified and measured either as short duration insurance, long duration insurance or limited pay contracts, depending on contractual terms and conditions.

Universal life-type contracts are long-duration insurance contracts, providing either death or annuity benefits, with terms that are not fixed and not guaranteed.

Investment contracts are long-duration contracts that do not incorporate significant insurance risk, i.e. there is no mortality and morbidity risk, or the mortality and morbidity risk associated with the insurance benefit features offered in the contract is of insignificant amount or remote probability.

Unit linked contracts where the liability under the contract is dependent on the value of the underlying financial assets are classified as investment contracts, unless the contracts also contain features that transfer significant insurance risk.

Unpaid claims and claim adjustment expenses

Liabilities for unpaid claims and claim adjustment expenses for life and health insurance contracts are accrued when insured events occur and are based on the estimated ultimate cost of settling the claims once the Group has been notified of the occurrence of a claim. A provision is also included for claims incurred but not reported, which is developed on the basis of past experience adjusted for current trends and other factors that modify past experience. The establishment of the appropriate level of reserves is an inherently uncertain process involving estimates and judgements made by management, and therefore there can be no assurance that ultimate claims and claim adjustment expenses will not exceed the loss reserves currently established. These estimates are regularly reviewed, and adjustments for differences between estimates and actual payments for claims and for changes in estimates are reflected in income in the period in which the estimates are changed or payments are made.

The Group does not discount life and health claim reserves except for disability income claims in payment which are recognised at the estimated present value of the remaining ultimate net costs of the incurred claims.

Liabilities for life and health policy benefits
Liabilities for life and health policy benefits from reinsurance business are generally calculated using the net level premium method, based on assumptions as to investment yields, mortality, withdrawals, lapses and policyholder dividends. Assumptions are set at the time the contract is issued or, in the case of contracts acquired by purchase, at the purchase date. The assumptions are based on projections from past experience, making allowance for possible adverse deviation. Interest rate assumptions for life and health (re)insurance benefit liabilities are based on estimates of expected investment yields. Assumed mortality rates are generally based on experience multiples applied to the actuarial select and ultimate tables based on industry experience.

Liabilities for life and health policy benefits are increased with a charge to earnings if it is determined that future cash flows, including investment income, are insufficient to cover future benefits and expenses.

Policyholder account balances
Policyholder account balances relate to universal life-type contracts and investment contracts.

Amounts received as payment for investment contracts are reported as policyholder account balances. Related assets are included in general account assets, except for investments for unit-linked and with-profit business, which are presented in a separate line item on the face of the balance sheet.

Amounts assessed against policyholders for mortality, administration and surrender are shown as fee income. Amounts credited to policyholders are shown as interest credited to policyholders. Investment income and realised investment gains and losses allocable to policyholders are included in net investment income and net realised investment gains/losses, except for unit-linked and with-profit business, which is presented in a separate line item on the face of the income statement.

Unit-linked and with-profit business are presented together as they are similar in nature. For unit-linked contracts, the investment risk is borne by the policyholder. For with-profit contracts, the majority of the investment risk is also borne by the policyholder, although there are certain guarantees that limit the down-side risk for the policyholder, and a certain proportion of the returns may be retained by the Group (typically 10%). With-profit funds are being run so as to distribute all their assets over time. Additional disclosures are provided in Note 5.

Funds withheld
Funds withheld liabilities are liabilities that would normally be paid by the Group related to ceded business but are withheld by the Group to reduce credit risk or retain control over the investments.

Shadow loss recognition
Shadow loss recognition testing becomes relevant in low interest rate environments. The test considers whether the hypothetical sale of AFS securities and the reinvestment of proceeds at lower yields would lead to negative operational earnings in future periods, thereby causing a loss recognition event.

For shadow loss recognition testing, the Group uses current market yields to determine best estimate GAAP reserves rather than using locked in or current book yields. If the unlocked best estimate GAAP reserves based on current market rates are in excess of reserves based on locked in or current book yields, a shadow loss recognition reserve is set up. These reserves are recognised in other comprehensive income and do not impact net income. In addition, shadow loss recognition reserves can reverse up to the amount of losses recognised due to past loss events.

Premiums
Premiums, consideration for annuities and reinsurance premiums are recorded when due for payment.

Insurance ceded

The Group uses retrocession arrangements to increase its aggregate underwriting capacity, to diversify its risk and to reduce the risk of catastrophic loss on reinsurance assumed. The ceding of risks to retrocessionaires does not relieve the Group of its obligations to its policyholders and cedants. The Group regularly evaluates the financial condition of its retrocessionaires and monitors the concentration of credit risk to minimise its exposure to financial loss from retrocessionaires' insolvency. Premiums and losses ceded under retrocession contracts are reported as reductions of premiums earned and claims and claim adjustment expenses. Amounts recoverable for ceded short- and long-duration contracts, including universal life-type and investment contracts, are reported as assets in the accompanying consolidated balance sheet.

The Group provides reserves for uncollectible amounts on reinsurance balances ceded, based on management's assessment of the collectability of the outstanding balances.

Receivables

Premium and claims receivables which have been invoiced are accounted for at face value. Together with assets arising from the application of the deposit method of accounting that meet the definition of financing receivables they are regularly assessed for impairment. Evidence of impairment is the age of the receivable and/or any financial difficulties of the counterparty. Allowances are set up on the net balance, meaning all balances related to the same counterparty are considered. The amount of the allowance is set up in relation to the time a receivable has been due and financial difficulties of the debtor, and can be as high as the outstanding net balance.

Subsequent events

Subsequent events for the current reporting period have been evaluated up to 15 March 2016. This is the date on which the financial statements are available to be issued.

Recent accounting guidance

In January 2014, the FASB issued ASU 2014-04, "Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force)", an update to subtopic 310-40, "Receivables – Troubled Debt Restructurings by Creditors". ASU 2014-04 applies to creditors who obtain physical possession resulting from an in substance repossession or foreclosure of residential real estate property collateralising a consumer mortgage loan in satisfaction of a receivable. Existing guidance requires a creditor to reclassify a collateralised mortgage loan with the result that the loan is derecognised and the collateral asset recognised when there has been in substance repossession or foreclosure by the creditor. The ASU provides additional guidance on when a creditor is considered to have received physical possession from an in substance repossession. The Group adopted ASU 2014-04 on 1 January 2015. The adoption did not have an effect on the Group's financial statements.

In April 2014, the FASB issued ASU 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity", an update to topics 205, "Presentation of Financial Statements" and 360, "Property, Plant and Equipment". ASU 2014-08 amends the definition of a discontinued operation and requires entities to provide additional disclosures about disposal transactions that do not meet the discontinued-operations criteria. The new guidance eliminates two of the three existing criteria for classifying components of an entity as discontinued operations and instead requires discontinued operations treatment for disposals of a component or group of components that represents a strategic shift that has or will have a major impact on an entity's operations or financial results. The ASU also expands the discontinued operations classification to include disposals of equity method investments and acquired businesses held for sale. The ASU also requires entities to reclassify assets and liabilities of a discontinued operation for all comparative periods presented in the statement of financial position. The Group is applying the new requirements on a prospective basis to transactions occurring after 1 January 2015. The adoption did not have an effect on the Group's financial statements.

In June 2014, the FASB issued ASU 2014-11, "Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures", an update to topic 860, "Transfers and Servicing". ASU 2014-11 requires entities to account for repurchase-to-maturity transactions as secured borrowings rather than as sales with forward repurchase agreements and eliminates previously issued accounting guidance on linked repurchase financing transactions. The ASU includes new disclosure requirements for transactions economically similar to repurchase agreements in which the transferor retains substantially all of the exposure to the economic return on the transferred financial assets throughout the term of the transaction. These requirements of ASU 2014-11 were adopted on 1 January 2015 and the adoption did not have an effect on the Group's financial statements. In addition, for transactions accounted for as secured borrowings, including repurchase agreements and securities lending transactions, the ASU requires entities to provide disclosures that disaggregate the related gross obligation by class of collateral pledged, disclose the remaining contractual maturity of the agreements and to provide information on the potential risks of these arrangements and related collateral pledged. In line with the specific effective date provided in the ASU, the Group initially adopted the new disclosure requirements for the interim period ending 30 June 2015 and the adoption did not have an effect on the Group's financial statements.

In June 2014, the FASB issued ASU 2014-12, "Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period", an update to topic 718, "Compensation – Stock Compensation". ASU 2014-12 states that a performance target that affects vesting of a share-based payment and that could be achieved after the requisite service period is a performance condition, and therefore, the target is not reflected in the estimation of the award's grant date fair value. Compensation cost for such an award would be recognised over the required service period if it is probable that the performance condition will be achieved. The Group adopted ASU 2014-12 on 1 January 2015. The adoption did not have an effect on the Group's financial statements.

In August 2014, the FASB issued ASU 2014-14, "Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure", an update to subtopic 310-40, "Receivables – Troubled Debt Restructurings by Creditors". ASU 2014-14 affects creditors that hold government-guaranteed mortgage loans. The ASU requires that a mortgage loan be derecognised and that a separate other receivable be recognised upon foreclosure if specific conditions are met, including that the guarantee is not separable from the loan before foreclosure. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance expected to be recovered from the guarantor. The Group adopted ASU 2014-14 on 1 January 2015. The adoption did not have an effect on the Group's financial statements.

In February 2015, the FASB issued ASU 2015-02, "Amendments to the Consolidation Analysis", an update to topic 810, "Consolidation". The amendments in ASU 2015-02 lead to changes in both the variable interest and voting interest consolidated models. The ASU requires a reassessment whether limited partnerships and similar entities need to be consolidated. Among other things, the existing presumption under the voting interest model that a general partner consolidates an entity is not applicable anymore. For entities other than limited partnerships, the ASU clarifies how to determine whether the equity holders as a group have power over the entity, thereby impacting the conclusion on whether or not the entity is a VIE. In addition, the ASU changes the way fee arrangements and related party relationships affect the consolidation conclusion under the VIE model. The deferral of ASU 2009-17 for investments in certain investment funds has been eliminated. ASU 2015-02 is effective for interim and annual reporting periods beginning after December 15, 2015. As a result of implementing ASU 2015-02, the Group consolidation scope will change. In addition, the scope of entities included in disclosures relating to variable interest entities will increase.

In January 2016, the FASB issued ASU 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities", an update to subtopic 825-10, "Financial Instruments – Overall". The ASU requires an entity to carry investments in equity securities, including other ownership interests and limited liability companies at fair value through net income, with the exception of equity method investments, investments that result in consolidation or investments for which the entity has elected the practicability exception to fair value measurement. The practicability exception can only be applied by certain entities and only to equity investments without a readily determinable fair value. Investments under the practicability exception will be subject to an indicator-based impairment test. For financial liabilities to which the fair value option has been applied, the ASU also requires an entity to separately present the change in fair value attributable to instrument-specific credit risk in other comprehensive income rather than in net income. Specific exceptions apply to this requirement. In addition, the ASU requires an entity to assess whether a valuation allowance is needed on a deferred tax asset (DTA) related to fixed income securities AFS in combination with the entity's other DTA's rather than separately from other DTAs. The ASU also introduces changes to disclosure requirements for financial instruments not measured at fair value and introduces new requirements for equity instruments where the practicability exception to fair value measurement is applied. The new requirements are effective for annual and interim periods beginning after 15 December 2017 with early adoption permitted for requirements relating to the presentation of the impact of instrument-specific credit risk on qualifying financial liabilities in other comprehensive income. The Group is currently assessing the impact of the new requirements.

2 Information on business segments

The Group acquires closed blocks of in-force life and health insurance business, either through reinsurance, by the purchase of all shares of a life insurance company or the transfer of its business to the Group, and typically assumes responsibility for administering the underlying policies. The administration of the business may be managed directly or, where appropriate, in partnership with a third party.

The Group currently operates in the United Kingdom and the Netherlands, which are also the two core operating business segments.

Accounting policies applied by the business segments are in line with those described in the summary of significant accounting policies (please refer to Note 1).

The Group's operating segments are outlined below.

United Kingdom
The United Kingdom segment is the consolidated Admin Re® business operating within the United Kingdom. This segment acquires individual closed blocks of in-force long-term life, pensions and health business. The segment administers the policies until they reach maturity, are surrendered, or an insured event occurs. The main products administered are long-term life and pension products, permanent health insurance and critical illness products and retirement annuities. This segment includes unit-linked and with-profit business as well as non-participating business.

A unit-linked fund is a collection of assets that many individuals can invest in. Investing in such a fund allows for a much larger range of investments than could normally be achieved by one individual. The policyholder bears the underlying investment risk. The Group invests the assets in accordance with the stated objectives for the particular fund which the policyholder has selected and earns fees from the management of these assets. The investment performance, net of fees, is earned by the individual contract holder.

With-profit business is designed to provide long-term growth in the invested money of policyholders, some certainty of the amount which can be received on certain dates and some protection against stock market fluctuations. The Group invests the assets in a diverse portfolio covering a wide range of asset classes and geographical regions in order to manage market risk, and aims to distribute a part of its profit to the with-profits policy holders in the form of a bonus.

The non-participating business contains other insurance products such as term assurance or annuities. Policyholder benefits are determined by the terms of the products at inception. The investment risk is borne by the segment, not the policyholder.

Netherlands
Algemene Levensherverzekering Maatschappij N.V. operates within the Dutch market and specialises in the selective underwriting and management of life and accident & health (re)insurance risks, in particular risks associated with death and disability.

Group items and consolidation
Items not allocated to the business segments are included in the "Group items and consolidation" column, which encompasses SRLC, the holding company of the Group and SRLC Management, the management entity. The purpose is to provide acquisition, management, administration services and funding of investments in the Group companies and operates as the financing and management entity of the Group. Additionally, the column includes consolidated items as segment information is presented net of intra-group arrangements. Such elimination of intra-group transactions includes mainly intersegmental funding.

Business segments – income statement

For the years ended 31 December

2014 USD millions	United Kingdom	Netherlands	Group items and consolidation	Total
Revenues				
Premiums earned	263	56		319
Fee income from policyholders	343			343
Net investment income – non-participating business	585	82		667
Net realised investment gains/losses – non-participating business	152	4	–15	141
Net investment result – unit-linked and with-profit business	1 305			1 305
Total revenues	2 648	142	–15	2 775
Expenses				
Life and health benefits	–892	–116		–1 008
Return credited to policyholders	–1 091			–1 091
Acquisition costs	–137	6		–131
Other expenses	–288	–5	–2	–295
Interest expenses	–51		26	–25
Total expenses	–2 459	–115	24	–2 550
Income before income tax expense	189	27	9	225

2015 USD millions	United Kingdom	Netherlands	Group items and consolidation	Total
Revenues				
Premiums earned	191	41		232
Fee income from policyholders	318			318
Net investment income – non-participating business	466	62		528
Net realised investment gains/losses – non-participating business	311	2	8	321
Net investment result – unit-linked and with-profit business	772			772
Total revenues	**2 058**	**105**	**8**	**2 171**
Expenses				
Life and health benefits	–498	–47		–545
Return credited to policyholders	–780			–780
Acquisition costs	–93	11	–14	–96
Other expenses	–232	–6	–8	–246
Interest expenses	–42		26	–16
Total expenses	**–1 645**	**–42**	**4**	**–1 683**
Income before income tax expense	**413**	**63**	**12**	**488**

Business segments – balance sheet

For the years ended 31 December

2014 USD millions	United Kingdom[1]	Netherlands	Group items and consolidation	Total
Total assets	42 158	1 638	258	44 054

2015 USD millions	United Kingdom	Netherlands	Group items and consolidation	Total
Total assets	44 526	1 353	181	46 060

[1] During 2015, the Group revised the methodology for the loss recognition and shadow loss recognition testing. Based on the results of the loss recognition testing, no adjustment was required. Therefore, the revision has no impact on the net income of the Group. Based on the results of the shadow loss recognition testing, an additional shadow loss reserve, net of tax, of USD 112 million was recognised for 2014, impacting "Acquired present value of future profits", "Deferred tax assets", "Deferred and other non-current tax liabilities" and "Net unrealised investment gains/losses, net of tax" in accumulated other comprehensive income. Comparatives are adjusted accordingly.

Net premiums earned and fee income by type of business

For the years ended 31 December

USD millions	2014	**2015**
Unit-linked business	337	313
Non-participating business	320	225
With-profit business	5	12
Total	662	**550**

3 Insurance information

For the years ended 31 December

Premiums written and premiums earned

USD millions	2014	2015
Premiums written		
Gross	635	497
Ceded	–305	–268
Net premiums written	330	**229**
Premiums earned		
Gross	624	500
Ceded	–305	–268
Net premiums earned	319	**232**

Life and health benefits

USD millions	2014	2015
Life and health benefits paid, thereof:		
Gross	–1 661	–1 486
Ceded	294	261
Net life and health benefits paid	–1 367	**–1 225**
Change in life and health benefits, thereof:		
Gross	384	701
Ceded	–25	–21
Net change in life and health benefits	359	**680**
Life and health benefits	–1 008	**–545**

Acquisition costs

USD millions	2014	2015
Acquisition costs		
Gross	–134	–99
Ceded	3	3
Net acquisition costs	–131	**–96**

Reinsurance receivables
Reinsurance receivables as of 31 December were as follows:

USD millions	2014	2015
Premium receivables invoiced	4	1
Receivables invoiced from ceded re/insurance business	7	5

Reinsurance recoverable on unpaid claims and policy benefits
As of 31 December 2014 and 2015, the Group had a reinsurance recoverable of USD 256 million and USD 880 million, respectively. The concentration of credit risk is regularly monitored and evaluated. The reinsurance programme with Partner Re accounted for 79% of the Group's reinsurance recoverable as of year-end 2014 and 19% as of year-end 2015, respectively. The reinsurance programme with Hannover Re accounted for 0% as of year-end 2014 and 54% as of year-end 2015, respectively.

The Group cedes certain re/insurance contracts to affiliated companies within the Swiss Re Group, but outside the Swiss Re Life Capital Group (please refer to Note 10).

Policyholder dividends
Policyholder dividends are recognised as an element of policyholder benefits. The relative percentage of participating insurance of the life and health policy benefits in 2014 and 2015 was 19% and 18%, respectively. The amount of policyholder dividend expense in 2014 and 2015 was USD 113 million and USD 126 million, respectively.

4 Acquired present value of future profits (PVFP)

As of 31 December, the PVFP was as follows:

USD millions	2014	**2015**
Opening balance as of 1 January	1 508	599
Effect of acquisitions/disposals and retrocessions		153
Amortisation	–228	–162
Interest accrued on unamortised PVFP	99	83
Effect of foreign currency translation	–47	–62
Effect of change in unrealised gains/losses[1]	–733	650
Closing balance as of 31 December	599	**1 261**

[1] During 2015 the Group revised the methodology for the loss recognition and shadow loss recognition testing. Based on the results of the loss recognition testing, no adjustment was required. Therefore, the revision has no impact on the net income of the Group. Based on the results of the shadow loss recognition testing, an additional shadow loss reserve, net of tax, of USD 112 million was recognised for 2014, impacting "Acquired present value of future profits", "Deferred tax assets", "Deferred and other non-current tax liabilities" and "Net unrealised investment gains/losses, net of tax" in accumulated other comprehensive income. Comparatives have been revised accordingly.

Retroceded PVFP may arise on retrocession of reinsurance portfolios, including reinsurance undertaken as part of a securitisation. The associated potential retrocession recoveries are determined by the nature of the retrocession agreements and by the terms of the securitisation.

In 2015, based on the results of shadow loss recognition testing, the shadow loss reserve was reduced by USD 662 million, impacting PVFP and other comprehensive income. The adjustment is reflected in the "effect of change in unrealised gains/losses" line in the table above. Shadow loss recognition testing considers the adequacy of contractual liabilities, net of PVFP, using current best estimates of all future cash flows discounted at current market yields. The purpose is to reflect the fact that certain amounts recorded as unrealised investment gains and losses within shareholder's equity will ultimately accrue to policyholders and not the shareholder. Shadow losses recognised can reverse up to the amount of losses recognised due to a loss recognition event.

The percentage of PVFP which is expected to be amortised in each of the next five years is 8%, 7%, 7%, 7% and 7%.

5 Investments

Investment income

Net investment income by source (excluding unit-linked and with-profit business) was as follows:

USD millions	2014	**2015**
Fixed income securities	565	453
Policy loans, mortgages and other loans	74	60
Share in earnings of equity-accounted investees	9	7
Other investment income	16	10
Net result from deposit-accounted contracts	38	26
Gross investment income	702	**556**
Investment expenses	–12	–17
Interest charged for funds held	–23	–11
Net investment income – non-participating business	667	**528**

Realised gains and losses

Realised gains and losses for fixed income, equity securities and other investments (excluding unit-linked and with-profit business) were as follows:

USD millions	2014	**2015**
Fixed income securities available-for-sale:		
Gross realised gains	182	322
Gross realised losses	–8	–3
Net realised/unrealised gains/losses on insurance-related activities	–18	10
Foreign exchange gains/losses	–15	–8
Net realised investment gains/losses – non-participating business	141	**321**

Investment result – unit-linked and with-profit business
For unit-linked contracts, the investment risk is borne by the policyholder. For with-profit contracts, the majority of the investment risk is also borne by the policyholder, although there are certain guarantees that limit the down-side risk for the policyholder, and a certain proportion of the returns may be retained by the Group (typically 10%).

Net investment result on unit-linked and with-profit business credited to policyholders was as follows:

USD millions	2014 Unit-linked	2014 With-profit	2015 Unit-linked	2015 With-profit
Investment income – fixed income securities	108	92	90	77
Investment income – equity securities	584	32	518	28
Investment income – other	22	13	32	16
Total investment income – unit-linked and with-profit business	714	137	**640**	**121**
Realised gains/losses – fixed income securities	132	169	–75	–58
Realised gains/losses – equity securities	168	–1	120	–19
Realised gains/losses – other	5	–19	28	15
Total realised gains/losses – unit-linked and with-profit business	305	149	**73**	**–62**
Total net investment result – unit-linked and with-profit business	1 019	286	**713**	**59**

Impairment on fixed income securities related to credit losses
Other-than-temporary impairments for debt securities are bifurcated between credit and non-credit components, with the credit component recognised through earnings and the non-credit component recognised in other comprehensive income. The credit component of other-than-temporary impairments is defined as the difference between a security's amortised cost basis and the present value of expected cash flows. Methodologies for measuring the credit component of impairment are aligned to market observer forecasts of credit performance drivers. Management believes that these forecasts are representative of median market expectations.

For securitised products, a cash flow projection analysis is conducted by integrating forward-looking evaluation of collateral performance drivers, including default rates, prepayment rates and loss severities, and deal-level features, such as credit enhancement and prioritisation among tranches for payments of principal and interest. Analytics are differentiated by asset class, product type and security-level differences in historical and expected performance. For corporate bonds and hybrid debt instruments, an expected loss approach based on default probabilities and loss severities expected in the current and forecasted economic environment is used for securities identified as credit-impaired to project probability-weighted cash flows. Expected cash flows resulting from these analyses are discounted, and the present value is compared to the amortised cost basis to determine the credit component of other-than-temporary impairments.

Investments available-for-sale

Amortised cost or cost and estimated fair values of fixed income securities classified as available-for-sale as of 31 December were as follows:

2014 USD millions	Amortised cost or cost	Gross unrealised gains	Gross unrealised losses	Estimated fair value
Debt securities issued by governments and government agencies:				
US Treasury and other US government corporations and agencies	112	23		135
United Kingdom	3 475	517	–1	3 991
Germany	176	10		186
France	223	43		266
Other	695	76		771
Total	4 681	669	–1	5 349
Corporate debt securities	7 365	1 094	–4	8 455
Mortgage-and asset-backed securities	313	57		370
Fixed income securities available-for-sale	12 359	1 820	–5	14 174

2015 USD millions	Amortised cost or cost	Gross unrealised gains	Gross unrealised losses	Estimated fair value
Debt securities issued by governments and government agencies:				
US Treasury and other US government corporations and agencies	106	19		125
United Kingdom	3 052	287	–11	3 328
Germany	69	7		76
France	171	34		205
Other	587	51	–2	636
Total	3 985	398	–13	4 370
Corporate debt securities	7 182	652	–60	7 774
Mortgage- and asset-backed securities	243	31	–5	269
Fixed income securities available-for-sale	**11 410**	**1 081**	**–78**	**12 413**

Investments held for unit-linked and with-profit business

The carrying amounts of investments held for unit-linked and with-profit business as of 31 December were as follows:

USD millions	2014 Unit-linked	2014 With-profit	2015 Unit-linked	2015 With-profit
Fixed income securities trading	1 870	1 810	2 410	1 659
Equity securities trading	18 160	991	21 076	889
Investment real estate	736	429	691	366
Other invested assets	435		332	
Total investments for unit-linked and with-profit business	21 201	3 230	**24 509**	**2 914**

Maturity of fixed income securities available-for-sale

The amortised cost or cost and estimated fair values of investments in fixed income securities available-for-sale by remaining maturity are shown below. Fixed maturity investments are assumed not to be called for redemption prior to the stated maturity date. As of 31 December 2014 and 2015, USD 423 million and USD 162 million, respectively, of fixed income securities available-for-sale were callable.

USD millions	2014 Amortised cost or cost	2014 Estimated fair value	2015 Amortised cost or cost	2015 Estimated fair value
Due in one year or less	986	991	1 067	1 072
Due after one year through five years	2 179	2 321	2 172	2 278
Due after five years through ten years	2 183	2 468	2 215	2 381
Due after ten years	6 698	8 023	5 713	6 413
Mortgage- and asset-backed securities with no fixed maturity	313	371	243	269
Total fixed income securities available-for-sale	12 359	14 174	**11 410**	**12 413**

Assets pledged

As of 31 December 2015, investments with a carrying value of USD 1 045 million were placed on deposit or pledged to secure certain reinsurance liabilities, including pledged investments in subsidiaries.

Unrealised losses on securities available-for-sale

The following table shows the fair value and unrealised losses of the Group's fixed income securities, aggregated by investment category and length of time that individual securities were in a continuous unrealised loss position as of 31 December 2014 and 2015.

2014 USD millions	Less than 12 months Fair value	Less than 12 months Unrealised losses	12 months or more Fair value	12 months or more Unrealised losses	Total Fair value	Total Unrealised losses
Debt securities issued by governments and government agencies:						
United Kingdom	76	1	33		109	1
Other	4		1		5	0
Total	80	1	34		114	1
Corporate debt securities	36	2	80	2	116	4
Mortgage-and asset-backed securities	38				38	0
Total	154	3	114	2	268	5

2015 USD millions	Less than 12 months Fair value	Less than 12 months Unrealised losses	12 months or more Fair value	12 months or more Unrealised losses	Total Fair value	Total Unrealised losses
Debt securities issued by governments and government agencies:						
United Kingdom	484	11	43		527	11
Other	53	2	1		54	2
Total	537	13	44		581	13
Corporate debt securities	1 403	58	13	2	1 416	60
Mortgage-and asset-backed securities	57	5			57	5
Total	**1 997**	**76**	**57**	**2**	**2 054**	**78**

Policy, mortgage and other loans

As of 31 December, the carrying values of investments in mortgages, policy and other loans (excluding unit-linked and with-profit business) were as follows:

USD millions	2014	**2015**
Policy loans	11	11
Mortgage loans	639	557
Other loans	548	516
Total	1 198	**1 084**

The carrying value of policy loans, mortgages and other loans approximates fair value.

Substantially all mortgages, policy loans and other loan receivables are secured by buildings, land or the underlying policies.

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6 Fair value disclosures

Fair value, as defined by the Fair Value Measurements and Disclosures Topic, 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.

The Fair Value Measurements and Disclosures Topic requires all assets and liabilities that are measured at fair value to be categorised within the fair value hierarchy. This three-level hierarchy is based on the observability of the inputs used in the fair value measurement. The levels of the fair value hierarchy are defined as follows:

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

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

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

The types of instruments valued, based on unadjusted quoted market prices in active markets, include most US government and sovereign obligations, active listed equities and most money market securities. Such instruments are generally classified within level 1 of the fair value hierarchy.

The types of instruments that trade in markets that are not considered to be active, but are valued based on quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency, include most government agency securities, investment-grade corporate bonds, certain mortgage- and asset-backed products, less liquid listed equities, and state, municipal and provincial obligations. Such instruments are generally classified within level 2 of the fair value hierarchy.

Exchange-traded derivative instruments typically fall within level 1 or level 2 of the fair value hierarchy depending on whether they are considered to be actively traded or not.

Certain financial instruments are classified within level 3 of the fair value hierarchy, because they trade infrequently and therefore have little or no price transparency. When appropriate, valuations are adjusted for various factors such as liquidity, bid/offer spreads, and credit considerations. Such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

In certain situations, the Group uses inputs to measure the fair value of asset or liability positions that fall into different levels of the fair value hierarchy. In these situations, the Group will determine the appropriate level based upon the lowest level input that is significant to the determination of the fair value.

Valuation techniques

US government securities typically have quoted market prices in active markets and are categorised as level 1 instruments in the fair value hierarchy. Non-US government holdings are generally classified as level 2 instruments and are valued on the basis of the quotes provided by pricing services, which are subject to the Group's pricing validation reviews and pricing vendor challenge process. Valuations provided by pricing vendors are generally based on the actual trade information as substantially all of the Group's non-US government holdings are traded in transparent and liquid markets.

Corporate debt securities mainly include US and European investment-grade positions, which are priced on the basis of quotes provided by third-party pricing vendors and first utilise valuation inputs from actively traded securities, such as bid prices, bid spreads to Treasury securities, Treasury curves, and same or comparable issuer curves and spreads. Issuer spreads are determined from actual quotes and traded prices and incorporate considerations of credit/default, sector composition, and liquidity and call features. Where market data is not available, valuations are developed based on the modelling techniques that utilise observable inputs and option-adjusted spreads and incorporate considerations of the security's seniority, maturity and the issuer's corporate structure.

Values of mortgage and asset-backed securities are obtained both from third-party pricing vendors and through quoted prices, some of which may be based on the prices of comparable securities with similar structural and collateral features. Values of certain asset-backed securities (ABS) for which there are no significant observable inputs are developed using benchmarks to similar transactions or indices. For both residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS), cash flows are derived based on the transaction-specific information, which incorporates priority in the capital structure, and are generally adjusted to reflect benchmark yields, market prepayment data, collateral performance (default rates and loss severity) for specific vintage and geography, credit enhancements, and ratings. For certain RMBS and CMBS with low levels of market liquidity, judgements may be required to determine comparable securities based on the loan type and deal-specific performance. CMBS terms may also incorporate lock-out periods that restrict borrowers from prepaying the loans or provide disincentives to prepay and therefore reduce prepayment risk of these securities, compared to RMBS. The factors specifically considered in valuation of CMBS include borrower-specific statistics in a specific region, such as debt service coverage and loan-to-value ratios, as well as the type of commercial property. Mortgage and asset-backed securities also includes debt securitised by credit card, student loan and auto loan receivables. Pricing inputs for these securities also focus on capturing, where relevant, collateral quality and performance, payment patterns, and delinquencies.

The Group uses third-party pricing vendor data to value agency securitised products, which mainly include collateralised mortgage obligations (CMO) and mortgage-backed government agency securities. The valuations generally utilise observable inputs consistent with those noted above for RMBS and CMBS.

Equity securities held by the Group for proprietary investment purposes are mainly classified in levels 1 and 2. Securities classified in level 1 are traded on public stock exchanges for which quoted prices are readily available. Level 2 equities include equity investments fair valued pursuant to the fair value option election and certain hedge fund positions; all valued based on primarily observable inputs.

Governance around level 3 fair valuation

The Asset Valuation Committee, endorsed by the Group Executive Committee, has a primary responsibility for governing and overseeing all of the Group's asset and derivative valuation policies and operating parameters (including level 3 measurements). The Asset Valuation Committee delegates the responsibility for implementation and oversight of consistent application of the Group's pricing and valuation policies to the Pricing and Valuation Committee.

The Pricing and Valuation Committee, which is a joint Risk Management & Finance management control committee, is responsible for the implementation and consistent application of the pricing and valuation policies. Key functions of the Pricing and Valuation Committee include: oversight over the entire valuation process, approval of internal valuation methodologies, approval of external pricing vendors, monitoring of the independent price verification (IPV) process and resolution of significant or complex valuation issues.

A formal IPV process is undertaken monthly by members of the Valuation Risk Management team within the Financial Risk Management function. The process includes monitoring and in-depth analyses of approved pricing methodologies and valuations of the Group's financial instruments aimed at identifying and resolving pricing discrepancies.

The Risk Management function is responsible for independent validation and ongoing review of the Group's valuation models. The Product Control group within Finance is tasked with reporting of fair values through the vendor- and model-based valuations, the results of which are also subject to the IPV process.

Assets and liabilities measured at fair value on a recurring basis

As of 31 December, the fair values of assets and liabilities measured on a recurring basis by level of input were as follows:

2014 USD millions	Quoted prices in active markets for identical assets and liabilities (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets				
Fixed income securities held for proprietary investment purposes		14 174		14 174
Debt securities issued by US government and government agencies		136		136
Debt securities issued by non-US governments and government agencies		5 213		5 213
Corporate debt securities		8 455		8 455
Mortgage asset-backed securities		370		370
Fixed income securities backing unit-linked and with-profit business		3 680		3 680
Equity securities backing unit-linked and with-profit business	19 140	11		19 151
Short-term investments held for proprietary investment purposes	33	995		1 028
Short-term investments backing unit-linked and with-profit business		20		20
Derivative financial instruments		3		3
Total assets at fair value	19 173	18 883	0	38 056
Liabilities				
Derivative financial instruments		–3		–3
Total liabilities at fair value	0	–3	0	–3

2015 USD millions	Quoted prices in active markets for identical assets and liabilities (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets				
Fixed income securities held for proprietary investment purposes		12 359	54	12 413
Debt securities issued by US government and government agencies		125		125
Debt securities issued by non-US governments and government agencies		4 245		4 245
Corporate debt securities		7 720	54	7 774
Mortgage asset-backed securities		269		269
Fixed income securities backing unit-linked and with-profit business		4 069		4 069
Equity securities backing unit-linked and with-profit business	21 965			21 965
Short-term investments held for proprietary investment purposes	22	436		458
Short-term investments backing unit-linked and with-profit business		64		64
Total assets at fair value	**21 987**	**16 928**	**54**	**38 969**
Liabilities				
Derivative financial instruments				0
Total liabilities at fair value	**0**	**0**	**0**	**0**

Assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (level 3)

The Group's level 3 position consists of infrastructure loans. The valuation technique used in the fair value measurement of the Group's infrastructure loan is the discounted cash flow model and the unobservable input is the valuation spread in the range of 176 bps – 191bps and weighted average of 182 bps. A significant increase (decrease) in this input in isolation would result in a significantly lower (higher) fair value measurement.

Assets and liabilities not measured at fair value but for which the fair value is disclosed

Assets and liabilities not measured at fair value but for which the fair value is disclosed as of 31 December, were as follows:

	Significant unobservable inputs (Level 3)	
USD millions	2014	**2015**
Assets		
Policy loans	11	11
Mortgage loans	639	557
Other loans	548	516
Total assets	1 198	**1 084**
Liabilities		
Debt	–855	–808
Total liabilities	–855	**–808**

Policy loans, other loans and certain mortgage loans are classified as level 3 measurements, as they do not have an active exit market. Some of these positions need to be assessed in conjunction with the corresponding insurance business. Considering these circumstances, the Group presents the carrying amount as an approximation for the fair value.

The fair value of the debt position is judged to approximate carrying value.

7 Acquisitions

On 6 January 2016, the Group acquired 100% of the shares of Guardian Holdings Europe Limited, the holding company for operations trading under the name Guardian Financial Services ("Guardian") from private equity company Cinven. The total cost of acquisition was GBP 1.6 billion in cash. Guardian provides life insurance solutions to financial institutions and insurance companies, either through the acquisition of closed books of business or through entering reinsurance agreements with its customers.

The transaction has enhanced the Group's position as a leading closed life book consolidator in the UK, adding approximately 900,000 policies including a mixture of annuities, life insurance and pensions. As a result, the policyholder and asset base of the Group has expanded and Admin Re® has diversified its current business mix, with a total of over four million policies in force.

Guardian previously prepared its financial statements in accordance with International Financial Reporting Standards (IFRS). Given the unavailability of US GAAP financial information prior to the issuance of this report, pro forma financial statements and other US GAAP financial information are not presented in the Group financial statements and related notes for 2015. The Purchase GAAP process is in progress and is expected to be completed and reflected in the first half-year 2016 financial statements.

Apart from transaction costs of USD 21 million, the Group financial statements and related notes presented in this report are not impacted.

8 Debt

The Group's debt as of 31 December was as follows:

USD millions	2014	2015
Long-term senior financial debt	855	**808**
Total carrying value	855	**808**
Total fair value	855	**808**

Interest expense on long-term debt

Interest expense on long-term debt for the years ended 31 December was as follows:

USD millions	2014	2015
Senior financial debt	11	14
Total	11	**14**

Long-term debt

In 2014, SRLC entered into a GBP 550 million revolving credit facility with a syndicate of banks. The rate of interest on loans made under this facility is the base rate for the interest period of each draw-down plus a margin of 100 basis points. The facility has an expiry date of 8 April 2019. At 31 December 2015, the facility was fully drawn.

9 Income taxes

The Group is generally subject to corporate income taxes based on the taxable net income in various jurisdictions in which the Group operates. The components of the income tax expense/(benefit) were:

USD millions	2014	**2015**
Current taxes	5	130
Deferred taxes	–12	–128
Income tax expense	–7	**2**

Tax rate reconciliation

The following table reconciles the expected tax expense/(benefit) at the United Kingdom statutory tax rate to the actual tax expense/(benefit) in the accompanying income statement:

USD millions	2014	**2015**
Income tax at the UK statutory tax rate of 20.3% (2014: 21.5%)	48	99
Increase (decrease) in the income tax charge resulting from:		
Foreign income taxed at different rates	–1	–1
Tax exempt income/dividends received deduction	–12	–13
Change in valuation allowance	134	–35
Change in statutory rate	10	–13
Basis difference in subsidiary	–169	9
Unrecognised tax benefits	–14	–14
Prior-year adjustments		–33
Other, net	–3	3
Total	–7	**2**

The Group reported a tax charge of USD 2 million on a pre-tax income of USD 488 million for 2015, compared to a benefit of USD 7 million on a pre-tax income of USD 225 million for 2014. This translates into an effective tax rate in the current and prior-year reporting periods of 0.4% and -3.1%, respectively. The higher rate in the current year is mainly driven by tax at statutory tax rates on higher income partially offset by a benefit from the change in statutory rates in the UK and prior year adjustments. The movement in a capital loss tax asset arising in prior years was offset by the release of the valuation allowance held against that benefit.

Deferred and other non-current taxes

The components of deferred and other non-current taxes were as follows:

USD millions	2014	2015
Deferred tax assets		
Benefit on loss carryforwards	303	265
Tax on unrealised gain in income	232	179
Other	26	18
Gross deferred tax asset	561	462
Valuation allowance	–169	–126
Total deferred tax assets	392	**336**
Deferred tax liabilities		
Present value of future profits	–291	–234
Technical provisions	–343	–247
Unrealised gains going through equity	–226	–179
Untaxed realised gains	–101	–72
Other	–4	–2
Total deferred tax liabilities	–965	**–734**
Liability for unrecognised tax benefits including interest and penalties	–17	–3
Total deferred and other non-current tax liabilities	–982	**–737**

As of 31 December 2015, the Group has no temporary differences associated with investment in subsidiaries, branches and associates and interests in joint ventures, for which deferred tax liabilities have not been recognised.

As of 31 December 2015, the Group had USD 817 million net operating tax loss carryforwards that never expire.

The Group also had USD 653 million net capital loss carryforwards that never expire. There is no current expectation of being able to use any of these losses in the entity in which they have arisen and therefore a valuation allowance has been set up.

Net capital tax losses of USD 144 million were utilised during the period ended 31 December 2015.

Income taxes paid in 2014 and 2015 were USD 13 million and USD 65 million, respectively.

Unrecognised tax benefits

A reconciliation of the opening and closing amount of gross unrecognised tax benefits (excluding interest and penalties) is as follows:

USD millions	2014	**2015**
Balance as of 1 January	33	17
Additions based on tax positions related to the current year	3	
Reductions for tax positions of prior years	–17	–14
Other (including foreign currency translation)	–2	
Balance as of 31 December	17	**3**

The amount of gross unrecognised tax benefits within the tabular reconciliation that, if recognised, would affect the effective tax rate were approximately USD 17 million and USD 3 million at 31 December 2014 and 31 December 2015, respectively.

Interest and penalties related to unrecognised tax benefits are recorded in income tax expense. There are no interest and penalties accrued for 2015.

The Group continually evaluates proposed adjustments by taxing authorities. The Group believes that it is reasonably possible (more than remote and less than likely) that the balance of unrecognised tax benefits could increase or decrease over the next 12 months due to settlements or expiration of statutes. However, quantification of an estimated range cannot be made at this time.

The following table summarises jurisdictions and tax years that remain subject to examination:

Netherlands	2015
Switzerland	2013–2015
United Kingdom	2012, 2014–2015

10 Related parties

The Group assumes and cedes certain re/insurance contracts from/to affiliated companies within the Swiss Re Group, but outside the Swiss Re Life Capital Group. The Group also conducts various investing activities with affiliated companies in the Swiss Re Group. In addition, the Group enters into various arrangements with affiliated companies in the Swiss Re Group for the provision of services. These activities result in the following related party transactions on the income statement and balance sheet:

USD millions	2014	**2015**
Premiums earned	–273	–244
Net investment income – non-participating business	–10	–11
Total revenues	–283	**–255**
Life and health benefits	231	217
Return credited to policyholders		2
Acquisition costs	1	1
Other expenses	–31	–13
Interest expenses	–14	
Total expenses	187	**207**

USD millions	2014	**2015**
Other invested assets	26	43
Premiums and other receivables	–2	–2
Reinsurance recoverable on unpaid claims and policy benefits	–17	143
Other assets	19	18
Total assets	26	**202**
Liabilities for life and health policy benefits		23
Funds held under reinsurance treaties	1	
Reinsurance balances payable	22	17
Accrued expenses and other liabilities	3	4
Total liabilities	26	**44**

11 Benefit plans

Defined benefit pension plans and post-retirement benefits
The Group sponsors the Admin Re Staff Pension Scheme, a funded defined benefit pension plan. The Group also sponsors the Admin Re Private Retirement Trust, an executive retirement plan with a single member. Employer contributions to the plans are charged to income on a basis which recognises the costs of pensions over the expected service lives of employees covered by the plans. A full valuation is prepared at least every three years.

The measurement date of these plans is 31 December for each year presented.

USD millions	2014	2015
Benefit obligation as of 1 January	502	510
Service cost	1	1
Interest cost	22	18
Actuarial gains/losses	33	–18
Benefits paid	–16	–14
Effect of foreign currency translation	–32	–27
Benefit obligation as of 31 December	510	**470**
Fair value of plan assets as of 1 January	505	531
Actual return on plan assets	49	0
Company contribution	26	24
Benefits paid	–16	–14
Effect of foreign currency translation	–33	–29
Fair value of plan assets as of 31 December	531	**512**
Funded status	21	**42**

Amounts recognised in "Other assets" and "Accrued expenses and other liabilities" in the Group's balance sheet as of 31 December were as follows:

USD millions	2014	2015
Non-current assets	23	44
Non-current liabilities	–2	–2
Net amount recognised	21	**42**

As of 31 December 2014 and 2015, a net loss recognised in accumulated other comprehensive income, gross of tax, was USD 84 million and USD 81 million, respectively.

Components of net periodic benefit cost

The components of pension and post-retirement cost for the years ended 31 December, were as follows:

USD millions	2014	2015
Service cost (net of participant contributions)	1	1
Interest cost	22	18
Expected return on assets	–27	–24
Amortisation of:		
Net gain/loss	5	5
Net periodic benefit cost	1	**0**

Other changes in plan assets and benefit obligations recognised in other comprehensive income for the years ended 31 December were as follows:

USD millions	2014	2015
Net gain/loss	11	6
Amortisation of:		
Net gain/loss	–5	–5
Exchange rate gain/loss recognised during the year	–6	–4
Total recognised in other comprehensive income, gross of tax	0	**–3**
Total recognised in net periodic benefit cost and other comprehensive income, gross of tax	1	**–3**

The estimated net loss and prior service cost for the defined benefit pension plans that will be amortised from accumulated other comprehensive income into net periodic benefit cost in 2016 are USD 2 million and nil, respectively.

The accumulated benefit obligation (the current value of accrued benefits excluding future salary increases) for pension benefits was USD 510 million and USD 470 million as of 31 December 2014 and 2015, respectively.

Pension plans with an accumulated benefit obligation in excess of plan assets as of 31 December were as follows:

USD millions	2014	**2015**
Projected benefit obligation	3	2
Accumulated benefit obligation	3	2

Principal actuarial assumptions

The expected long-term rates of return on plan assets are based on long-term expected inflation, interest rates, risk premiums and targeted asset category allocations. The estimates take into consideration historical asset category returns.

	Weighted average	
	2014	**2015**
Assumptions used to determine obligations at the end of the year		
Discount rate	3.7%	3.8%
Rate of compensation increase	3.3%	3.3%
Assumptions used to determine net periodic pension costs for the year ended		
Discount rate	4.5%	3.7%
Expected long-term return on plan assets	5.6%	4.8%
Rate of compensation increase	3.9%	3.3%

Plan asset allocation by asset category

The actual asset allocation by major asset category for defined benefit pension plans as of the respective measurement dates in 2014 and 2015 was as follows:

	2014	2015	Target allocation
Asset category			
Equity securities	38%	37%	39%
Debt securities	62%	61%	61%
Other	0%	2%	0%
Total	100%	**100%**	**100%**

Actual asset allocation is determined by consideration of the nature of plan liabilities and current economic and market conditions, giving specific consideration to the risks inherent in various asset classes.

The Group's pension plan investment strategy is to match the maturity profiles of the assets and liabilities in order to reduce the future volatility of pension expense and funding status of the plans. This involves balancing investment portfolios between equity and fixed income securities.

Assets measured at fair value

For a description of the different fair value levels and valuation techniques see Note 6 "Fair value disclosures".

As of 31 December, the fair value of pension plan assets classified as level 2 were as follows:

USD millions	2014	2015
Assets		
Fixed income securities:		
Debt securities issued by non-US governments and government agencies	25	24
Corporate debt securities	304	290
Equity securities:		
Equity securities held for proprietary investment purposes	200	187
Total assets at fair value	529	**501**

As of 31 December 2014 and 2015, pension plan assets classified as level 1 included cash of USD 2 million and USD 11 million, respectively. There are no pension plan assets classified as level 3.

Expected contributions and estimated future benefit payments

The employer contributions expected to be made in 2016 to the defined benefit pension plans are USD 7 million.

As of 31 December 2015, the projected benefit payments, which reflect expected future service, not adjusted for transfers in and for employees' voluntary contributions, are as follows:

USD millions	Admin Re
2016	13
2017	13
2018	14
2019	14
2020	14
Years 2021-2025	76

Defined contribution pension plans

The Group sponsors a defined contribution plan to which employees and the Group make contributions. All costs for the scheme are charged in full to the income statement as they arise. The amount expensed in 2014 and in 2015 was USD 7 million and USD 6 million, respectively.

12 Variable interest entities

The Group enters into arrangements with variable interest entities (VIEs) in the normal course of business. The involvement ranges from being a passive investor to designing, structuring and managing the VIEs. The variable interests held by the Group arise as a result of the Group's involvement in certain insurance-linked and credit-linked securitisations, swaps in trusts, debt financing and other entities which meet the definition of a VIE.

When analysing the status of an entity, the Group mainly assesses if (1) the equity is sufficient to finance the entity's activities without additional subordinated financial support, (2) the equity holders have the right to make significant decisions affecting the entity's operations and (3) the holders of the voting rights substantively participate in the gains and losses of the entity. When one of these criteria is not met, the entity is considered a VIE and needs to be assessed for consolidation under the VIE section of the Consolidation Topic.

The party that has a controlling financial interest is called the primary beneficiary and consolidates the VIE. An enterprise is deemed to have a controlling financial interest if it has both of the following:
- the power to direct the activities of the VIE that most significantly impact the entity's economic performance; and
- the obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE.

The Group assesses for all its variable interests in VIEs whether it has a controlling financial interest in these entities and, thus, is the primary beneficiary. For this, the Group identifies the activities that most significantly impact the entity's performance and determines whether the Group has the power to direct those activities. In conducting the analysis, the Group considers the purpose, the design and the risks that the entity was designed to create and pass through to its variable interest holders. In a second step, the Group assesses if it has the obligation to absorb losses or if it has the right to receive benefits of the VIE that could potentially be significant to the entity. If both criteria are met, the Group has a controlling financial interest in the VIE and consolidates the entity.

Whenever facts and circumstances change, a review is undertaken of the impact these changes could have on the consolidation assessment previously performed. When the assessment might be impacted, a reassessment to determine the primary beneficiary is performed.

Residential real estate vehicle

The VIE was established to maintain and realise a portfolio of residential real estate and the assets in the VIE substantially consist of residential property.

The Group did not provide financial or other support to the VIE during 2015 that it was not previously contractually required to provide.

Non-consolidated VIE

The following table shows the total assets and liabilities in the Group's balance sheet related to a VIE in which the Group held a variable interest but was not the primary beneficiary as of 31 December:

USD millions	2014	**2015**
Other invested assets	193	189
Total assets	193	**189**

The following table shows the Group's assets and maximum exposure to loss related to a VIE in which the Group held a variable interest but was not the primary beneficiary as of 31 December:

	2014			**2015**		
USD millions	Total assets	Maximum exposure to loss[1]	Difference between exposure and liabilities	Total assets	Maximum exposure to loss[1]	Difference between exposure and liabilities
Residential real estate vehicle	193	193	193	189	189	189
Total	193	193	193	**189**	**189**	**189**

[1]Maximum exposure to loss is the loss the Group would absorb from a variable interest in a VIE in the event that all of the assets of the VIE are deemed worthless.

Report of the statutory auditor

Report of the statutory auditor
to the General Meeting of
Swiss Re Life Capital Ltd
Zurich

Report of the statutory auditor on the consolidated financial statements
As statutory auditor, we have audited the accompanying consolidated financial statements of Swiss Re Life Capital Ltd and its subsidiaries (the "Company"), which comprise the consolidated balance sheet as of 31 December 2015, and the related consolidated income statement, statement of comprehensive income, statement of shareholder's equity, statement of cash flow and notes (pages 2 to 40) for the year ended 31 December 2015.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law, Swiss Auditing Standards and auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company at 31 December 2015, the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America and comply with Swiss law.

Report on other legal requirements
We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers Ltd

Alex Finn

Bret M Griffin

Alex Finn
Audit expert
Auditor in charge

Bret Griffin

Zürich, 15 March 2016

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ADMIN RE JERSEY ONE LIMITED (FORMERLY GUARDIAN HOLDINGS EUROPE LIMITED)

We have audited the financial statements of Admin Re Jersey One Limited (formerly Guardian Holdings Europe Limited) for the year ended 31 December 2015 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Operating Profit, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity and the related notes 1 to 31. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic Report, Directors' Report and consolidated financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and parent company's affairs as at 31 December 2015 and of the Group's loss and parent company's result for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ADMIN RE JERSEY ONE LIMITED (FORMERLY GUARDIAN HOLDINGS EUROPE LIMITED) (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

► proper accounting records have not been kept, or proper returns adequate for our audit have not been received from branches not visited by us; or

► the financial statements are not in agreement with the accounting records and returns; or

► we have not received all the information and explanations we require for our audit.

John Headley

for and on behalf of Ernst & Young LLP,

London

27 April 2016

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	Group 2015 £m	Group 2014 (Restated) £m
Gross premiums written		**66.6**	1,880.1
Less: premiums ceded to reinsurers		**(45.4)**	(43.6)
Net premiums written		**21.2**	1,836.5
Fee and commission income		**28.0**	27.6
Gain on business combination	3	**-**	64.6
Investment income	5	**549.5**	576.6
Fair value gains and losses	6	**(82.3)**	1,419.2
Other income		**0.9**	1.0
Other revenue		**496.1**	2,089.0
Total revenue		**517.3**	3,925.5
Gross benefits and claims paid		**(1,190.9)**	(1,058.2)
Less: claims ceded to reinsurers		**96.3**	93.9
Gross change in insurance contract liabilities		**928.0**	(2,698.0)
Gross change in investment contract liabilities		**(103.2)**	(192.3)
Change in contract liabilities ceded to reinsurers		**(65.6)**	392.3
Net benefits and claims		**(335.4)**	(3,462.3)
Other operating and administrative expenses	7	**(163.3)**	(123.5)
Finance costs	7	**(73.0)**	(62.9)
Total benefits, claims and other expenses		**(571.7)**	(3,648.7)
(Loss)/Profit before tax		**(54.4)**	276.8
Income tax	8	**(19.0)**	(47.2)
Net income from continuing operations attributable to equity holders of the Company		**(73.4)**	229.6

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015

	2015	2014
	£m	£m
Net income from continuing operations attributable to equity holders of the Company	**(73.4)**	229.6
Other comprehensive income:		
Items that may be reclassified subsequently to profit and loss		
Loss on retranslation reserve	**(14.6)**	(14.2)
Tax relating to components of other comprehensive income	**-**	-
Other comprehensive income for the year, net of tax	**(14.6)**	(14.2)
Total comprehensive income for the year, net of tax, attributable to the owners of the Company	**(88.0)**	215.4

CONSOLIDATED STATEMENT OF OPERATING PROFIT
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015 £m	2014 £m
(Loss)/Profit before tax		**(54.4)**	276.8
Loss/(Gain) on fair value of hedging instruments		**(10.7)**	(1.0)
Gain on fair value of designated hedged item		**(2.6)**	-
Gain on business combination	3	**-**	(64.6)
Finance costs	7	**73.0**	62.9
Amortisation of intangible assets	9	**23.1**	13.4
Transaction costs	3	**26.5**	17.1
Loss on reinsurance of general insurance business	4	**-**	6.4
Operating profit before tax from continuing operations		**54.9**	311.0
Tax on operating profit		**(38.1)**	(61.2)
Operating profit after tax attributable to equity holders of the Company		**16.8**	249.8

CONSOLIDATED BALANCE SHEET
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	Group 2015 £m	Group 2014 (Restated) £m
Assets			
Intangible assets	9	**310.5**	333.6
Property, plant and equipment	10	**0.4**	0.5
Investment in subsidiary undertakings	11	**-**	-
Investments	12	**14,446.8**	15,644.6
Derivatives	15	**366.9**	914.7
Reinsurance assets	16	**1,862.9**	1,982.0
Other assets and receivables	17	**289.2**	574.0
Cash and cash equivalents	18	**1,460.2**	1,209.5
Total assets		**18,736.9**	20,658.9
Equity and liabilities			
Equity attributable to equity holders	19	**616.3**	704.3
Total equity		**616.3**	704.3
Liabilities			
Insurance contracts liabilities	20	**12,623.6**	13,600.9
Unallocated divisible surplus	20	**114.6**	131.5
Investment contracts	21	**3,859.9**	4,108.2
Borrowings	22	**762.4**	766.2
Derivatives	15	**131.5**	408.4
Provisions	28	**7.5**	0.6
Other financial liabilities	23	**335.9**	359.9
Deferred tax liabilities	24	**74.9**	95.4
Other liabilities	25	**210.3**	483.5
Total liabilities		**18,120.6**	19,954.6
Total equity and liabilities		**18,736.9**	20,658.9

The Notes on pages 25 to 117 form part of these financial statements. The consolidated financial statements of the Company (registration number 108672) were approved by the Board of Directors and are signed on its behalf by:

Ian Patrick

Director

22 April 2016

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	Group 2015 £m	Group 2014 £m
(Loss)/Profit before tax		**(54.4)**	276.8
Fair value gains and losses	6	**82.3**	(1,419.2)
Less: Gain arising on acquisition	3	**-**	(64.6)
Amortisation and depreciation	7	**23.3**	13.5
Exchange loss		**(14.6)**	(14.2)
Adjustment of non-cash items		**91.0**	(1,484.5)
Insurance and investment contract liabilities		**(1,123.5)**	2,079.7
Accrued income and prepayments		**(21.7)**	27.8
Movement in accrued interest		**72.9**	61.4
Accrued expenses and other liabilities		**(246.2)**	316.3
Changes in accruals and technical provisions		**(1,318.5)**	2,485.2
Net disposal/(purchase) of investments (other than money market investments)		**949.9**	71.1
Net disposal/(purchase) of derivatives		**412.5**	15.2
Net change in cash collateral		**300.9**	(304.9)
Cash flow movements on operating items not reflected in income		**1,663.3**	(218.6)
Tax paid		**(54.0)**	(76.1)
Net cash flows from operating activities		**327.4**	982.8
Loan settlements		**(64.0)**	(31.0)
Loan interest paid		**(12.7)**	(14.4)
Net cash flows from financing activities		**(76.7)**	(45.4)
Purchase of property, plant and equipment		**-**	(0.1)
Acquisition of subsidiaries, net of cash acquired		**-**	(284.6)
Net cash flows from investing activities		**-**	(284.7)
Net increase in cash and cash equivalents		**250.7**	652.7
Net cash and cash equivalents at 1 January	18	**1,209.5**	556.8
Net cash and cash equivalents at 31 December	18	**1,460.2**	1,209.5

The cash flow statement is prepared according to the indirect method. Included in net increases in cash and cash equivalents are interest received of £484.4 million (2014: £456.9 million), dividends received of £72.3 million (2014: £101.0 million) and interest paid of £12.7 million (2014: £14.4 million).

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015

	Share Capital £m	**Share Premium £m**	**Retranslation Reserve £m**	**Retained Earnings £m**	**Shareholders' Equity £m**
At 1 January 2015	0.5	2.4	(14.2)	715.6	**704.3**
Loss for the period	-	-	-	(73.4)	**(73.4)**
Loss on retranslation	-	-	(14.6)	-	**(14.6)**
At 31 December 2015	**0.5**	**2.4**	**(28.8)**	**642.2**	**616.3**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014

	Share Capital £m	Share Premium £m	Retranslation Reserve £m	Retained Earnings £m	Shareholders' Equity £m
At 1 January 2014	0.5	2.4	-	486.0	488.9
Profit for the period	-	-	-	229.6	229.6
Loss on retranslation	-	-	(14.2)	-	(14.2)
At 31 December 2014	0.5	2.4	(14.2)	715.6	704.3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

1 Summary of significant accounting policies

1.1 Basis of preparation

1.1.1 Introduction

The Company is a private company domiciled in Jersey. The address of the Company's registered office is 22 Grenville Street, St Helier, JE4 8PX. The consolidated financial statements of the Company as at and for the year ended 31 December 2015 comprise the accounts of the Company and its subsidiaries (together referred to as the 'Group' and individually as 'Group entities').

These financial statements are presented in Pound Sterling, which is the Company's functional currency.

The Group's consolidated financial statements and the Company's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union for the year ended 31 December 2015 and in accordance with the Companies (Jersey) Law 1991.

These financial statements have been prepared on an historical cost basis, except for investment properties and those financial assets and financial liabilities that have been measured at fair value.

These financial statements were authorised for issue in accordance with a resolution of the Directors on 22 April 2016.

1.1.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its investment in the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

1 Summary of significant accounting policies (continued)

1.1.2 Basis of consolidation (continued)

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company barring for those interests held as financial assets as detailed in Note 1.15.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities are disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the costs on initial recognition of an investment in an associate or jointly controlled entity.

1 Summary of significant accounting policies (continued)

1.1.3 Adoption of new standards and interpretations

The International Accounting Standards Board has issued the following standards, interpretations and amendments, which, subject to adoption for use by the EU, apply from the dates shown. The Group has decided not to early adopt any of these standards, interpretations or amendments where this is permitted. The impact in adopting them is subject to evaluation but is currently not expected to have a material effect on the results of the Group.

The following amendments to standards and interpretations are effective for the current year but do not have a material impact on the financial statements:

- Amendments to IAS 19 *Employee Benefits* Defined Benefit Plans Employee Contributions
- Annual Improvements 2011-2013 Cycle (IFRS 13, IFRS1, IFRS 3, IAS 40)
- Annual Improvements 2010-2012 Cycle (IFRS 2, IFRS 8, IAS 16, IAS 24)
- IFRIC 21 Levies

Listed below are standards and interpretations that have been issued, but are not yet effective for the period under review.

<u>IFRS 9</u>

IFRS 9 *Financial Instruments* addresses classification and measurement of financial assets and is effective for insurers for accounting periods beginning on or after 1 January 2018 with early adoption available in line with specified requirements. IFRS 9 replaces the multiple classification and measurement models in IAS 39 with a single model with only two classification categories; amortised cost and fair value. It also replaces the existing elements of IAS 39 addressing impairment of financial instruments and some elements of hedge accounting. The standard represents the first stage in the IASB's planned replacement of IAS 39. IFRS 9 may have a significant impact on the Group's financial statements because it will potentially result in a reclassification and re-measurement of the Group's financial assets. The full impact of IFRS 9 will be assessed by the Group in due course.

<u>IFRS 15</u>

IFRS 15 *Revenue from contracts with customers* replaces existing revenue requirements, excluding certain areas including contracts with customers within the scope of IFRS 9 and IFRS 4 Insurance Contracts. It outlines the principles an entity must apply to measure and recognise revenue. The standard is effective for annual periods beginning on or after 1 January 2018 and the full impact of IFRS 15 will be assessed in due course.

1 Summary of significant accounting policies (continued)

1.1.3 Adoption of new standards and interpretations (continued)

Other standards and interpretations

In addition, as at the date of authorisation of these financial statements, the following standards and interpretations and amendments to standards and interpretations which have not been applied to these financial statements were in issue but not yet effective (and in some cases had not been adopted by the EU):

- Amendments to IAS 16 *Property Plant and Equipment* and IAS 38 *Intangible Assets* - Clarification of Acceptable Methods of Depreciation and Amortisation
- IFRS 14 Regulatory Deferral Accounts
- Amendments to IAS 16 *Property Plant and Equipment* and IAS 41 *Agriculture*- Bearer Plants
- Amendments to IFRS 11 *Joint Arrangements* - Accounting for Acquisitions of Interests in Joint Operations
- Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to IAS 27 *Separate Financial Statements* – Equity Method in Separate Financial Statements
- Amendments to IAS 1 *Presentation of Financial Statements*- Disclosure Initiative
- Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 – *Investments in Associates and Joint* Ventures - Investment Entities: Applying the Consolidation Exception
- Annual Improvements 2012-2014 Cycle (IFRS 5, IFRS 7, IFRS 19, IFRS 34)
- Amendments to IAS 12 *Income Taxes* - Recognition of Deferred Tax Assets or Unrealised Losses
- Amendments to IAS 7 *Statement of Cashflows* - Disclosure Initiative

The Directors do not expect the adoption of the standards and interpretations listed above will have a material impact on the financial statements of the Group in future periods. Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

1.1.4 Change in presentation

Comparative investment and insurance contract liabilities and their corresponding income statement movements have been restated to more accurately reflect the allocation of increases in the long term business provisions of with-profits insurance contracts and investment contracts with discretionary participating features ('DPFs') due to distributions from the unallocated divisible surplus, and between the provisions of unit-linked insurance contracts and investment contracts without DPFs to more accurately reflect the substance of the underlying liability in respect of unit-linked pension contracts. The restatements have been made to ensure the accounting presentation is in line with the substance of the contracts and has been performed purely for disclosure purposes. The following table shows the reported and comparative restated values for both the balance sheet and income statement.

Summary of significant accounting policies (continued)

1.1.4 Change in presentation (continued)

31 December 2014	As reported	Reclassification	Restated
	£'m	£'m	£'m
Balance sheet			
Insurance contracts	14,471.5	(870.6)	13,600.9
Unallocated divisible surplus	131.5	-	131.5
Investment contracts	2,810.7	38.3	2,849.0
Investment contracts with DPFs	426.9	832.3	1,259.2
Total	17,840.6	-	17,840.6

31 December 2013	As reported	Reclassification	Restated
	£'m	£'m	£'m
Balance sheet			
Insurance contracts	10,661.6	(919.1)	9,742.5
Unallocated divisible surplus	144.8	-	144.8
Investment contracts	1,310.9	37.0	1,347.9
Investment contracts with DPFs	437.9	882.1	1,320.0
Total	12,555.2	-	12,555.2

Year ended 31 December 2014	As reported	Reclassification	Restated
	£'m	£'m	£'m
Income statement			
Insurance contracts movement	(2,649.5)	(48.5)	(2,698.0)
Investment contracts movement	(240.8)	48.5	(192.3)
Total	(2,890.3)	-	(2,890.3)

These reclassifications impact the comparative figures within Notes 20 and 21.

Summary of significant accounting policies (continued)

1.2 Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are converted to the functional currency at the rate of exchange prevailing at the balance sheet date. Exchange differences on monetary items are recognised in the income statement when they arise.

For the purposes of the consolidated financial statements, the results and financial position of each Group company are expressed in Pounds Sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements. For inclusion in the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at the rate prevailing at the balance sheet date. Items of income and expenditure are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities and translated at the closing rate.

1.3 Offsetting of assets and liabilities

Financial assets and liabilities are offset in the balance sheet when the Group has a legally enforceable right to offset and has the intention to settle the asset and liability on a net basis or simultaneously.

1.4 Gross premiums written

Gross premiums, including recurring and single premiums, from insurance contracts and from investment contracts with discretionary participation features are recognised as revenue when they become receivable.

1.5 Reinsurance

The Group accepts and cedes reinsurance in the normal course of the business, with retention limits varying by line of business. Premiums and claims on reinsurance accepted and ceded are recognised as revenue in the same manner they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. The cost of reinsurance related to long duration contracts is accounted for over the life of the underlying reinsured policies, using assumptions consistent with those used to account for these policies.

Reinsurance assets primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities, with movements in ceded insurance liabilities reported in income from reinsurance ceded within the income statement. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provisions or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract.

1 Summary of significant accounting policies (continued)

1.6 Fee and commission income

Fees and commissions from investment management services are recognised as revenue over the period in which the services are performed.

1.7 Investment income

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. Investment income includes the interest income and dividends on financial assets carried at fair value through profit or loss. Investment income also includes dividends accrued and rental income due. Dividend income is accounted for upon entitlement being established, which would normally be on the 'ex div' date.

1.8 Fair value gains and losses

Fair values gains and losses comprise unrealised gains and losses and realised gains and losses. Realised gains and losses recorded in the income statement include gains and losses on financial assets and liabilities designated at fair value through the profit and loss and investment properties. Unrealised gains and losses recorded in the income statement are the difference between valuations at the balance sheet date and their valuation at the previous balance sheet date or purchase price, if acquired during the year.

1.9 Gross benefits and claims paid

Gross benefits and claims paid includes internal and external claims handling costs that are directly related to the processing and settlement of claims. Claims payable on maturity are accounted for when due for payment, and claims payable on death are accounted for on notification. Surrenders are accounted for at the earlier of the payment date or when the policy ceases to be included within the relevant liability.

1 Summary of significant accounting policies (continued)

1.10 Exceptional items

Exceptional items are those items that, in the Directors' view, are required to be separately disclosed by virtue of their nature, size or incidence to enable a full understanding of the Group or Company's financial performance.

1.11 Operating profit

The long-term nature of the Group's operations means that, for management's decision-making and internal performance management, the Group focuses on an operating profit measure. Operating profit includes results from core operations and related activities. Operating profit excludes:

1. Amortisation and impairment of goodwill and intangibles;
2. The profit or loss on disposal or re-organisation of subsidiaries, joint ventures and associates;
3. Integration and restructuring costs;
4. Accounting mismatches arising from economic hedges not achieving hedge accounting and the ineffective portion of any hedge relationship where hedge accounting has been formally designated;
5. External finance costs and directly-related intercompany finance income and costs;
6. Exceptional items (as defined in 1.10 above); and
7. Taxation on the items listed above.

Details of these are provided in the relevant notes.

1.12 Investments in subsidiary undertakings

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

See Note 1.27 for details of the policy on the impairment of assets.

1 Summary of significant accounting policies (continued)

1.13 Intangible assets

Acquired present value of in-force business

Acquired in-force insurance and investment contracts arising from business combinations are measured at fair value at the time of acquisition.

When a portfolio of insurance contracts is acquired, whether directly from another insurance company or as part of a business combination, the difference between the fair value of the insurance business acquired, including contract- based intangibles, measured in accordance with the Group's accounting policies and its net assets is recorded as acquired present value of in-force business. This intangible asset is referred to as acquired value of in-force business ("AVIF") when arising on consolidation. In instances where a book of business has been acquired and is presented in the results of the parent company, the intangible asset resulting is referred to as present value of in-force business ("PVIF").

Acquired present value of in-force business is carried gross of tax and is amortised against income on a time profile which, it is intended, will broadly match the profile of the underlying emergence of surplus as anticipated as at the time of acquisition. The acquired value of in-force insurance contracts is tested for recoverability/impairment as part of the liability adequacy test and the portion determined not to be recoverable is charged to the income statement.

The intangible asset is derecognised when the related contracts are settled or disposed of.

Contract-based intangibles

Contract-based intangibles, which consist of asset management rights and future servicing rights as detailed below, are collectively referred to as Annual Management Charges ("AMC") in the relevant notes.

Asset management rights

Asset management rights acquired as part of a business combination are carried at cost less accumulated amortisation and impairment losses. The initial cost is determined as the fair value of the intangible assets at the date of acquisition. Where that fair value is not readily observable, it is determined using a valuation technique such as discounted cash flow analysis. The useful economic life of the assets is based on the expected run-off of the related policies. This useful economic life will be reassessed at least annually to ensure it best reflects the most up-to-date profile.

1 Summary of significant accounting policies (continued)

1.13 Intangible assets (continued)

Future servicing rights

On acquisition of a portfolio of investment contracts without discretionary participating features, the present value of future servicing rights is recognised as an intangible asset. Future servicing rights can also be recognised on the sale of a loan portfolio or the acquisition of insurance agency activities. The present value of the future servicing rights is amortised over the servicing periods as the fees from services emerge and is subject to impairment testing. It is derecognised when the related contracts are settled or disposed of.

1.14 Property, plant and equipment

Property, plant and equipment represent fixtures and fittings. Costs in respect of fixtures and fittings are recognised as an asset, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All repairs and maintenance are charges to the income statement during the financial period in which they are incurred.

Depreciation is calculated on fixtures and fittings using a straight line method to charge their cost down to their residual value over their estimated useful life. The estimate useful life of fixtures and fittings is deemed to be five years. The useful lives and residual values are reviewed, and adjusted if appropriate, at the end of each reporting period.

Assets are reviewed annually for impairment. The carrying amount of the asset is written down immediately to the recoverable amount if the recoverable amount is lower than the carrying amount.

See Note 1.27 for details of the policy on the impairment of assets.

1 Summary of significant accounting policies (continued)

1.15 Investments

Investments comprise financial assets, excluding derivatives, as well as investments in real estate in the form of Unit-Linked property funds. Also included are the assets held by consolidated investment funds that are backing liabilities towards third parties.

Financial assets are recognised on the trade date when the Group 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.

It is the Group's investment strategy to manage financial asset investments on a fair value basis in order to closely match any related liabilities which are also measured on a fair value basis.

Classification

Financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell in the near future or for which the holder may not recover all of its initial investment, other than because of credit deterioration, are accounted for as loans and receivables.

All remaining financial assets are designated at fair value through profit or loss with their performance evaluated on a fair value basis in order to more closely match the accounting for any related liabilities of the insurance contracts.

Measurement

Financial assets are initially recognised at fair value excluding interest accrued to date plus, in the case of a loan, any directly attributable incremental transaction costs.

Loans are subsequently carried at amortised cost using the effective interest rate method. Financial assets at fair value through profit or loss are measured at fair value with all changes in fair value recognised in the income statement as incurred.

Fair value

The fair value of an asset is the price that would be received to sell that asset in an orderly transaction between market participants at the measurement date. For quoted financial assets for which there is an active market, the fair value is the bid price at the balance sheet date. In the absence of an active market, fair value is estimated by using present value or other valuation techniques, as detailed further below. Where discounting techniques are applied, the discount rate is based on current market rates applicable to financial instruments with similar characteristics.

1 Summary of significant accounting policies (continued)

1.15 Investments (continued)

Interest accrued to date is not included in the fair value of the financial asset.

Derecognition

A financial asset is derecognised when the contractual rights to the asset's cash flows expire, when the Group has transferred the asset and substantially all the risks and rewards of ownership, or when the Group has transferred the asset without transfer of substantially all the risks and rewards of ownership, provided the other party can sell or pledge the asset. Financial assets, in respect of which the Group has neither transferred nor retained all the risks and rewards, are recognised to the extent of the Group's continuing involvement. If significantly all risks are retained, the assets are not derecognised. On derecognition, the difference between the disposal proceeds and the carrying amount is recognised in the income statement as a realised gain or loss.

Collateral

With the exception of cash collateral, assets received as collateral are not separately recognised as an asset until the financial asset they secure is foreclosed. When cash collateral is recognised, a liability is recorded for the same amount. Cash pledged as collateral is derecognised from the statement of financial position until the liability covered is closed out. Non-cash collateral pledged is not de-recognised from the statement of financial position until the Company defaults on its obligations under the relevant agreement, and therefore continues to be recognised on the statement of financial position within the appropriate asset classification.

Real estate

Investments in real estate are property held to earn rentals or for capital appreciation, or both. Considering the Group's asset/liability management policies, property can be and is allocated to liabilities resulting from insurance and investment contracts.

All property is initially recognised at cost. Subsequently, investments in real estate are measured at fair value with the changes in fair value recognised in the income statement. On disposal of an asset, the difference between the net proceeds received and the carrying amount is recognised in the income statement. Valuations of investments in real estate are conducted with sufficient regularity to ensure the value reflects the fair value at the balance sheet date. Valuations are mostly based on active market prices, adjusted for any difference in the nature, location or condition of the specific property. If such information is not available, other valuation methods are applied, considering the current cost of reproducing or replacing the property, the value that the property's net earning power will support and the value indicated by recent sales of comparable properties.

1 Summary of significant accounting policies (continued)

1.15 Investments (continued)

Investments – Determining the fair value of financial investments when the markets are not active

The Group holds certain financial investments for which the markets are not active. These include financial investments which are not quoted on active markets. As such, there is generally no or limited observable market data to account for financial investments at fair value. The determination of whether an active market exists for a financial investment requires management's judgment.

If the market for a financial investment of the Group is not active, the fair value is determined by using valuation techniques. The Group establishes fair value for these financial investments by using quotations from independent third parties, such as brokers or pricing services, or by using internally developed pricing models. Priority is given to publicly available prices from independent sources when available, but overall the source of pricing and/or the valuation technique is chosen with the objective of arriving at a fair value measurement which reflects the price at which an orderly transaction would take place between market participants on the measurement date. The valuation techniques include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow and embedded value analysis and may include a number of assumptions relating to variables such as credit risk and interest rates. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of these financial investments. The financial investments measured at fair value are classified into the three level fair value hierarchy, as detailed within Note 13.

1.16 Derivatives

Derivatives are financial instruments, classified as held for trading financial assets, whose value changes in response to an underlying variable, that require little or no net initial investment and are settled at a future date.

Derivatives with positive values are reported as assets and derivatives with negative values are reported as liabilities.

All derivatives are recognised on the balance sheet at fair value. All changes in fair value are recognised in the income statement.

1 Summary of significant accounting policies (continued)

1.17 Hedge accounting

The Group has historically designated certain hedging instruments in fair value hedge relationships. At the inception of a hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of a hedge relationship and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values of the hedged item.

Note 15 sets out details of the fair values of the derivative instruments used for hedging purposes.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit and loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line of the income statement relating to the hedged item. In line with the accounting policy on operating profit (Note 1.11), the ineffective portion is excluded from operating profit within the Statement of Operating Profit.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised in profit or loss from that date.

1.18 Reinsurance assets

Reinsurance contracts are contracts entered into by the Group in order to receive compensation for losses on contracts written by the Group (outgoing reinsurance). For contracts transferring sufficient insurance risk, a reinsurance asset is recognised for the expected future benefits, less expected future reinsurance premiums. Reinsurance contracts with insufficient insurance risk transfer are accounted for as investment or service contracts, depending on the nature of the agreement.

Reinsurance assets are measured consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of each reinsurance contract. They are subject to impairment testing and are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

1 Summary of significant accounting policies (continued)

1.19 Other assets and receivables

Other assets include trade and other receivables, prepaid expenses and collateral held. Trade and other receivables are initially recognised at fair value and are subsequently measured at amortised cost.

1.20 Cash and cash equivalents

Cash comprises cash at banks and in-hand. Cash equivalents are short-term, highly liquid investments that are readily convertible to known cash amounts, are subject to insignificant risks of changes in value and are held for the purpose of meeting short-term cash requirements. Money market investments that have a fixed term of greater than 3 months are not included in cash and cash equivalents but are presented as investments.

1.21 Insurance contracts

Insurance contracts are contracts under which the Group accepts a significant risk – other than a financial risk – from a policyholder by agreeing to compensate the beneficiary on the occurrence of an uncertain future event by which he or she will be adversely affected. Contracts that do not meet this definition are accounted for as investment contracts. The Group reviews homogeneous books of contracts to assess whether the underlying contracts transfer significant insurance risk on an individual basis. This is considered the case when at least one scenario with commercial substance can be identified in which the Group has to pay significant additional benefits to the policyholder. Contracts that have been classified as insurance are not reclassified subsequently.

Insurance liabilities are recognised when the contract is entered into and the premiums are charged. The liability is derecognised when the contract expires, is discharged or is cancelled.

Insurance contracts in the Non-Profit Funds

Insurance contracts in the Non-Profit Funds with terms that are fixed and guaranteed and which are of a long duration (generally over three years) are measured using a gross premium method. The liability is determined as the sum of the discounted value of the expected benefits and future administrative expenses directly related to the contract, less the discounted value of expected future premiums. The liability is based on demographic assumptions which are determined each year and which include a margin for risk and adverse deviation and economic assumptions consistent with market data at the balance sheet date.

Summary of significant accounting policies (continued)

1.21 Insurance contracts (continued)

Insurance contracts in the With-Profit and Unit-Linked Funds

For insurance contracts in respect of with-profit and unit-linked policies, the policyholder bears the risks associated with the underlying investments.

Contracts with unit-denominated payments are measured at current unit values, which reflect the fair values of the assets of the fund. For unit-linked contracts subject to actuarial funding, the Group recognises a liability at the funded amount of the units. The difference between the gross value of the units and the funded value is treated as an initial fee paid by the policyholder for future asset management services and is deferred. It is subsequently amortised over the period determined at the point of acquisition or a shorter period, if appropriate. An additional reserve is held where, on a prudent basis, it is estimated the future cash outflows cannot be covered by future cash inflows.

With-profit policies are measured on a realistic basis with an adjustment to ensure that the unallocated divisible surplus on a realistic basis is included in the participating liabilities for IFRS. Note 20 in the accounts provides further disclosure regarding the Group's unallocated divisible surplus in the With-Profits Fund. The Group has elected to classify the unallocated divisible surplus as an insurance contract liability in the Group balance sheet as it is not for the use of policyholders outside the With-Profits Fund or for other business purposes.

Liability adequacy testing

At each reporting date, the adequacy of insurance contract liabilities is assessed using a liability adequacy test. Insurance contract liabilities are tested to ensure that the resulting liabilities are not lower than would be required under a sufficiently prudent prospective calculation and where a shortfall is identified this is recognised as a loss in the income statement from the establishment of an insurance liability equal to the shortfall identified.

1 Summary of significant accounting policies (continued)

1.21 Insurance contracts (continued)

Insurance contracts for general insurance business

On 11 September 2014, the Company entered into a loss portfolio transfer reinsurance agreement to provide 100% quota share reinsurance for the general insurance liabilities. The reinsurer, which specialises in non-life insurance, provides all aspects of claims management for the general insurance business. Provisions are made for the full estimated costs of claims notified but not settled, including claims handling costs, using the best information available, taking account of inflation and trends in court awards. The provisions for claims incurred but not reported ('IBNR') have been based on factors including previous experience in claims and settlement patterns, inflation, the nature of business written and the latest available industry data. The provisions have been established on the basis of the investigations undertaken by the reinsurer. A reinsurance asset is recognised to reflect that 100% of the technical provisions are estimated to be recoverable under the reinsurance contract in respect of the outstanding claims reported, IBNR and claims handling costs. Neither the outstanding claims nor the provisions for IBNR have been discounted.

1.22 Investment contracts

Contracts issued by the Group that do not transfer significant insurance risk, are accounted for as investment contracts. Investment contracts are held within the With-Profit and Unit-Linked Funds, where the policyholder runs the risks associated with the investments allocated to the contract. Investment contract liabilities are recognised when the contract is entered into and are derecognised when the contract expires, is discharged or is cancelled.

Investment contracts with discretionary participation features

Some investment contracts in the With-Profits Fund have participation features whereby the policyholder has the right to receive potentially significant additional benefits which are based on the performance of a specified pool of investments held by the Group. If the Group has discretion over the amount or timing of the distribution of the returns to customers, the investment contract liability is measured based on the accounting principles that apply to insurance contracts with similar features.

Investment contracts without discretionary participation features

Investment contracts without discretionary participation features are designated as being held at fair value through profit or loss. Contracts with unit-denominated payments are measured at current unit values, which reflect the fair values of the assets of the fund.

1 Summary of significant accounting policies (continued)

1.23 Financial liabilities

Financial liabilities are recognised on the trade date when the Group becomes a party to the contractual provisions of the instrument.

Classification

All financial liabilities are designated at fair value through profit or loss.

Measurement

Financial liabilities are recognised at fair value.

Fair value

The fair value of a liability is the price that would be paid to transfer that liability in an orderly transaction between market participants at the measurement date. For quoted financial liabilities for which there is an active market, the fair value is the offer price at the balance sheet date. In the absence of an active market, fair value is estimated by using present value or other valuation techniques. Where discounting techniques are applied the discount rate is based on current market rates applicable to financial instruments with similar characteristics or using a discount rate that approximates the risk inherent in the instrument.

Derecognition

A financial liability is derecognised when the contractual obligation expires, when the Group has transferred the liability and substantially all the risks and rewards of ownership. On derecognition, the difference between the disposal proceeds and the carrying amount is recognised in the income statement as a realised gain or loss.

1.24 Interest bearing loans and borrowings

Obligations for loans and borrowings are recognised when the Group becomes party to the related contracts and are measured initially at the fair value of funds received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Borrowing costs are recognised as an expense when incurred.

Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance revenue and finance cost.

The liability is derecognised when the Group's obligation under the contract expires, is discharged or is cancelled.

1 Summary of significant accounting policies (continued)

1.25 Tax assets and liabilities

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, or paid to or recovered from other Group companies in respect of group relief surrendered or received. The tax rates and laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Current income tax relating to items recognised directly in other comprehensive income is recognised in other comprehensive income and not in the income statement.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax and liabilities are recognised for all taxable temporary differences except when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

1 Summary of significant accounting policies (continued)

1.25 Tax assets and liabilities (continued)

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognised directly in other comprehensive income is recognised directly in other comprehensive income and not in the income statement. Deferred income tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred income tax relate to the same taxable entity and the same taxation authority.

1.26 Contingent assets and liabilities

Contingent assets are disclosed in the notes if the inflow of economic benefits is probable, but not virtually certain. When the inflow of economic benefits becomes virtually certain, the asset is no longer contingent and its recognition is appropriate.

A provision is recognised for present legal or constructive obligations arising from past events, when it is probable that it will result in an outflow of economic benefits and the amount can be reliably estimated. If the outflow of economic benefits is not probable, a contingent liability is disclosed, unless the possibility of an outflow of economic benefits is remote.

1.27 Impairment of assets

An asset is impaired if the carrying amount exceeds the amount that would be recovered through its use or sale. For tangible and intangible assets, financial assets and reinsurance assets, if not held at fair value through income statement, the recoverable amount of the asset is estimated when there are indications that the asset may be impaired. Impairment losses are recognised in the income statement.

Impairment of non-financial assets

Assets are tested individually for impairment when there are indications that the asset may be impaired. The impairment loss is calculated as the difference between the carrying and the recoverable amount of the asset, which is the higher of an asset’s value in use and its net selling price. The value in use represents the discounted future net cash flows from the continuing use and ultimate disposal of the asset and reflects its known inherent risks and uncertainties.

Impairment of financial assets held at amortised cost

Individually significant loans and other receivables are first assessed separately. All non-impaired assets measured at amortised cost are then grouped by credit risk characteristics and collectively tested for impairment.

1 Summary of significant accounting policies (continued)

1.27 Impairment of assets (continued)

Impairment of reinsurance assets

Reinsurance assets are impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that not all amounts due under the terms of the contract will be received and the impact of the event on the amount to be received from the reinsurer can be reliably measured.

1.28 Leases

Leases where the lessor retains a significant portion of the risks and benefits of ownership of the asset are classified as operating leases and rentals payable are charged in the income statement on a straight line basis over the lease term.

Incentives received to enter into lease agreements are released to the income statement over the lease term or, if shorter, the period to the date on which the rent is first expected to be adjusted to the prevailing market rate.

1.29 Business combinations

Business combinations are accounted for under IFRS 3 *Business Combinations* using the acquisition method. The cost of a business combination is measured as the fair value of the consideration transferred. Identifiable assets acquired, including intangible assets recognised on acquisition, and liabilities assumed in a business combination are measured initially at their fair value at the business combination date. Any excess of the cost of the business combination over the fair value of the net assets acquired is recognised in the balance sheet as goodwill. To the extent that the fair value of the acquired entity's net assets is greater than the cost of the acquisition, a gain is recognised immediately in the income statement. Acquisition related costs are expensed as incurred except insofar as they relate to the raising of debt or equity when such expenses are capitalised.

1.30 Events after the balance sheet date

The financial statements are adjusted to reflect events that occurred between the balance sheet date and the date when the financial statements are authorised for issue, provided they give evidence of conditions that existed at the balance sheet date.

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

1.31 Pension obligations

The Group operates defined contribution schemes. Contributions to defined contribution pension schemes are charged to the income statement on an accruals basis.

2 Critical accounting estimates and judgements in applying accounting policies

Application of the accounting policies in the preparation of the financial statements requires management to apply judgement involving assumptions and estimates concerning future results or other developments, including the likelihood, timing or amount of future transactions or events. There can be no assurance that actual results will not differ materially from those estimates. Accounting policies that are critical to the financial statement presentation and that require complex estimates or significant judgement are described in the following sections.

2.1 Valuation of assets and liabilities arising from insurance contracts and investment contracts with discretionary participating features

The Group uses a number of accepted actuarial methods to estimate and evaluate the amount of reserves recorded. The nature of the claim being reserved for influences the method used by the actuarial function.

The reserves for future policyholder benefits contain a number of assumptions regarding mortality or longevity, lapses, surrenders, expenses and investment returns. These assumptions are prudently assessed, being a best estimate assumption plus a margin for adverse deviation, and can vary by product. They are determined with reference to past company experience adjusted for future expectations and industry data. The most material assumptions are those for longevity and investment returns. The liabilities for future policyholder benefits may not represent the ultimate amounts paid out to customers as for example:

- For contracts that insure the risk of longevity, such as deferred and immediate annuity contracts, an appropriate allowance is made for people living longer. Continuing improvements in medical care and social conditions could result in further improvements in longevity in excess of those allowed for in the estimates used to determine the liability for contracts where the Group is exposed to longevity risk.
- The estimated number of deaths determines the value of the benefit payments for contracts that insure the risk of mortality. The main source of uncertainty arises because of the potential for pandemics or catastrophe and also lifestyle changes could result in earlier deaths for age groups in which the Group has exposure to mortality risk.
- The investment return assumptions arising from the assets backing long-term insurance contracts are estimated. The estimate is based on the expected earnings from assets backing the liabilities for fixed interest assets less a prudent allowance for expected and unexpected defaults and is based on market data less a prudent risk deduction for the equity tracker in the With-Profit Fund.
- Further details of the actual assumptions are set out in Notes 20 and 21.

2 Critical accounting estimates and judgements in applying accounting policies (continued)

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. Further information relating to sensitivity of the level 3 investments to reasonable changes in assumptions is provided in Note 13.

Intangible assets

The Group applies accounting estimates and judgements in determining the fair value, amortisation and recoverability of intangible assets.

AVIF intangible asset

At initial recognition, the difference between the fair value of the insurance business acquired, including contract based intangibles, measured in accordance with the Group's accounting policies, and its net assets is recognised as an AVIF intangible asset. The AVIF asset, is amortised over the expected life of the acquired business, based upon expected profit streams from the date of acquisition.

AMC intangible asset

At initial recognition, the AMC asset is valued using a discounted cash flow analysis assessing the expected run-off of the underlying policies. At the point of acquisition, the range of this expected life was deemed to be between 30 and 40 years.

2 Critical accounting estimates and judgements in applying accounting policies (continued)

Intangible assets (continued)

At each reporting date, the intangible is reviewed for indicators of impairment and where such indicators are deemed to exist, a full impairment review is carried out. In situations where the recoverable amount is considered to be lower than the carrying amount an impairment charge is recognised in the consolidated income statement. At least annually, the useful economic life of the intangibles is assessed for reasonableness.

Deferred tax

Deferred tax assets are recognised to the extent that they are regarded as recoverable, that is to the extent that, on the basis of all the available evidence, it can be regarded as more likely than not that there will be suitable future taxable profits against which the losses can be relieved. The UK tax regime applies separate rules to trading and capital profits and losses. The distinction between temporary differences that arises from items of either a capital or trading nature may affect the recognition of deferred tax assets. The recognition of deferred tax assets and liabilities therefore includes a judgement over the future performance of the Group and Company and the resulting taxable profits. The accounting policy for income taxes, both current and deferred, is discussed in more detail in Note 1.25.

Impairment

Assets are subject to regular impairment reviews as detailed in Note 1.27. Impairment is measured as the difference between the carrying value of a particular asset and its recoverable amount. Impairments are recognised in the income statement in the period in which they occur. The impairment review includes the use of management judgement principally in relation to the fair value of the assets, in particular where there is not an open market for a particular asset.

3 Business combinations

On 7 May 2014, the Group acquired 100% of the share capital of Ark Life for a total consideration of £279.2 million paid in cash, resulting in the Group controlling 100% ownership and voting rights in Ark Life.

Ark Life is a closed book life assurance company based in Dublin. The acquisition represents the implementation of the Group's objective of entering markets external to the UK and creating a platform for further M&A growth in the Irish domestic market with inwards reinsurance from the UK and continental Europe.

The book and fair values of the assets acquired and liabilities assumed at the acquisition date, together with the fair value of consideration transferred is detailed below:

Asset / Liability	**Book value**	**Fair value and accounting policy adjustments**	**Fair value**
	£m	**£m**	**£m**
AVIF	-	1.8	1.8
Contract based intangible	-	86.0	86.0
Investments	2,860.4	-	2,860.4
Reinsurance assets	272.3	-	272.3
Derivatives	4.0	-	4.0
Other assets and receivables	8.8	-	8.8
Deferred acquisition costs	57.0	(57.0)	-
Insurance liabilities	(1,202.1)	-	(1,202.1)
Investment contract liabilities	(1,650.2)	-	(1,650.2)
Deferred tax liability	(7.5)	(5.2)	(12.7)
Bank overdraft	(5.4)	-	(5.4)
Deferred income liability	(10.9)	10.9	-
Other liabilities	(19.1)	-	(19.1)
Net assets acquired	**307.3**	**36.5**	**343.8**
Fair value of consideration			(279.2)
Gain arising on acquisition			**64.6**

Net cash inflow arising on acquisition	
Cash consideration	(279.2)
Less: cash and cash equivalent balances acquired	(5.4)
Total	**(284.6)**

3 Business combinations (continued)

The gain on the business combination arises as the fair value of the net assets acquired, which is based on the embedded value of Ark Life, exceeds the purchase price. The gain is recorded within the consolidated income statement.

The consolidated income statement for the year ended 31 December 2014 includes £17.1 million of acquisition and migration costs which have been incurred as a result of the acquisition of Ark Life. These costs are shown within administrative expenses within the consolidated income statement. The costs incurred in the year ended 31 December 2015 were £1.0 million.

4 Reassurance of general insurance business

During 2014, the Group signed an outwards reinsurance agreement with RQIM to reinsure the entire legacy general insurance book of the Group.

The transaction resulted in a pre-tax loss of £6.4 million for the year ended 31 December 2014 being the net of the recognition of premiums ceded to reinsurers of £10.5 million and a reinsurance asset of £4.1 million.

The reinsurance asset at 31 December 2015 is £6.6 million (2014 : £7.1million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

5 Investment income

In the tables that follow, figures shown under “Ark Life” represent the total for Ark Life Assurance Company Limited.

	2015	**2015**	**2015**	**2015**	**2015**	**2015**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
	With-Profits	**Unit-Linked**	**Non-Profit**	**Shareholder**	**Ark Life**	**Total**
Interest income	59.0	2.8	408.2	1.7	4.6	**476.3**
Dividend	37.8	7.9	-	-	26.6	**72.3**
Rental income	-	-	-	-	0.9	**0.9**
	96.8	**10.7**	**408.2**	**1.7**	**32.1**	**549.5**

	2014	2014	2014	2014	2014	2014
	£m	£m	£m	£m	£m	£m
	With-Profits	Unit-Linked	Non-Profit	Shareholder	Ark Life	Total
Interest income	62.5	9.9	395.5	0.8	3.5	472.2
Dividend	32.8	41.1	3.4	-	23.7	101.0
Rental income	-	-	-	-	3.4	3.4
	95.3	51.0	398.9	0.8	30.6	576.6

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5 Investment income (continued)

	2015	**2015**	**2015**	**2015**	**2015**	**2015**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
	With-Profits	**Unit-Linked**	**Non-Profit**	**Shareholder**	**Ark Life**	**Total**
Investment income from:						
Shares	-	4.6	-	-	26.6	**31.2**
Trackers	37.8	3.3	-	-	-	**41.1**
Debt securities and money market instruments	58.7	0.5	364.7	1.5	4.6	**430.0**
Real estate	-	-	-	-	0.9	**0.9**
Other	0.3	2.3	43.5	0.2	-	**46.3**
	96.8	**10.7**	**408.2**	**1.7**	**32.1**	**549.5**

	2014	2014	2014	2014	2014	2014
	£m	£m	£m	£m	£m	£m
	With-Profits	Unit-Linked	Non-Profit	Shareholder	Ark Life	Total
Investment income from:						
Shares	32.8	41.1	3.4	-	23.7	101.0
Debt securities and money market instruments	60.8	7.7	359.1	0.5	3.5	431.6
Real estate	-	-	-	-	3.4	3.4
Other	1.7	2.2	36.4	0.3	-	40.6
	95.3	51.0	398.9	0.8	30.6	576.6

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5 Investment income (continued)

	2015 £m With-Profits	2015 £m Unit-Linked	2015 £m Non-Profit	2015 £m Shareholder	2015 £m Ark Life	2015 £m Total
Investment income from financial assets:						
Fair value through the profit and loss	96.5	8.4	364.7	1.5	32.1	**503.2**
Other	0.3	2.3	43.5	0.2	-	**46.3**
	96.8	**10.7**	**408.2**	**1.7**	**32.1**	**549.5**

	2014 £m With-Profits	2014 £m Unit-Linked	2014 £m Non-Profit	2014 £m Shareholder	2014 £m Ark Life	2014 £m Total
Investment income from financial assets:						
Fair value through the profit and loss	93.6	48.8	362.5	0.5	30.6	536.0
Other	1.7	2.2	36.4	0.3	-	40.6
	95.3	51.0	398.9	0.8	30.6	576.6

6 Fair value gains and losses

In the tables that follow, figures shown under "Ark Life" represent the total for Ark Life Assurance Company Limited.

	2015 £m With-Profits	**2015 £m Unit-Linked**	**2015 £m Non-Profit**	**2015 £m Shareholder**	**2015 £m Ark Life**	**2015 £m Total**
Fair value gains/(losses) on financial assets at fair value through profit and loss, other than derivatives	(57.1)	32.6	(355.2)	0.1	130.6	**(249.0)**
Fair value gains/(losses) on financial liabilities at fair value through profit and loss, other than derivatives	-	-	24.0	-	-	**24.0**
Net fair value change on derivatives	3.1	6.3	129.1	(0.3)	3.4	**141.6**
Net fair value change on investments in real estate	-	(0.1)	0.1	-	1.1	**1.1**
	(54.0)	**38.8**	**(202.0)**	**(0.2)**	**135.1**	**(82.3)**

	2014 £m With-Profits	2014 £m Unit-Linked	2014 £m Non-Profit	2014 £m Shareholder	2014 £m Ark Life	2014 £m Total
Fair value gains/(losses) on financial assets at fair value through profit and loss, other than derivatives	63.9	21.8	611.7	(0.1)	196.8	894.1
Fair value gains/(losses) on financial liabilities at fair value through profit and loss, other than derivatives	-	-	(23.7)	-	-	(23.7)
Net fair value change on derivatives	(13.9)	13.5	543.3	3.9	0.8	547.6
Net fair value change on investments in real estate	-	1.2	-	-	-	1.2
	50.0	36.5	1,131.3	3.8	197.6	1,419.2

6 Fair value gains and losses (continued)

Investments comprise financial assets and investments in real estate. Refer to Note 12 for further information.

The gain (2014: loss) on the financial liability relates to the movement in the fixed leg of the swap contract with RGA Global Reinsurance Company Limited and RGA International Reinsurance Company Limited (together "RGA") entered into during 2012 and classified as a financial liability on the balance sheet. This is offset by a loss in contracts ceded to reinsurers of £28.0 million (2014: £15.0 million gain) from the floating leg of the contract, classified as a reassurance contract in the balance sheet. Fair value losses recognised on Empire Life within the Non-profit fund in the period up to disposal amounted to £51.0million, included within fair value gains/(losses) on financial assets at fair value through profit and loss, other than derivatives.

7 Other operating and administration expenses and finance costs

	Group 2015 £m	Group 2014 £m
Other operating and administration expenses		
Commissions	**1.0**	1.6
Investment management expense	**22.9**	23.9
Administration expenses	**116.1**	84.6
Amortisation and depreciation	**23.3**	13.4
	163.3	123.5
Finance costs		
Other finance costs	**73.0**	62.9
	73.0	62.9
Total other operating and administration expenses and finance costs	**236.4**	186.4

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7 Other operating and administration expenses and finance costs (continued)

Auditor's remuneration

	Group 2015 £m	Group 2014 £m
Fees payable to the auditor for the audit of the parent Company and consolidated financial statements	**-**	-
Fees payable to the Company's auditor for other services:		
- audit of the Company's subsidiaries	**0.7**	0.8
- audit-related assurance services	**0.1**	0.1
Total audit fees	**0.8**	0.9
- corporate finance services	**-**	0.1
Total non-audit fees	**-**	0.1

Staff costs

The average numbers of employees during the year were:

	Group 2015	Group 2014
Finance, administration and systems	**286**	332

7 Other operating and administration expenses and finance costs (continued)

Staff costs (continued)

	Group 2015 £m	Group 2014 £m
Wages and salaries	**31.4**	19.4
Social security costs	**3.9**	2.2
Defined contribution pension scheme costs	**1.1**	1.2
	36.4	22.8

Guardian Companies Services Limited, a subsidiary of Guardian Financial Services Holdings UK Limited, provides services to the companies within the Group and together with Guardian Financial Services Holdings UK Limited, employs personnel who provide services to the Company. Therefore, the Company has no employees under contracts of service. During the year, an Irish branch of Guardian Companies Services Limited was established with the contacts of employment for the majority of Ark Life employees transferred to the branch. Ark Life continues to employ certain personnel under contracts of employment.

Directors' remuneration

During the year ended 31 December 2015, the Directors of the Group are paid centrally via Guardian Financial Services Holdings UK Limited. Fees for the services rendered to Ark Life by the Non-Executive Directors are paid via Ark Life. In respect of qualifying services provided to the Group in the year to 31 December 2015, the Directors received remuneration comprised of salary, bonus and money value of benefits received. The Directors did not receive any pension benefits or pension contributions, nor did they receive remuneration under a long-term incentive plan. During the year, certain employees have been granted cash-settled share options which vested on the sale of the business in line with the conditions of the arrangement. The fair value of the goods and services received was determined by the fair value of the share price at 31 December as indicated by the announced purchase price agreed by Swiss Re Life Capital Holdings Limited for the acquisition of the Group. The weighted average price used to determine the fair value was £282.43 and as a result of the sale of the Group to Swiss Re Life Capital Holdings Limited, the options vested at that price. The total expense in the period arising from share-based payment transactions, which was outstanding as at 31 December 2015, is £5,985,169.

The highest paid Director received remuneration of £7,622,162 (2014: £1,114,259) in respect of qualifying services provided to the Group. The Directors' remuneration has been allocated across the Group to individual companies in line with management's assessment of the time invested by the Directors on that company. The total Directors' remuneration for qualifying services to the Group for 2015 was £13,243,642 (2014: £2,382,012), of which £1,398,103 was paid in respect of compensation for loss of office.

7 Other operating and administration expenses and finance costs (continued)

Operating lease arrangements

The Group has entered into commercial leases on certain properties. The duration of these leases are between 1 and 10 years. The expense charged to the income statement during the year in respect of the operating leases was £1.3 million (2014: £1.4 million).

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2015	2014
	£m	£m
Less than one year	**0.7**	1.0
After one year but not more than five years	**2.5**	2.5
After five years	**1.7**	1.7
	4.9	5.2

Where the lease includes a rent-free period, the table above includes payments on a contractual basis rather than when they will be accounted for in the income statement.

Subsequent to the year end, the operating lease on 80 Cheapside has been terminated at a cost of £0.1m as a result of the relocation of the London based employees to the offices of Swiss Re.

8 Income tax

	Group	Group
	2015	2014
	£m	£m
Current tax		
Current year	**10.8**	49.3
Overseas tax	**2.4**	0.7
Tax provision in relation to prior years	**26.3**	1.3
	39.5	51.3
Deferred tax		
Origination of temporary differences	**(7.0)**	(4.1)
Change in tax rate	**(13.5)**	-
Adjustment in respect of prior years	**-**	-
Income tax for the period	**19.0**	47.2

The tax provision in respect of prior years includes a provision for £27.1m relating to a potential tax exposure arising from the Company's shareholding in an unquoted overseas insurance company, recognised in the period for current tax of prior periods.

8 Income tax (continued)

The Finance Act 2015, which was enacted in November 2015, included provisions to reduce the rate of corporation tax to 19% with effect from 1 April 2017 and further to 18% with effect from 1 April 2020. Accordingly deferred tax balances have been calculated using the lower rate of 18%. The impact of these reductions in the corporation tax rate is to reduce the tax charge for the period by £7m. The Government subsequently announced on 16th March 2016 that it was planning in the 2016 Finance Act further to reduce the rate of corporation tax to 17% with effect from 1 April 2020. No account has been taken of this further reduction in these financial statements as the 2016 Finance Bill had not been substantively enacted by the balance sheet date of 31 December 2015; however if deferred tax balances had been calculated using a 17% rate, rather than an 18% rate, then it would have reduced the tax charge for the period by an additional £3.5m.

Corporation tax on the profits of overseas subsidiaries is charged at the prevailing local rate.

Reconciliation between standard and effective income tax	**Group 2015 £m**	Group 2014 £m
Profit before tax	**(54.4)**	276.8
Income tax at main rate of UK corporation tax of 20.25% (2014: 21.5%)	**(11.0)**	59.5
Difference due to effects of:		
Non-taxable income	**(4.5)**	(17.5)
Non-deductible expenses	**11.3**	6.6
Profits taxed at a different rate	**(1.0)**	(7.5)
Change in deferred tax rate	**(7.0)**	-
Overseas tax	**2.4**	0.7
Other taxes	**-**	-
Other tax rate changes		0.3
Tax payable at the policyholder rate	**(0.9)**	1.5
Different basis of tax for Irish life assurance	**3.4**	2.3
Tax provision in relation to prior years	**26.3**	1.3
Income tax for the period	**19.0**	47.2

The Company is incorporated and domiciled in Jersey, where its offices are located. For the purposes of UK corporation tax, however, all entities in the Group (whether UK or Jersey registered) are deemed to be tax resident in the UK.

9 Intangible assets

	AVIF	AMC	**Total**
	£m	£m	**£m**
Cost			
At 1 January 2014	129.3	160.5	**289.8**
Additions	1.8	86.0	**87.8**
At 1 January 2015	131.1	246.5	**377.6**
Additions	-	-	**-**
At 31 December 2015	**131.1**	**246.5**	**377.6**
Accumulated amortisation			
At 1 January 2014	(13.6)	(17.0)	**(30.6)**
Charge for the year	(2.4)	(11.0)	**(13.4)**
At 1 January 2015	(16.0)	(28.0)	**(44.0)**
Charge for the year	(13.5)	(9.6)	**(23.1)**
At 31 December 2015	**(29.5)**	**(37.6)**	**(67.1)**
Carrying value			
At 1 January 2014	115.7	143.5	**259.2**
At 1 January 2015	115.1	218.5	**333.6**
At 31 December 2015	**101.6**	**208.9**	**310.5**

Amortisation through the income statement is included in 'Other operating and administrative expenses', but is excluded from operating profit within the Consolidated Statement of Operating Profit.

The AMC intangibles are amortised over a period ranging from 30 to 40 years, and have a remaining amortisation period ranging from 14 to 36 years (2014: 15 to 37 years).

The AVIF asset is amortised over a period ranging from 31 to 40 years and has a remaining amortisation period ranging from 17 to 36 years (2014: 18 to 37 years).

The additions to intangible assets resulting from the acquisition of Ark Life are detailed in Note 3.

10 Property, plant and equipment

Furniture & fittings	**Group 2015 £'m**	Group 2014 £'m
Cost		
Opening	**0.6**	0.6
Additions	**0.1**	0.1
Closing	**0.7**	0.7
Accumulated depreciation		
Opening	**(0.2)**	(0.1)
Depreciation charge in the year	**(0.1)**	(0.1)
Closing	**(0.3)**	(0.2)
Carrying value	**0.4**	0.5

11 Investment in subsidiary undertakings

During the prior year, the Group acquired 100% of the issued share capital of Ark Life. The principal activity of Ark Life is the transaction of life assurance and pension business in the Republic of Ireland. Ark Life is closed to new business.

Details of the Company's subsidiaries as at 31 December 2015 are as follows:

Name	Place of incorporation (or registration) and operation	Proportion of ownership interest %	Proportion of voting power held %
Admin Re Jersey Two Limited (formerly Guardian One Limited)	Jersey	100	100
Swiss Re Admin Re Limited (formerly Guardian Midco Limited)*	Jersey	100	100
Swiss Re AR Midco Limited (formerly Guardian Finance Limited)*	Jersey	100	100
Guardian Financial Services Holdings UK Limited*	United Kingdom	100	100
Guardian Assurance Limited*	United Kingdom	100	100
Ark Life Assurance Company Limited*	Republic of Ireland	100	100
Guardian Linked Life Assurance Limited*	United Kingdom	100	100
Guardian Pensions Management Limited*	United Kingdom	100	100
Guardian Companies Services Limited*	United Kingdom	100	100
Guardian Nominees Limited (Dormant)	United Kingdom	100	100
Guardian Financial Services Limited (Dormant)	United Kingdom	100	100

* Held indirectly

	2015	2014
	£m	£m
Cost		
At 1 January	**2.7**	2.7
Additions	**-**	-
At 31 December	**2.7**	2.7
Carrying amount		
At 1 January	**2.7**	2.7
At 31 December	**2.7**	2.7

The investment in the subsidiaries is stated at cost less impairment.

12 Investments

Investments comprise financial assets, excluding derivatives. Refer to Note 15 for details on derivatives.

In the tables that follow, figures shown under "Ark Life" represent the total for Ark Life Assurance Company Limited.

	2015 £m With-Profits	2015 £m Unit-Linked	2015 £m Non-Profit	2015 £m Shareholder	2015 £m Ark Life	2015 £m Total
Fair value through profit or loss:						
Shares	-	110.7	-	-	938.6	**1,049.3**
Debt securities and money market investments	1,104.7	3.7	7,523.1	298.2	232.9	**9,162.6**
Deposits with financial Institutions	-	-	-	-	-	**-**
Trackers	929.2	1,522.2	-	-	512.8	**2,964.2**
Loan notes	-	-	531.5	-	-	**531.5**
Investments in real estate	-	-	-	-	12.5	**12.5**
Other	0.1	-	479.3	-	247.3	**726.7**
	2,034.0	**1,636.6**	**8,533.9**	**298.2**	**1,944.1**	**14,446.8**

12 Investments (continued)

	2014 £m With-Profits	2014 £m Unit-Linked	2014 £m Non-Profit	2014 £m Shareholder	2014 £m Ark Life	2014 £m Total
Fair value through profit or loss:						
Shares	-	509.4	147.7	-	1,156.4	1,813.5
Debt securities and money market investments	1,220.1	18.9	8,125.1	253.2	316.1	9,933.4
Deposits with financial institutions	-	-	-	-	7.6	7.6
Trackers	1,070.4	979.4	-	-	710.7	2,760.5
Loan notes	-	-	517.5	-	-	517.5
Investments in real estate	-	13.2	-	-	11.9	25.1
Other	0.2	-	479.1	-	107.7	587.0
	2,290.7	1,520.9	9,269.4	253.2	2,310.4	15,644.6

Other investments above comprise infrastructure debt of £283.0 million (2014: £278.0 million), commercial real estate loans of £196.3 million (2014: £201.1 million) and unit trusts of £247.3 million (2014: £107.9 million).

Of the debt securities and money market investments in the Non-Profit and Shareholder Funds, £499.6 million is receivable within less than one year (2014: £418.1 million).

13 Fair value of financial instruments

13a) Fair value categorisation

In the tables that follow, assets and liabilities recorded at fair value have been categorised as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices of identical or similar assets and liabilities) using valuation techniques for which all significant inputs are based on observable market data; and
- Level 3: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) using valuation techniques for which any significant input is not based on observable market data.

Management's assessment of the categorisation of individual assets and liabilities may change depending on the inputs and methodologies used to value those assets and liabilities. This may result in categorisations transfers between the different levels within the fair value hierarchy.

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

13 Fair value of financial instruments (continued)

13b) Fair value hierarchy

The table below shows an analysis of assets and liabilities recorded at fair value by level of the fair value hierarchy:

	Level 1	Level 2	Level 3	2015 Total
	£m	£m	£m	£m
Assets carried at fair value:				
Shares	1,039.8	9.5	-	**1,049.3**
Debt securities	890.0	7,897.4	375.2	**9,162.6**
Trackers	2,173.4	790.8	-	**2,964.2**
Derivative assets	3.2	363.4	0.3	**366.9**
Loan notes	-	531.5	-	**531.5**
Other financial assets	232.3	15.1	479.3	**726.7**
Investments in real estate	-	-	12.5	**12.5**
Total assets	**4,338.7**	**9,607.7**	**867.3**	**14,813.7**
Derivative liabilities	(27.9)	(103.6)	-	**(131.5)**
Investment contracts	-	(3,859.9)	-	**(3,859.9)**
Other financial liabilities	-	-	(335.9)	**(335.9)**
Total liabilities	**(27.9)**	**(3,963.5)**	**(335.9)**	**(4,327.3)**

	Level 1	Level 2	Level 3	2015 Total
	£m	£m	£m	£m
Excluding Unit-Linked and With-Profit				
Assets carried at fair value:				
Shares	-	-	-	**-**
Debt securities	760.3	6,688.0	373.2	**7,821.5**
Trackers	-	-	-	**-**
Derivative assets	0.2	327.5	0.2	**327.9**
Loan notes	-	531.5	-	**531.5**
Other financial assets	-	-	479.3	**479.3**
Investments in real estate	-	-	-	**-**
Total assets	**760.5**	**7,547.0**	**852.7**	**9,160.2**
Derivative liabilities	(26.2)	(72.5)	-	**(98.7)**
Investment contracts	-	(2.8)	-	**(2.8)**
Other financial liabilities	-	-	(335.9)	**(335.9)**
Total liabilities	**(26.2)**	**(75.3)**	**(335.9)**	**(437.4)**

13 Fair value of financial instruments (continued)

13b) Fair value hierarchy (continued)

	Level 1	Level 2	Level 3	2014 Total
	£m	£m	£m	£m
Assets carried at fair value:				
Shares	1,652.4	13.7	147.4	1,813.5
Debt securities	854.7	8,560.8	517.9	9,933.4
Trackers	1,847.3	913.1	0.1	2,760.5
Derivative assets	25.7	887.5	1.5	914.7
Loan notes	-	517.5	-	517.5
Other financial assets	99.7	15.6	479.3	594.6
Investments in real estate	-	-	25.1	25.1
Total assets	4,479.8	10,908.2	1,171.3	16,559.3
Derivative liabilities	(21.8)	(386.6)	-	(408.4)
Investment contracts	-	(3,826.9)	-	(3,826.9)
Other financial liabilities	-	-	(359.9)	(359.9)
Total liabilities	(21.8)	(4,213.5)	(359.9)	(4,595.2)

	Level 1	Level 2	Level 3	2014 Total
	£m	£m	£m	£m
Excluding Unit-Linked and With-Profit				
Assets carried at fair value:				
Shares	-	0.3	147.4	147.7
Debt securities	785.8	7,248.3	510.8	8,544.9
Trackers	-	0.7	-	0.7
Derivative assets	10.1	845.8	0.8	856.7
Loan notes	-	517.5	-	517.5
Other financial assets	0.4	-	479.1	479.5
Investments in real estate	-	-	-	-
Total assets	796.3	8,612.6	1,138.1	10,547.0
Derivative liabilities	(2.7)	(363.2)	-	(365.9)
Investment contracts	-	(2.8)	-	(2.8)
Other financial liabilities	-	-	(359.9)	(359.9)
Total liabilities	(2.7)	(366.0)	(359.9)	(728.6)

13 Fair value of financial instruments (continued)

13c) Fair value measurement

At 31 December 2015, approximately 29.3% (2014: 27.1%) of the Group's assets measured at fair value are classified as Level 1 and are measured at fair value on a recurring basis. The fair value measurements included in the assets classified as Level 1 include the exchange traded prices of equities, fixed income securities and derivative contracts.

At 31 December 2015, approximately 64.9% (2014: 65.9%) of the Group's assets measured at fair value are classified within Level 2, and are measured at fair value on a recurring basis. Level 2 financial assets include government and agency securities, certain corporate debt securities and money market investments. As market prices or quotes are not, in general, readily available for these securities their fair value measures are typically determined using observable information such as market transactions involving comparable securities.

Liabilities classified within Level 2 are primarily investment contracts that are designated at fair value through profit and loss. These investment contracts are not quoted in active markets and the fair value of the contracts is determined using valuation techniques, which are performed and reviewed by suitably qualified personnel. The valuation techniques include significant assumptions such as time value, credit risk and volatility factors. Further information about the investment contracts, valuation methodologies, key assumptions and sensitivities are included within Note 21.

At 31 December 2015, approximately 5.8% (2014: 7.0%) of the Group's assets measured at fair value are classified as Level 3, and are measured at fair value on a recurring basis. Level 3 financial assets primarily include private fixed income corporate debt securities and the 2014 figure included a holding in an overseas non-quoted insurance company. The pricing of these instruments includes significant unobservable inputs such as non-binding broker prices that cannot be corroborated to observable market data. The Group applies a process of reviewing the valuation of Level 3 instruments for reasonableness based on its understanding of the instrument and the markets.

The valuation of the overseas non-quoted insurance company for the year ended 31 December 2014 was calculated using a methodology which utilised the values of the net assets and the value of in force intangible asset. The methodology used an unobservable input in relation to the intangible valuations which accounted for £40.9 million of the total value. The sensitivity of the unobservable input for the year ended 31 December 2014 is disclosed in Note 13f.

13 Fair value of financial instruments (continued)

13c) Fair value measurement (continued)

Valuations of investments in real estate are conducted with sufficient regularity to ensure the value reflects the fair value at the balance sheet date. Valuations are mostly based on active market prices, adjusted for any difference in the nature, location or condition of the specific property. If such information is not available, other valuation methods are applied, considering the current cost of reproducing or replacing the property, the value that the property's net earning power will support and the value indicated by recent sales of comparable properties.

Liabilities classed as Level 3 are the fixed leg of the longevity swap reinsurance arrangement as detailed in Note 23. This instrument is not traded within a quoted market and therefore the fair valuation has been based on a discounted cash flow model using significant unobservable inputs that cannot be corroborated to observable market data. The significant assumption is the discount rate and is reviewed by the Group for reasonableness based on its understanding of the instrument and the related reinsurance contract. Transfers between levels are deemed to have occurred at the date of the event or change in circumstances that caused the transfer.

In particular, the following assets within the Non-Profit and Shareholder Funds, which are primarily classified within Level 2 or Level 3, have the following valuation basis:

(i) Money market and other short-term investments and deposits with financial institutions

The fair value of assets maturing within a year is assumed to be approximated by their carrying amount adjusted for credit risk, where appropriate, based on market observable credit spreads.

(ii) Financial derivatives and unlisted financial investments

Where quoted market prices are not available, other valuation techniques, such as option pricing or stochastic modelling, are applied. The valuation techniques incorporate all factors that market participants would consider and are based on observable market data when available. All models are validated before they are used and calibrated to ensure that outputs reflect actual experience and comparable market prices.

13 Fair value of financial instruments (continued)

13c) Fair value measurement (continued)

Fair values for exchange-traded derivatives, principally futures and certain options, are based on quoted market prices. Fair values for over-the-counter ("OTC") derivative financial instruments represent amounts estimated to be received from or paid to a third party in settlement of these instruments. These derivatives are valued using pricing models based on the net present value of estimated future cash flows, directly observed prices from exchange-traded derivatives, other OTC trades, or external pricing services. Most valuations are derived from swap and volatility matrices, which are constructed for applicable indices and currencies using current market data from many industry standard sources. Option pricing is based on industry standard valuation models and current market levels, where applicable. The pricing of complex or illiquid instruments is based on internal models. For long-dated illiquid contracts, extrapolation methods are applied to observed market data in order to estimate inputs and assumptions that are not directly observable. To value OTC derivatives, management uses observed market information, other trades in the market and dealer prices.

The Group normally mitigates credit risk in derivative contracts by entering into collateral agreements where practical and in International Securities and Derivatives Association (ISDA) master netting agreements for each of the Group's legal entities to facilitate the Group's right to offset credit risk exposure. Where appropriate collateral is not held by the Group or the counterparty, the fair value of derivatives is adjusted for credit risk based on market observable spreads. Changes in the fair value of derivatives attributable to changes in counterparty credit risk were not significant.

13d) Transfers between Level 1 and Level 2

In the current year, there were transfers of £7.3 million from Level 1 to Level 2 and transfers of £nil from Level 2 to Level 1. The change in level was a result of changes in market observability of prices.

13e) Reconciliation in Level 3 assets and liabilities

	At 1 January 2015	Total gains/losses in income statement *	Purchases	Sales	Transfers 2 to 3	Transfers 3 to 2	At 31 December 2015	Total gains/losses for the future period included in profit and losses for assets held at December 2015 **
	£m	£m	£m	£m	£m	£m	£m	£m
Fair value through profit and loss								
Investments	1,169.8	(8.9)	40.5	(152.2)	3.9	(185.1)	868.0	23.4
Derivatives	1.5	(1.2)	-	-	-	-	0.3	0.2
Other financial liability	(359.9)	24.0	-	-	-	-	(335.9)	-

13 Fair value of financial instruments (continued)

13e) Reconciliation in Level 3 assets and liabilities (continued)

	At 1 January 2014	Total gains/losses in income statement *	Purchases	Sales	Transfer 2 to 3	Transfers 3 to 2	At 31 December 2014	Total gains/losses for the future period included in profit and losses for assets held at December 2014 **
	£m	£m	£m	£m	£m	£m	£m	£m
Fair value through profit and loss								
Investments	369.1	54.7	575.5	(51.1)	230.2	(8.6)	1,169.8	53.7
Derivatives	1.0	0.5	-	-	-	-	1.5	1.5
Other financial liability	(336.2)	(23.7)	-	-	-	-	(359.9)	-

*Movement in Level 3 financial instruments measured at fair value.

** These are the total gains / losses for the period during which the financial instrument was in level 3.

During the year, certain financial instruments were transferred from Level 2 to Level 3 of the fair value hierarchy. The amount of assets transferred was £3.9 million (2014: £230.2 million) for the Group. The change in level was a result of changes in market observability of prices.

During the year, certain financial instruments were transferred from Level 3 to Level 2 of the fair value hierarchy. The amount of assets transferred was £185.1 million (2014: £8.6 million) for the Group. The change in level was a result of changes in market observability of prices.

The £867.3 million (2014: £1,169.8 million) classed as Level 3 holdings comprises, commercial real estate, infrastructure debt and other illiquid debt securities. The 2014 Level 3 holdings also included a holding in an overseas non-quoted insurance company, which was disposed of during the year ended 31 December 2015.

13 Fair value of financial instruments (continued)

13f) Sensitivity analysis Level 3

Of the total Level 3 assets, £854.4 million relates to a mixture of fixed interest and variable rate debt securities where the valuation is determined from discounted cash flow methods. These methods utilise discount rates determined by the pricing source to present value the securities' expected cash flows based on:

i) the risk-free rate of interest;

ii) an appropriate credit spread determined either by reference to external credit ratings or through internal assessment; and

iii) an illiquidity component.

The following table analyses the sensitivity of these fixed interest and variable rate debt securities to changes in the discount rate applied:

2015	**Assumption**	**Change in assumption**	**Decrease in FV £m**	**Increase in FV £m**
Total funds	Discount rate	+0.1%/ -0.1%	(6.5)	6.5

Prior year Level 3 holdings included an overseas insurance company which has been disposed of during the year 31 December 2015. The following table provides the analysis of the sensitivity of the 31 December 2014 holding in the overseas insurance company to the reasonable possible changes in the assumptions that were used to determine the fair value which existed at 31 December 2014.

2014	Assumption	Change in assumption	Increase in FV £m	Decrease in FV £m
Non-Profit Fund	Valuation of PVIF	+0.1%/ -0.1%	4.1	(4.1)

With regard to the remaining Level 3 holdings, there are no reasonable alternative assumptions that would significantly impact net income, total equity, or total assets.

14 Unconsolidated structured entities

The following table details total income received from the Group's interests in structured entities:

	Group 2015 £m	Group 2014 £m
Asset backed securities	**14.7**	21.7
Residential mortgage backed securities	**0.2**	3.5
Commercial mortgage backed securities	**10.9**	14.0
Open-ended investment companies	**-**	0.4
Guardian Loan Opportunities Ltd	**20.1**	12.0
	45.9	51.6

All of the Group's interests in structured entities are included in Investments in the Balance Sheet.

The Group has not provided any financial support to any of the structured entities.

15 Derivatives

In the tables that follow, figures shown under "Ark Life" represent the total for Ark Life Assurance Company Limited.

	2015 £m With-Profits	**2015 £m Unit-Linked**	**2015 £m Non-Profit**	**2015 £m Shareholder**	**2015 £m Ark Life**	**2015 £m Total**
Rights under derivative contracts	35.7	3.3	327.9	-	-	**366.9**
Obligations under derivative contracts	(31.1)	(1.7)	(98.2)	(0.4)	(0.1)	**(131.5)**
	4.6	**1.6**	**229.7**	**(0.4)**	**(0.1)**	**235.4**

	2014 £m With-Profits	2014 £m Unit-Linked	2014 £m Non-Profit	2014 £m Shareholder	2014 £m Ark Life	2014 £m Total
Rights under derivative contracts	44.9	9.7	856.7	-	3.4	914.7
Obligations under derivative contracts	(34.6)	(7.8)	(365.4)	(0.5)	(0.1)	(408.4)
	10.3	1.9	491.3	(0.5)	3.3	506.3

15 Derivatives (continued)

Exchange traded derivative positions are all cleared through a central clearing house and margining is reviewed daily. For OTC derivatives, collateral is used to limit the counterparty exposures arising. Further disclosure relating to collateral held and pledged for derivatives is detailed within Notes 17, 25 and 29.

As at 31 December 2015, the derivatives classified as current have a net value providing rights under derivative contracts of £23.1 million (2014: positive value of £2.3 million).

The fair value of the derivatives reflects the estimated amounts that the Group would receive or pay to terminate the contracts on the reporting date. Market quotes are available for many derivatives; for those products without readily available market quotes generally accepted valuation models, such as option pricing, are used to estimate fair value. The Group uses derivatives as part of the asset management process in the Unit-Linked, Non-Profit and With-Profits Funds. The use of derivatives is either for efficient portfolio management or for the reduction of equity, interest rate and currency risk.

Interest rate swaps are held to swap a series of fixed interest rates for a series of floating interest rates on nominal amounts in the future. Swaptions are held to match the maturing profile of deferred annuities with guaranteed cash option rates. Equity put options are held in order to hedge against the guaranteed maturity values on Homebuilder Plus contracts.

15 Derivatives (continued)

	Group	Group
	2015	2014
	£m	£m
Designated as a hedging instrument		
Equity futures	**-**	(10.9)
	-	(10.9)
Not designated as a hedging instrument		
Interest rate swaps	**255.3**	493.0
Foreign exchange forwards	**(20.4)**	4.2
Equity options	**4.8**	12.9
Equity futures	**(4.7)**	3.5
Bond futures	**0.4**	3.6
	235.4	517.2
Total derivatives	**235.4**	506.3

Fair value hedge relationships

Until de-designation of the relationship, equity futures were designated as fair value hedges in respect of equity price movements relating to the shareholder transfer of the shareholders' portion of the surplus arising in the With-Profits Fund. During the year, the hedge relationship became ineffective; falling outside of the 80-125% corridor in hedging the fair value exposure to equity price movements and therefore the hedge accounting has been discontinued from that date. As a result, amortisation of the cumulative fair value adjustment made to the carrying value of the designated hedged item, the shareholder transfer of the unallocated divisible surplus, has commenced in profit or loss from the point at which the hedging relationship was discontinued. The amount of amortisation included in profit or loss during the period since de-designation is £1.1 million (2014: £nil). During the period the relationship was effective in the year, the carrying value of the hedged item was adjusted by £3.7 million (2014: £0.9 million). This was included in profit or loss at the same time that the fair value movement of the equity futures of £1.0 million (2014: £0.9 million) was included in profit or loss. The notional value of derivatives designated as hedging instruments as at 31 December 2015 was £nil (2014: £235.4 million).

16 Reinsurance assets

In the tables that follow, figures shown under "Ark Life" represent the total for Ark Life Assurance Company Limited. Assets arising from reinsurance contracts are related to:

	2015	**2015**	**2015**	**2015**	**2015**
	£m	**£m**	**£m**	**£m**	**£m**
	With-Profits	**Unit-Linked**	**Non-Profit**	**Ark Life**	**Total**
Life insurance contracts	2.8	0.3	1,329.7	515.1	**1,847.9**
Investment contracts without discretionary participation features	-	-	-	15.0	**15.0**
	2.8	**0.3**	**1,329.7**	**530.1**	**1,862.9**

	2014	2014	2014	2014	2014
	£m	£m	£m	£m	£m
	With-Profits	Unit-Linked	Non-Profit	Ark Life	Total
Life insurance contracts	5.0	0.3	1,428.6	532.4	1,966.3
Investment contracts without discretionary participation features	-	-	-	15.7	15.7
	5.0	0.3	1,428.6	548.1	1,982.0

16 Reinsurance assets (continued)

£96.3 million of the reinsurance assets are current (2014: £102.6 million).

A collateral arrangement is in place for the majority of the reinsurance assets within the Non-Profit Fund to limit the counterparty exposure arising. The value of the reassured liability falling under the collateral arrangement at 31 December 2015 was £933.2 million (2014: £1,002.8 million). Further disclosure relating to collateral held for this annuity business is detailed within Note 29.

Movements during the year in reinsurance assets relating to life insurance contracts and investment contracts without discretionary participation features:

	2015	**2015**	**2015**	**2015**	**2015**
	£m	**£m**	**£m**	**£m**	**£m**
	With-Profits	**Unit-Linked**	**Non-Profit**	**Ark Life**	**Total**
At 1 January	5.0	0.3	1,428.6	548.1	**1,982.0**
Business transfer in	-	-	-	-	**-**
Gross premium and deposits	0.3	0.5	7.0	37.5	**45.3**
Insurance liabilities (released)/ increased	(2.5)	(0.5)	(105.9)	(55.5)	**(164.4)**
At 31 December	**2.8**	**0.3**	**1,329.7**	**530.1**	**1,862.9**

	2014	2014	2014	2014	2014
	£m	£m	£m	£m	£m
	With-Profits	Unit-Linked	Non-Profit	Ark Life	Total
At 1 January	5.0	0.3	1,351.0	-	1,356.3
Business transfer in	-	-	-	272.2	272.2
Gross premium and deposits	0.3	0.6	3.6	28.5	33.0
Insurance liabilities (released)/ increased	(0.3)	(0.6)	74.0	247.4	320.5
At 31 December	5.0	0.3	1,428.6	548.1	1,982.0

The transfer of business in 2014 relates to the externally reassured assets recognised as a result of the acquisition by the Group of Ark Life, detailed in Note 3.

17 Other assets and receivables

		Group 2015 £m	Group 2014 £m
Receivables	17a	**114.5**	391.2
Accrued income		**174.7**	182.8
Total assets and other receivables		**289.2**	574.0

17a Receivables

	Group 2015 £m	Group 2014 £m
Receivables from policyholders	**0.9**	4.1
Receivables from reinsurers	**27.0**	28.7
Receivables from related parties	**-**	2.5
Cash outstanding from assets sold	**21.0**	1.2
Cash collateral relating to derivatives	**39.3**	340.2
Investment debtor	**2.1**	3.2
Other debtors	**24.2**	5.8
Income tax receivable	**-**	5.5
	114.5	391.2

All accrued income and receivables are current (2014: same).

The Directors consider that the carrying amounts disclosed reasonably approximate the fair values as at the year-end (2014: same).

18 Cash and cash equivalents

	Group 2015 £m	Group 2014 £m
Cash at bank and in hand	**149.2**	453.5
Short term deposits	**1,311.0**	756.0
Cash and cash equivalents	**1,460.2**	1,209.5

The weighted effective interest rate on short-term deposits was 0.30% (2014: 0.44%) and these deposits have an average maturity of 1 day (2014: 1 day). Cash and cash equivalents are not subject to any restrictions.

The Directors consider that the carrying amounts disclosed reasonably approximate the fair values as at the year-end (2014: same).

19 Shareholders’ equity

	Group 2015 £m	Group 2014 £m
Share capital (see Note 19a)	**0.5**	0.5
Retained earnings	**642.2**	715.6
Retranslation reserve	**(28.8)**	(14.2)
Share premium	**2.4**	2.4
	616.3	704.3

19 Shareholders' equity (continued)

19a Share capital

	Group 2015 £m	Group 2014 £m
Authorised share capital		
3,121,027 Ordinary A shares of £0.01 each	-	-
16,571 Ordinary B shares of £0.01 each	-	-
688,742 Ordinary C shares of £1.00 each	**0.7**	0.7
3 Ordinary D shares of £1.00 each	-	-
	0.7	0.7

	Group 2015 £m	Group 2014 £m
Allotted, called up and fully paid share capital		
2,400,792 Ordinary A shares of £0.01 each	-	-
12,747 Ordinary B shares of £0.01 each	-	-
529,802 Ordinary C shares of £1.00 each	**0.5**	0.5
2 Ordinary D shares of £1.00 each	**-**	-
	0.5	0.5

All classes of share rank equally in relation to dividends paid thereon, and in the event of a return of capital on a winding up, reduction of capital or otherwise.

The Ordinary A shares and Ordinary D shares carry one vote per share subject to the restrictions set out in the Articles of Association. Neither the Ordinary B shares nor Ordinary C shares carry any votes.

20 Insurance contracts In the tables that follow, figures shown under "Ark Life" represent the total for Ark Life Assurance Company Limited.

	2015	**2015**	**2015**	**2015**	**2015**
	£m	**£m**	**£m**	**£m**	**£m**
	With-Profits	**Unit-Linked**	**Non-Profit**	**Ark Life**	**Total**
Insurance contract liabilities	748.7	524.6	10,179.2	1,171.1	**12,623.6**
Unallocated divisible surplus	114.6	-	-	-	**114.6**
	863.3	**524.6**	**10,179.2**	**1,171.1**	**12,738.2**

Restated

	2014	2014	2014	2014	2014
	£m	£m	£m	£m	£m
	With-Profits	Unit-Linked	Non-Profit	Ark Life	Total
Insurance contract liabilities	880.6	656.2	10,704.8	1,359.3	13,600.9
Unallocated divisible surplus	131.5	-	-	-	131.5
	1,012.1	656.2	10,704.8	1,359.3	13,732.4

As at 31 December 2014, insurance contract liabilities also included other actuarial reserves of £6.8 million.

	2015	**2015**	**2015**	**2015**	**2015**
	£m	**£m**	**£m**	**£m**	**£m**
	With-Profits	**Unit-Linked**	**Non-Profit**	**Ark Life**	**Total**
At 1 January	1,012.1	656.2	10,704.8	1,359.3	**13,732.4**
Business transfer in	-	-	-	-	**-**
Gross premiums and deposits	9.0	19.1	(16.3)	54.8	**66.6**
Insurance liabilities released/(increased)	(157.8)	(150.7)	(509.3)	(243.0)	**(1,060.8)**
At 31 December	**863.3**	**524.6**	**10,179.2**	**1,171.1**	**12,738.2**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

20 Insurance contracts (continued)

Restated	2014	2014	2014	2014	2014
	£m	£m	£m	£m	£m
	With-Profits	Unit-Linked	Non-Profit	Ark Life	Total
At 1 January	1,017.3	738.1	8,131.9	-	9,887.3
Business transfer in	-	-	-	1,202.0	1,202.0
Gross premiums and deposits	29.3	26.9	1,775.9	48.0	1,880.1
Insurance liabilities released/(increased)	(34.6)	(108.8)	797.0	109.4	763.0
At 31 December	1,012.0	656.2	10,704.8	1,359.4	13,732.4

The transfer of business in 2014 relates to the transfer in of the insurance contracts as a result of the acquisition by the Group of Ark Life, detailed in Note 3.

The 2014 premium figures above include the initial premium from the reassurance transaction entered into during 2014 with Phoenix.

20 Insurance contracts (continued)

Actuarial assumptions – non-profit insurance contracts

The assumptions underlying the calculations are broadly as set out in the 2015 Valuation Report prepared under the requirements of Appendix 9.4 of the Interim Prudential Sourcebook for Insurers. In calculating the technical provisions, material judgements are required, particularly through the choice of assumptions underlying the valuation of liabilities.

The principal assumptions underlying the calculations of the technical provisions are as follows:

Class of business		Mortality	Interest Rate
Pensions		44%/46% AMC/AFC00 (50%/46% AM/AF92)	2.50% (2.31%)
Annuities - in payment and	}<£2,000	91%/98% IML00/RFV00 (91%/98%)	2.50% (2.31%)
post vesting	}<£4,000	81%/87% IML00/RFV00 (81%/87%)	2.50% (2.31%)
	}<£10,000	74%/79% IML00/RFV00 (74%/79%)	2.50% (2.31%)
	}>£10,000	68%/73% IML00/RFV00 (68%/73%)	2.50% (2.31%)

Annuities acquired from The Phoenix Group Part I:

Class of business	Mortality	Interest Rate
BA	106%/107% RMV00/RFV00 (106%/107%)	2.50% (2.65%)
Century	91%/107% PCMA00/PCFA00 (91%/107%)	2.50% (2.65%)
SMA	94%/92% PCMA00/PCFA00 (94%/92%)	2.50% (2.65%)
SPL	96%/111% PCMA00/PCFA00 (96%/111%)	2.50% (2.65%)
Pearl	111%/107% RMV00/RFV00 (111%/107%)	2.50% (2.65%)
NPL	100%/93% RMV00/RFV00 (100%/93%)	2.50% (2.65%)

Annuities acquired from The Phoenix Group Part II:

Class of business	Mortality	Interest Rate
PWP	75%/73% S1PMA/S1PFA (75%/73%)	2.50% (2.15%)
Alba	77%/75% S1PMA/S1PFA (77%/75%)	2.50% (2.15%)
SAL	76%/72% S1PMA/S1PFA (76%/72%)	2.50% (2.15%)

There were variations within the different classes of business; the above gives the assumptions for the principal contracts.

Annuity business is valued on the two-way (calendar and age dependent) mortality tables, assuming CMI 2014 mortality improvements with a long term rate of 2% for males and 1.5% for females.

20 Insurance contracts (continued)

Actuarial assumptions – non-profit insurance contracts (continued)

Other classes of business were valued using appropriate methods. There have been no significant changes in the bases or assumptions adopted for the long-term business provision during the year other than the changes in mortality rates and interest rates detailed above.

The annual bonus rates assumed for the Pension Plus/VIP/Buy-Out Plan business reassured from the With-Profits Fund to the Non-Profit Fund are set out below.

Actuarial assumptions – insurance contracts and investment contracts with discretionary participating features

The assumptions underlying the calculations are broadly as set out in the 2015 Valuation Report prepared under the requirements of Appendix 9.4 of the Interim Prudential Sourcebook for Insurers. In calculating the technical provisions, material judgements are required, particularly through the choice of assumptions underlying the valuation of liabilities. In particular, market consistent techniques have been used to value all options and guarantees that fall under the PRA's "realistic" balance sheet requirements. The business lines valued are summarised in Note 20 Investment contracts.

Options and guarantees on non-profit and with-profit business have been valued deterministically using demographic assumptions consistent with those used for the embedded value. They are discounted at a rate of 97.5% of a risk adjusted yield. The risk adjusted yield is determined as risk-free zero coupon yields plus 80% of the spread available on the bond portfolio after allowing for a historical credit default allowance of 1.5 times an amount to compensate for default based on bond rating and term, derived from historical data.

This approach can be taken because it has been demonstrated that all such options and guarantees are closely matched by suitable bonds such that the actual bond portfolio can be considered to be a replicating portfolio of the guaranteed liabilities. The matching has been tested by applying extreme scenarios to the assets and liabilities and demonstrating that the assets remain sufficient to meet the liabilities under these scenarios.

No specific management actions have been assumed in the deterministic valuation of the with-profits realistic liabilities, either in the base position or under the scenarios applied to determine the Risk Capital Margin. In particular, future annual bonuses are assumed to remain at their current levels and no changes to investment policy are assumed. No deductions are assumed for the cost of guarantees consistent with the current approach, although it should be noted that the Company reserves the right to introduce a charge for guarantees in accordance with its Principles and Practices of Financial Management. Payouts are assumed to be 100% of asset shares.

The With Profits Fund holds a series of equity put options to provide protection for terminal bonus payments on conventional with profit endowment maturities up to 2019. The market value of the equity put options is also held as a liability of the fund.

20 Insurance contracts (continued)

Actuarial assumptions – insurance contracts and investment contracts with discretionary participating features (continued)

The annual bonus rates assumed are as follows:

Class	Future annual bonus rate (Terminal bonus rate zero)
Endowments	1.00%
Pension Plus/VIP/Buy-Out Plan	0.50%
Personal Pension	1.00%
Life Unitised With-Profits	1.25%
Pensions Unitised With-Profits	1.50%

Assumed levels of future mortality improvement have a significant impact on future costs, particularly those relating to deferred annuities. The assumptions used are consistent with current experience projected forward in line with CMI 2014 mortality improvements with a long term rate of 1.5% for males and 1% for females for best estimate purposes. The principal assumptions underlying the calculations of the technical provisions that do not fall within the PRA's "realistic" balance sheet requirements are as follows:

Class of business		**Mortality**	**Interest Rate**
Assurances			
- non-participating		86%/102% AMC/AFC00 (102%/102% AM/AF92)	2.40% (2.10%)
- temporary (non-smoker)		96%/92% TMC/TFC00 (88%/92% TM/TF92)	2.40% (2.10%)
- temporary (smoker)		96%/92% TMC/TFC00 (88%/92% TM/TF92)	2.40% (2.10%)
Pensions - non-participating		44%/46% AMC/AFC00 (50%/46% AM/AF92)	2.90% (2.60%)
Annuities - in payment and	}<£2,000	91%/98% IML00/RFV00 (91%/98%)	2.90% (2.60%)
post vesting	}<£4,000	81%/87% IML00/RFV00 (81%/87%)	2.90% (2.60%)
	}<£10,000	74%/79% IML00/RFV00 (74%/79%)	2.90% (2.60%)
	}>£10,000	68%/73% IML00/RFV00 (68%/73%)	2.90% (2.60%)

20 Insurance contracts (continued)

There were variations within the different classes of business; the above gives the assumptions for the principal contracts.

Annuity business is valued on two-way (calendar year and age dependent) mortality tables, assuming CMI 2014 mortality improvements with a long term rate of 2% for males and 1.5% for females. These rates of improvements include a margin for prudence over the best estimate rates.

For unitised with-profit business, the liabilities are valued initially by determining the lower of the current non-guaranteed surrender value and the bid value of units. This result is then compared with a prospective valuation and the higher result is taken.

Other classes of business were valued using appropriate methods. There have been no significant changes in the bases or assumptions adopted for the long-term business provision during the year other than the changes in mortality rates and interest rates detailed above.

Deferred tax

Future anticipated tax cash flows are included in the actuarial calculation and are discounted at the interest rate applicable to the appropriate class of business.

Amount charged for bonuses

The amount in respect of bonuses in the income statement amounts to £114.5 million (2014: £95.8 million), of which £109.1 million (2014: £88.9 million) relates to interim and terminal bonuses and £5.4 million (2014: £6.9 million) is in respect of reversionary bonuses declared at the end of the year and which was included in the long term business provision. Included within insurance contracts above is the unallocated divisible surplus in respect of the with-profits business of the Company. The unallocated divisible surplus represents an estimate of the amount that may be paid over time to the shareholder as profits emerge from the fund in the form of bonuses. The value attributed to the unallocated divisible surplus at 31 December 2015 is £114.6 million (2014: £131.5 million).

20 Insurance contracts (continued)

Actuarial assumptions – Ark Life

Methodology

Non-linked actuarial liabilities are calculated using the gross premium valuation method, allowing cross-subsidies between policies within a product cohort but not between product cohorts. The calculation uses the actual policy and reinsurance data and the valuation assumptions regarding expenses, discount rates, persistency, mortality and disability. The persistency assumption used is set specifically for the IFRS liability calculation.

For unit-linked business, the provisions are valued by adding a prospective non-unit reserve to the bid value of units.

Assumptions

The principal assumptions are:

Interest rate

The valuation interest rates have increased by 0.25% since 2014. For all business, the valuation discount rate assumption is set with regard to yields on the supporting assets and the general level of long-term interest rates as measured by gilt yields.

Class of business	Valuation discount rate 2015 (2014)
Endowment assurance and whole of life:	
- Basic life and general annuity business:	1.00% (0.75%)
Temporary assurance	
- Basic life and general annuity business	1.00% (0.75%)
- Pension business	1.00% (0.75%)

Mortality

Mortality assumptions are set with regard to recent company experience and general industry trends.

Class of business	Mortality tables used 2015 (2014)
Endowment assurance and whole of life:	
- Basic life and general annuity business:	Males: 77% AMN00 / AMS00 Ultimate (89.1%)
	Females: 86.9% AFN00 /AFS00 Ultimate (86.9%)
Temporary assurance	
- Basic life and general annuity business	Males: 77% TMN00 / TMS00 Ultimate (89.1%)
	Females: 86.9% TFN00 / TFS00 Ultimate (86.9%)

Morbidity

Morbidity assumptions are set with regard to recent company experience and general industry trends.

Class of business	Morbidity tables used 2015 (2014)
Temporary assurance	90% CIBT93 (90%)

20 Insurance contracts (continued)

Persistency

Persistency assumptions are set with regard to recent company experience and general industry trends.

Class of business	Annual lapse rates 2015 (2014)
Endowment assurance and whole of life:	
- Basic life and general annuity business:	Years 7+: 1.05% p.a. (1.6% p.a)

There are variations across and within different classes of business; the above gives the assumptions for the principal contracts.

Annuity business is valued on two-way (calendar year and age dependent) mortality tables, assuming CMI 2014 mortality improvements with a long term rate of 2% for males and 1.5% for females. These rates of improvements include a margin for prudence over the best estimate rates.

For unitised with-profit business, the liabilities are valued initially by determining the lower of the current non-guaranteed surrender value and the bid value of units. This result is then compared with a prospective valuation and the higher result is taken.

Other classes of business were valued using appropriate methods. There have been no significant changes in the bases or assumptions adopted for the long-term business provision during the year other than the changes in mortality rates and interest rates detailed above.

Deferred tax

Future anticipated tax cash flows are included in the actuarial calculation and are discounted at the interest rate applicable to the appropriate class of business.

Amount charged for bonuses

The amount in respect of bonuses in the income statement amounts to £114.5 million (2014: £95.8 million), of which £109.1 million (2014: £88.9 million) relates to interim and terminal bonuses and £5.4 million (2014: £6.9 million) is in respect of reversionary bonuses declared at the end of the year and which was included in the long term business provision. Included within insurance contracts above is the unallocated divisible surplus in respect of the with-profits business of the Company. The unallocated divisible surplus represents an estimate of the amount that may be paid over time to the shareholder as profits emerge from the fund in the form of bonuses. The value attributed to the unallocated divisible surplus at 31 December 2015 is £114.6 million (2014: £131.5 million).

21 Investment contracts

In the tables that follow, figures shown under "Ark Life" represent the total for Ark Life Assurance Company Limited.

	2015 £m With-Profits	2015 £m Unit-Linked	2015 £m Non-Profit	2015 £m Ark Life	2015 £m Total
Without discretionary participation features	-	1,241.9	2.8	1,422.1	**2,666.8**
With discretionary participation features	1,192.3	-	0.8	-	**1,193.1**
	1,192.3	**1,241.9**	**3.6**	**1,422.1**	**3,859.9**

Restated	2014 £m With-Profits	2014 £m Unit-Linked	2014 £m Non-Profit	2014 £m Ark Life	2014 £m Total
Without discretionary participation features	-	1,316.8	1.9	1,530.3	2,849.0
With discretionary participation features	1,258.8	-	0.4	-	1,259.2
	1,258.8	1,316.8	2.3	1,530.3	4,108.2

	2015 £m With-Profits	2015 £m Unit-Linked	2015 £m Non-Profit	2015 £m Ark Life	2015 £m Total
With discretionary participation features					
At 1 January	1,258.8	-	0.4	-	**1,259.2**
Gross premiums and deposits	0.2	-	-	-	**0.2**
Investment liabilities (released)/ increased	(66.7)	-	0.4	-	**(66.3)**
At 31 December	**1,192.3**	**-**	**0.8**	-	**1,193.1**

21 Investment contracts (continued)

Restated	2014	2014	2014	2014	2014
	£m	£m	£m	£m	£m
	With-Profits	Unit-Linked	Non-Profit	Ark Life	Total
With discretionary participation features					
At 1 January	1,319.6	-	0.4	-	1,320.0
Gross premiums and deposits	2.1	-	-	-	2.1
Investment liabilities released	(62.9)	-	-	-	(62.9)
At 31 December	1,258.8	-	0.4	-	1,259.2

Investment contracts with discretionary participation features are not measured at fair value and there is currently no agreed definition of fair value for discretionary participation features. In the absence of such a definition, it is not possible to provide a range of estimates within which a fair value is likely to fall. There is no active market for these instruments, which will be settled with customers in the normal course of business.

Changes in the fair value of investment contracts without discretionary participation features, which are designated as fair value through profit or loss were not attributable to changes in the Company's credit spread. There are no significant differences between the carrying amount of these financial liabilities and the contractual amount payable at maturity (net of surrender policies).

Actuarial assumptions – investment contracts

Traditional with-profit

In return for the payment of a single premium or an agreed series of premiums, the Company guarantees to pay a specified level of sum assured or annuity, including annual bonus additions to date, at a specified maturity date or, for life assurances, on earlier death. As at 31 December 2015, the great majority of such guarantees were out of the money (that is, current asset shares generally exceed corresponding guaranteed benefits) for life assurances but in the money for deferred annuities. The actuarial assumptions underlying the calculation of the technical provisions are as outlined in Note 20 above.

Unitised with-profit guarantees

Units purchased to date are guaranteed not to decrease in value if taken at maturity. Similar guarantees exist on earlier death. As at 31 December 2015, the majority of such guarantees are out of the money(2014: out of the money).

21 Investment contracts (continued)

Actuarial assumptions – contracts with discretionary participating features

Unitised with-profit guarantees

Units purchased to date are guaranteed not to decrease in value if taken on early retirement up to five years before maturity (that is, no market value reduction will be applied on early retirement up to five years before maturity). Similar guarantees exist on earlier death.

As at 31 December 2015, the majority of such guarantees are out of the money (2014: out of the money).

22 Borrowings

		Group 2015 £m	Group 2014 £m
Unsecured borrowings at amortised cost			
Unsecured loan notes	a,b,c	**474.5**	422.4
Secured borrowing at amortised cost			
Bank loan	d	**287.9**	343.8
		762.4	766.2

(i) The loans from related parties comprise of:

(a) Unsecured "A" Loan notes totalling £166.2 million issued by the Group on 23 November 2011. The interest rate is fixed at 10 per cent and is payable semi-annually on the interest payment dates (30th of June and 31st of December). Interest may be paid in cash or by the issuance of PIK notes, or the interest may be deferred to a future interest payment date. When interest is deferred it shall be added to the aggregate nominal amount (with future interest calculated on this aggregated nominal amount.) The contractual terms of the loan note stated it was due for full repayment on 22 November 2041. The "A" loan notes and any PIK notes issued are listed on the Channel Islands Stock Exchange.

On 11 December 2015, the Swiss Re Admin Re Limited (formerly Guardian Midco Limited) Board approved the issue of "A" PIK Notes in satisfaction of interest due on the issued A Loan Notes in respect of the current and previous year, totalling £41.6m (2014: £19.0m for the period from 1 January 2013 up to and including 31 December 2013) Unsecured "A" PIK Notes due 2041. These were admitted to the Official List of the Channel Islands Stock Exchange on 31 December 2015.

All the "A" Loan Notes form a single series with common terms.

22 Borrowings (continued)

(b) Unsecured “B” Loan notes of £0.9 million. This loan was advanced on 23 November 2011 and under the contractual terms of the loan note was due for repayment in full on 22 November 2041. The interest rate is fixed at 10 per cent and is payable semi-annually on the interest payment dates (30 June and 31 December). Interest may be paid in cash or the interest may be deferred to a future interest payment date. When interest is deferred it shall be added to the aggregate nominal amount (with future interest calculated on this aggregated nominal amount.)

On 11 December 2015, the Swiss Re Admin Re Limited (formerly Guardian Midco Limited) Board approved the issue of “B” PIK Notes in satisfaction of interest due on the issued B Loan Notes in respect of the period from 23 November 2011 to 31 December 2015, totalling £1.1m Unsecured “B” PIK Notes due 2041. These were admitted to the Official List of the Channel Islands Stock Exchange on 21 December 2015.

All the “B” Loan Notes form a single series with common terms.

(c) Unsecured “C” Loan notes totalling £139.6 million issued by the Company on 5 July 2012. The interest rate is fixed at 15 per cent and is payable semi-annually on the interest payment dates (30 June and 31 December). Interest may be paid in cash or by the issuance of PIK notes, or the interest may be deferred to a future interest payment date. When interest is deferred it shall be added to the aggregate nominal amount (with future interest calculated on this aggregated nominal amount). Under the contractual terms of the loan note, it was due for full repayment on 22 November 2041. The “C” loan notes and PIK notes issued are listed on the Channel Islands Stock Exchange.

On 11 December 2015, the Swiss Re Admin Re Limited (formerly Guardian Midco Limited) Board approved the issue of “C” PIK Notes in satisfaction of interest due on the issued “C” Loan Notes held by institutional holders in respect of the current and previous year, totalling £54.1m (2014: £23.3m for the period from 1 January 2013 up to and including 31 December 2013) Unsecured “C” PIK Notes due 2041. These were admitted to the Official List of the Channel Islands Stock Exchange on 31 December 2015.

All the “C” Loan Notes form a single series with common terms.

The “A” loan notes comprise of borrowings from the ultimate parent undertaking as at 31 December 2015 of £245.7m (2014: £223.4m) and have a maturity date of 22 November 2041. Interest on the loans to the ultimate parent undertaking is able to be deferred at the discretion of the Company.

The “B” loan notes comprise borrowings from directors and senior management of £153,199 (2014: £139,272) and borrowings from the ultimate parent undertaking as at 31 December 2015 of £1.2m (2014: £1.0m). The “B” loan notes have a contracted maturity date of 22 November 2041. The interest on the “B” loan notes is able to be deferred at the discretion of the Company.

The “C” loan notes comprise of borrowings from directors and senior management of £394,299 (2014: £342,869) and borrowings from the ultimate parent undertaking as at 31 December 2015 of £227.0m (2014: £197.4m). The “C” loan notes have a contracted maturity date of 22 November 2041. Interest on the “C” loan notes is able to be deferred at the discretion of the Company.

A secured bank loan of £287.9m (2014: £343.8m). The loan was taken out on 5th July 2012. Repayments commenced on 30 June 2013 and were due to continue until 5th July 2017. Swiss Re AR Midco Limited (formerly Guardian Finance Limited) was required to maintain cash balances in respect of a Segregated Interest Account and an Interest Reserve Account of up to 18 months and 12 months respectively of the interest under the facility. The loan carries an interest rate of LIBOR plus a margin plus a mandatory cost (if any).

22 Borrowings (continued)

The debt is listed but not traded and interest accrues at a fixed rate. The Directors consider that the carrying amount of the borrowings is equal to their fair value as this is the amount at which the borrowings could be settled by Swiss Re Admin Re Limited (formerly Guardian Midco Limited). The measurement of the fair value of the borrowings is categorised within Level 3 of the fair value hierarchy.

The carrying value of the borrowings is calculated as the initial loan amount plus the interest incurred up to 31 December 2015.

23 Other financial liabilities

Group	**2015**	**2015**	**2015**	**2015**
	£m	**£m**	**£m**	**£m**
	With-Profits	**Unit-Linked**	**Non-Profit**	**Total**
Reinsurance swap liabilities	-	-	335.9	**335.9**

Group	2014	2014	2014	2014
	£m	£m	£m	£m
	With-Profits	Unit-Linked	Non-Profit	Total
Reinsurance swap liabilities	-	-	359.9	359.9

The other financial liability is the fixed leg of the longevity swap reinsurance arrangement. This is categorised as Level 3 in the fair value hierarchy disclosed in Note 13.

The Directors consider that the carrying amounts disclosed reasonably approximate the fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

24 Deferred tax

Group	**Financial assets £m**	**Insurance contracts £m**	**Intangible assets £m**	**Other £m**	**Total £m**
At 1 January 2015	4.8	34.5	56.1	-	**95.4**
Additions	-	-	-	-	**-**
Change in tax rate	-	(2.3)	(4.7)		**(7.0)**
Charged to income statement	(5.6)	(5.0)	(2.9)	-	**(13.5)**
Charged to equity	-	(0.5)	0.5	-	**-**
At 31 December 2015	**(0.8)**	**26.7**	**49.0**	-	**74.9**

Group	Financial assets £m	Insurance contracts £m	Intangible assets £m	Other £m	Total £m
At 1 January 2014	5.8	29.6	51.9	(0.1)	87.2
Additions	-	7.2	5.3	-	12.5
Change in tax rate	-	-	-		-
Charged to income statement	(1.0)	(2.1)	(1.1)	0.1	(4.1)
Charged to equity	-	(0.2)	-	-	(0.2)
At 31 December 2014	4.8	34.5	56.1	-	95.4

All deferred taxes are non-current by nature.

The additions of deferred tax in 2014 are in respect of the acquisition by the Group of Ark Life, detailed in Note 3.

25 Other liabilities

	Group 2015 £m	Group 2014 £m
Payables due to policyholders	**37.3**	32.5
Payables to related parties	**5.9**	-
Payables out of reinsurance	**6.3**	9.4
Social security and other taxes payable	**23.9**	44.0
Cash collateral	**34.8**	336.2
Other creditors	**102.1**	61.4
	210.3	483.5

All other liabilities are current (2014: same).

The Directors consider that the carrying amount of other liabilities and payables are equal to their fair value as this is the amount which would be required to transfer the balance.

26 Defined contribution plans

The Group operates a defined contribution scheme in the UK to which it paid £1.0 million (2014: £1.2 million). There are no unpaid contributions outstanding at the year end (2014: same).

Pension costs of £0.1 million (2014: £0.6 million) have been recognised in the consolidated income statement, in respect of the defined contribution scheme of Ark Life.

There were no significant contributions outstanding or prepayments as at 31 December 2015 (2014: same).

27 Capital and solvency

The Group's objectives when managing capital are:

- To comply with the PRA's regulatory capital requirements. In this respect the Group seeks to maintain at a minimum 125% of the regulatory minimum Pillar 1 capital requirement as it feels that this is sufficient capital to support the business that the Group writes;
- To provide an adequate return to shareholders; and
- To ensure the Group's ability to continue to operate as a going concern.

The defined capital includes equity and borrowings.

27 Capital and solvency (continued)

27a Regulatory basis

Required capital for the Group is based on the PRA rules. Required capital for Ark Life is based on the CBI rules. The Group must hold minimum capital resources in excess of the higher of the relevant regulatory rules (Pillar 1) and the Group's own economic capital assessment (Pillar 2). The Pillar 2 economic assessment is subject to regulatory review by the PRA.

In addition to individual minimum capital requirements, the Group is required to comply with the requirements of the Insurance Groups Directive (IGD).

The Group and each life entity within it have met with these requirements throughout the year.

27b Capital position statement

The Group capital available as at 31 December 2014 to meet regulatory capital requirements can be derived from the table below. The table that follows has been prepared to show the capital requirements at an individual level based on PRA rules (Pillar 1), together with the adjustments that reconcile these requirements to the Group's IGD minimum capital requirements.

	2015 With-Profits £m	**2015 Non-participating £m**	**2015 Share-holders' fund £m**	**2015 Total life business £m**	**2015 Consol. Adj. £m**	**2015 Group Total £m**
Shareholders' funds outside fund	-	-	412.2	412.2	204.1	616.3
Shareholders' funds held in fund	-	765.9	-	765.9	(765.9)	-
Total shareholders' funds	**-**	**765.9**	**412.2**	**1,178.1**	**(561.8)**	**616.3**
Adjustments onto a regulatory basis						
Unallocated divisible surplus	114.6	-	-	114.6		
Core tier one capital in related undertakings	-	(33.1)	-	(33.1)		
Adjustments to assets	(0.3)	(100.6)	-	(100.9)		
Adjustments to liabilities	1,018.8	9.2	-	1,028.0		
Available capital resources	**1,133.1**	**641.4**	**412.2**	**2,186.7**		
Minimum capital requirement				(1,495.6)		
Surplus				**691.1**		

27 Capital and solvency (continued)

27c Capital position statement (continued)

	2014 With-Profits £m	2014 Non-participating £m	2014 Share-holders fund £m	2014 Total life business £m	2014 Consol. Adj. £m	2014 Group Total £m
Shareholders' funds outside fund	-	-	563.9	563.9	140.4	704.3
Shareholders' funds held in fund	-	676.0	-	676.0	(676.0)	-
Total shareholders' funds	-	676.0	563.9	1,239.9	(535.6)	704.3
Adjustments onto a regulatory basis						
Unallocated divisible surplus	131.5	-	-	131.5		
Core tier one capital in related undertakings	-	(45.7)	-	(45.7)		
Adjustments to assets	(0.3)	(85.8)	-	(86.1)		
Adjustments to liabilities	1,083.9	(59.0)	-	1,024.9		
Available capital resources	1,215.1	485.5	563.9	2,264.5		
Minimum capital requirement				(1,595.7)		
Surplus				668.8		

a) There were no changes in management policy and no changes were made with respect to PS06/14. The fund is closed to new business.

b) Only the With-Profits Fund is subject to a 'realistic' assessment of liabilities. In the table above, the With-Profits Fund results are consistent with PRA's Pillar 1 requirement.

c) The shareholder has a 10% interest in the With-Profits Fund and a 100% interest in the Non-Profit Funds.

d) As the regulatory capital standard is market consistent, the level of available capital will fluctuate with market conditions, in particular with the level of fixed interest yields, credit spreads and equity markets. In general terms the level of regulatory capital will reduce if equity markets fall, fixed interest yields fall, credit spreads widen, and vice versa.

27 Capital and solvency (continued)

27c Capital position statement (continued)

e) The Group aims to manage the available capital in the With-Profits Fund, after deduction of the CRR, to a long-term position of zero, consistent with the need to distribute the estate as the fund reduces in size.

Risk mitigation strategies adopted (both now and in future) must be consistent with representations made to customers.

f) Liabilities within the With-Profits and PHI/CR and Non-Profit Funds are either perfectly matched (unit-linked business) or very closely matched (non-profit business and guaranteed liabilities on with-profits business).

g) The Group's risk profile is monitored by reference to its economic capital positions. The Group's economic solvency position should be maintained to a level such that it would not default economically on its obligations to customers should any "plausible" scenarios from the past recur.

h) The Group should not be vulnerable to "plausible" events and so should be well diversified in the risks it takes. Risk concentrations will be monitored quarterly using metrics that may change from time to time. These will be considered by the Group's Risk and Capital Committee which amongst other activities, issues:

- Policies to help reduce the possibility of undue risk concentration; and
- Guidance as to which types of risk it may be attractive to write more of on a worldwide, consolidated basis.

i) The Group has met its regulatory capital requirements during 2015 and 2014. With effect from 1 January 2016, Pillar 1 regulatory requirements will be replaced by the Solvency II regime.

28 Provisions, contingent liabilities and charges

Provisions as at 31 December 2015 are as follows:

i) A provision of £2.4 million (2014: £2.4 million classified as insurance contract liabilities in the prior year) in respect of expected death claim liabilities for policyholder deaths which have occurred.

ii) A provision of £4.0 million (2014: £4.2 million classified as insurance contract liabilities in the prior year) in respect of the liability for lapsed policies.

iii) Provisions of £1.0 million (2014: £0.4 million, of which £0.3 million was classified as insurance contract liabilities in the prior year) relate to other potential liabilities to third parties.

28 Provisions, contingent liabilities and charges (continued)

There were no contingent liabilities as at 31 December 2015 (2014: Nil).

The Group has a Bond and Floating Charge granted to Countrywide Assured plc on 23 October 2006, in respect of reinsurance contracts (relating to unit-linked business, with-profits business and other classes of insurance business) between Guardian Assurance Limited and Countrywide Assured plc (reserves accepted as at 31 December 2015: £152.0 million (2014: £186.0 million.)

29 Risk management

General

The Group is exposed to financial and insurance risks, as detailed within the Strategic Report. The main financial risks are credit risk, liquidity risk, currency risk and market risk, with the principal elements of market risk being interest rate risk and equity price risk.

In the quantitative analyses of credit and liquidity risk that follow, assets held within the Group's Unit-Linked and With-Profits Funds have been excluded as the risks are principally borne by the policyholder rather than the shareholder.

The acquisition of Ark Life in the prior year means that the Group is exposed to the risks inherent in the Ark Life business, specifically lapse risk and equity risk. The Group is now also exposed to currency risk in respect of its investment in Ark Life, an overseas subsidiary, the assets and liabilities of which are principally denominated in Euros.

Credit risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation and cause the Group to incur a financial loss. An indication of the Group's exposure to credit risk is the quality of the investments and the counterparties with which it transacts. The Group manages credit risk exposure by individual counterparty, sector and asset class, including cash positions. The Group is most exposed to credit risk on debt securities and money market investments, derivative financial instruments, cash and cash equivalents and reinsurance arrangements. Debt securities and money market investments mainly comprise government bonds and corporate bonds.

The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

29 Risk management (continued)

Credit risk (continued)

The following tables give an indication of the level of creditworthiness of those categories of assets which are most exposed to credit risk principally using ratings prescribed by major ratings agencies.

31 December 2015

Group	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**D**	**Non-rated**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Debt securities and money market instruments	401.7	1,422.8	2,117.0	3,842.2	143.5	-	-	2.9	**7,930.1**
Trackers	-	-	-	-	0.4	-	-	-	**0.4**
Cash and cash equivalents	235.7	31.7	733.8	27.1	11.9	-	-	-	**1,040.2**
Reinsurance assets	-	530.1	1,332.8	-	-	-	-	-	**1,862.9**
Other	-	-	-	479.3	-	531.4	-	-	**1,010.7**
	637.4	**1,984.6**	**4,183.6**	**4,348.6**	**155.8**	**531.4**	**-**	**2.9**	**11,844.3**

31 December 2014

Group	AAA	AA	A	BBB	BB	B	D	Non-rated	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Debt securities and money market instruments	457.0	1,379.2	2,686.8	3,804.5	191.6	23.7	0.9	1.3	8,545.0
Trackers	-	-	-	-	0.7	-	-	-	0.7
Cash and cash equivalents	128.8	119.0	129.2	-	7.2	-	-	156.8	541.0
Reinsurance assets	-	977.2	1,004.8	-	-	-	-	-	1,982.0
Other	-	-	-	479.1	-	517.5	-	-	996.6
	585.8	2,475.4	3,820.8	4,283.6	199.5	541.2	0.9	158.1	12,065.3

29 Risk management (continued)

Credit risk (continued)

Credit risk concentrations by sector for debt securities and money market investments are as follows:

	£m	£m
	2015	2014
Asset backed securities		
- Household	**-**	-
- Other	**351.0**	495.8
Other collaterised mortgage backed securities	**1,011.9**	1,075.0
Financial	**2,086.4**	2,363.0
Industrial	**2,078.7**	2,184.9
Utility	**1,470.0**	1,465.0
Sovereign exposure	**932.0**	961.3
	7,930.0	8,545.0

The Group has total debt security holdings of £9,162.7 million (2014: £9,933.4 million) of which £1,108.4 million (2014: £1,239.0 million) is held within the Unit-Linked and With-Profits Funds where exposure risk predominantly is borne by the policyholder.

29 Risk management (continued)

Credit risk (continued)

Overseas exposures

The following tables show the Group's exposure by country of incorporation of the counterparty at 31 December 2015. Countries shown are those where the country had an external rating of A- and below.

Group

2015	**Government**	**Corporate financial institutions**	**Other corporate**	**Total**
		£m	**£m**	**£m**
Ireland	-	61.0	5.8	**66.8**
Italy	-	4.0	95.4	**99.4**
Spain	-	-	39.6	**39.6**
Mexico	-	-	62.2	**62.2**
Total	**-**	**65.0**	**203.0**	**268.0**

Group

2014	Government	Corporate financial institutions	Other corporate	Total
	£m	£m	£m	£m
Ireland	12.0	181.4	-	193.4
Italy	-	11.3	63.9	75.2
Spain	-	1.1	37.4	38.5
Mexico	-	-	67.2	67.2
Total	12.0	193.8	168.5	374.3

29 Risk management (continued)

Credit risk (continued)

Unconsolidated structured entities

The following table details the Group's interests in structured entities and the maximum exposure to loss from holding these investments.

	2015	**2015**	**2015**	**2015**
	Number of entities	**Carrying amount**	**Maximum exposure to loss**	**Total assets of structured entity**
		£m	**£m**	**£m**
Asset backed securities	32	386.4	386.4	**10,684.1**
Residential MBS	1	3.8	3.8	**91.4**
Commercial MBS	23	217.6	217.6	**7,891.0**
Open-ended investment companies	-	-	-	**-**
Guardian Loan Opportunities Ltd	1	531.5	531.5	**531.5**
	57	**1,139.3**	**1,139.3**	**19,198.0**

	2014	2014	2014	2014
	Number of entities	Carrying amount	Maximum exposure to loss	Total assets of structured entity
		£m	£m	£m
Asset backed securities	53	555.7	555.7	16,358.4
Residential MBS	11	80.6	80.6	3,979.2
Commercial MBS	29	331.6	331.6	9,856.6
Open-ended investment companies	11	193.1	193.1	24,113.6
Guardian Loan Opportunities Ltd	1	517.5	517.5	517.5
	105	1,678.5	1,678.5	54,825.3

29 Risk management (continued)

Credit risk (continued)

Past due or impaired assets

There were no past due or impaired assets as at 31 December 2015 or 31 December 2014.

Collateral

Investments pledged as collateral for derivative liabilities totalled £nil in the Group (2014: £nil). Cash pledged as collateral for derivative liabilities totalled £4.5 million in the Group (2014: £13.7 million). Investments received as collateral for derivative assets totalled £228.7 million (2014: £196.6 million). The Company did not have the right to sell or re-pledge these types of investments. These investments were in the form of government and supranational bonds. Cash received as collateral for derivative assets totalled £34.8 million (2014: £336.2 million).

Investments received as collateral for reassured annuity business within the Non-Profit Fund of the Company totalled £927.8 million (2014: £990.3 million). The Company did not have the right to sell or re-pledge these types of investments. These investments were in the form of Gilts, fixed income securities guaranteed by sovereign states or supra-nationals and corporate bonds with a credit rating of BBB or higher.

As a result of the prior year reassurance transaction with Phoenix, the Company has investments pledged as collateral within the Non-Profit Fund with a value of £1,781.9 million as at the balance sheet date (2014: £1,868.8 million). The Company did not have the right to sell or re-pledge these types of investments. These investments were principally in the form of Gilts and corporate bonds with a credit rating of BBB or higher.

The Group is party to a longevity swap with RGA in order to transfer mortality risk on £1.5 billion of annuities to RGA. As part of this agreement, the Group is required to post collateral, which is assessed quarterly, to support the difference between the fixed payments to RGA and the variable payments from RGA. At 31 December 2015, £38.8 million of financial assets (principally corporate bonds) were posted as collateral (2014: £36.0 million). These assets continue to be recognised on the Group balance sheet (and are included within Note 17). The title to these assets has been transferred to RGA although the Group can swap assets provided the total market value of the assets supports the overall collateral required to be posted.

29 Risk management (continued)

Credit risk (continued)

The following table provides information on derivative financial instruments and reinsurance assets that are subject to master netting agreements and illustrates the potential effect of netting offset arrangements after taking into account these agreements.

£m		**Related amounts not set off in the statement of financial position(i)**		
As at 31 December 2015	**Gross amounts recognised**	**Enforceable master netting arrangements**	**Collateral**	**Net exposure**
Derivative financial instruments (ii)	360.3	(69.7)	(263.5)	27.1
Reinsurance assets	1463.3	-	(927.8)	535.5
Total	**1,823.6**	**(69.7)**	**(1,191.3)**	**562.6**
Derivative financial instruments (iii)	(124.5)	69.7	4.5	(50.3)
Reinsurance liabilities	(1,619.4)	-	1,781.9	162.5
Total	**(1,743.9)**	**69.7**	**1,786.4**	**112.2**

£m		Related amounts not set off in the statement of financial position(i)		
As at 31 December 2014	Gross amounts recognised	Enforceable master netting arrangements	Collateral	Net exposure
Derivative financial instruments (ii)	895.0	(377.5)	(517.5)	-
Reinsurance assets	1,002.8	-	(990.3)	12.5
Total	1,897.8	(377.5)	(1,507.8)	12.5
Derivative financial instruments (iii)	(387.7)	377.5	10.2	-
Reinsurance liabilities	(1,808.1)	-	1,808.1	-
Total	(2,195.8)	377.5	1,818.3	-

29 Risk management (continued)

Credit risk (continued)

(i) Financial assets and financial liabilities that do not meet the offsetting criteria under IAS 32: *Financial instruments* and are reported gross in the statement of financial position.

(ii) Total derivative financial assets disclosed in Note 15 of £366.9 million (2014: £914.7 million) consist of the gross amounts of recognised financial assets of £360.3 million (2014: £895.0 million) plus other derivative financial assets that are not subject to master netting agreements of £6.6 million (2014: £19.7 million).

(iii) Total derivative financial liabilities of £131.5 million (2014: £408.4 million) disclosed in Note 15 consist of the gross amounts of recognised financial liabilities of £124.5 million (2014: £387.7 million) plus other derivative financial liabilities that are not subject to master netting agreements of £7.0 million (2014: £20.7 million).

(iv) Total reinsurance assets of disclosed in Note 16 of £1,862.9 million (2014 : £1,982.0 million) consist of the gross amounts of recognised reinsurance assets of £1,463.3 million (2014 : £1,002.8 million) plus other reinsurance assets that are not subject to master netting agreements of £ 399.6 million (2014 : £979.2 million).

(v) Total insurance contract liabilities disclosed in Note 20 of £12,738.2 million (2014 : £13,732.4 million) consist of the gross amounts of reinsurance liabilities of £1,619.4 million (2014 : £1,808.1 million) plus other insurance contract liabilities that are not subject to master netting agreements of £11,118.8 million (2014 : £11,924.3 million).

29 Risk management (continued)

Liquidity risk

The tables that follow sets out a maturity analysis for the Group's financial liabilities (non-derivatives and derivatives) based on remaining contractual maturities:

2015 - Maturity analysis - gross undiscounted cash flows

	On Demand	**< 1 yr**	**1 < 5 yrs**	**> 5 yrs**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Derivatives	-	40.0	24.7	75.1	**139.8**
Borrowings	**-**	74.7	213.3	474.4	**762.4**
Other financial liabilities	**-**	126.2	86.2	378.6	**591.0**
	-	**240.9**	**324.2**	**928.1**	**1,493.2**

2014 - Maturity analysis - gross undiscounted cash flows

	On Demand	< 1 yr	1 < 5 yrs	> 5 yrs	Total
	£m	£m	£m	£m	£m
Derivatives	-	171.1	351.9	314.6	837.6
Borrowings	-	60.3	283.6	422.3	766.2
Other financial liabilities	-	451.3	77.7	380.5	909.5
	-	682.7	713.2	1,117.4	2,513.3

29 Risk management (continued)

Liquidity risk (continued)

Borrowings include the principal amount plus the interest up to the balance sheet date that has been deferred and capitalised on the principal amount. The terms of the loans, including interest rates, interest due dates and conditions for deferring the interest, are disclosed in Note 22. The loans and associated interest were repaid as part of the acquisition of the Company on 6 January 2016.

2015 - Financial liabilities relating to insurance and investment contracts

	< 1 yr £m	**1 < 5 yrs £m**	**5 < 10 yrs £m**	**> 10 yrs £m**	**Total £m**
Insurance contracts	2,185.0	3,214.5	2,975.0	7,770.4	**16,144.9**
Investment contracts	1,545.1	720.7	1,072.7	1,158.8	**4,497.3**
	3,730.1	**3,935.2**	**4,047.7**	**8,929.2**	**20,642.2**

2014 - Financial liabilities relating to insurance and investment contracts

	< 1 yr £m	1 < 5 yrs £m	5 < 10 yrs £m	> 10 yrs £m	Total £m
Insurance contracts	1,411.3	2,745.0	2,957.2	8,386.1	15,499.6
Investment contracts	338.9	994.2	958.2	1,193.3	3,484.6
	1,750.2	3,739.2	3,915.4	9,579.4	18,984.2

29 Risk management (continued)

Liquidity risk (continued)

The liability amount in the Group's financial statements reflects the discounting for interest as well as adjustments for the timing of other factors as described above. As a result, the sum of the cash benefit payments shown for all years in the table exceeds the corresponding liability amounts included in Notes 20 and 21.

Market risk

Results of the Group's sensitivity analyses are presented throughout this section to show the estimated sensitivity of net income and shareholders' equity to various scenarios. For interest rate risk, equity market risk, and currency risk, the analysis shows how these measures would have been affected by changes in the relevant risk variable that were reasonably possible at the reporting date. In performing the analyses and determining the potential impact for the financial year, the assumption is made that the financial instrument exposures at the balance sheet date were in existence for a full year. For each sensitivity test, the impact of a reasonably possible change in a single factor is shown.

The sensitivities do not reflect what the results for the year would have been if risk variables had been different, because, for financial instruments, the analysis is based on the exposures in existence at the reporting date rather than on those that actually occurred during the year. Nor are the sensitivities intended to be an accurate prediction of the Group's future equity or earnings. The analysis does not consider all instruments available to management to respond to changes in the financial environment, such as changing investment portfolio allocations or adjusting premiums and crediting rates.

Furthermore, the results of the analyses cannot be extrapolated for wider variations since effects are not always linear. No risk management processes can clearly predict future results.

29 Risk management (continued)

Interest rate risk

The sensitivity analysis in the table below shows an estimate of the effect of a parallel shift in the yield curve on net income and shareholders' equity. Increases in interest rates have a positive effect on loan income, a negative effect on bond income because they result in unrealised losses on investments that are carried at fair value and a negative effect on annual management charges collected because the value of fixed interest securities would decrease. The offsetting economic gain on the insurance is not fully reflected, however, in the sensitivities, because many of these liabilities are not measured at fair value. The net effect of these movements is shown in the table below.

	2015		2014	
	Impact on net income £m	**Impact on equity £m**	Impact on net income £m	Impact on equity £m
Immediate change				
Shift up 100 basis points	**(97.6)**	**(103.7)**	(118.2)	(124.9)
Shift down 100 basis points	**102.1**	**109.3**	142.2	149.9

Equity price risk

The sensitivity analysis of net income and shareholders' equity to changes in equity prices is presented in the table below. The sensitivity of net income and shareholders' equity primarily reflects the impact of equity price changes on fund related charges.

	2015		2014	
	Impact on net income £m	**Impact on equity** £m	Impact on net income £m	Impact on equity £m
Immediate change				
Equity increase 10%	(13.5)	(13.5)	(10.6)	(10.6)
Equity decrease 10%	13.5	13.5	10.2	10.2
Equity increase 20%	(27.0)	(27.0)	(21.2)	(21.2)
Equity decrease 20%	26.3	26.3	20.0	20.0

29 Risk management (continued)

Equity price risk (continued)

Guardian's financial measures are exposed to equity risk from the shareholders' share of the equities held in the With-Profits Fund backing terminal bonus liabilities and the value of Unit-Linked Fund annual management charges. Guardian has hedged the shareholders' exposure to this risk using equity futures. The impacts shown reflect that for the unit-linked element of the economic hedging, any profit/(loss) on the futures are recognised through the income statement whilst the change in the value of the underlying hedged item, the future value of annual management charges, is not.

Currency risk

Currency risk for the Group arises primarily due to the functional currency of Ark Life being Euros and the resulting impact of the Euro: Sterling exchange rate movements on assets and liabilities denominated in Euros. This exposure is carefully managed and the risk mitigated through the use of forward foreign exchange contracts. The resulting net exposure is not considered material.

Insurance risk

The Group's earnings are impacted by the extent to which actual claims experience is not consistent with the assumptions used in setting prices for products and establishing technical liabilities and liabilities for claims. To the extent that actual claims experience is less favourable than the underlying assumptions used in establishing such liabilities, income would be reduced. Furthermore, if these higher claims were part of a permanent trend, the Group may be required to increase liabilities, which could also reduce income.

Sources of underwriting risk include policy claims such as mortality and morbidity. For mortality and morbidity risk, the Group holds certain types of policies that are at risk if mortality or morbidity increases, such as term life insurance, and certain types of policies that are at risk if mortality decreases (longevity risk) such as annuity products. The Group is not exposed to a significant expense risk due to an agreement in place with the shareholder. The Group monitors and manages its underwriting risk by underwriting risk type. Attribution analysis is performed on earnings in order to understand the source of any material variation in actual results from what was expected. The Group also performs experience studies for underwriting risk assumptions, comparing the Group's experience to industry experience as well as combining the Group's experience and industry experience based on the depth of the history of each source to the Group's underwriting assumptions. Where products have flexible policy charges the Group uses these analyses as the basis for modifying these charges, with a view to maintaining a balance between policyholder and shareholder interests.

29 Risk management (continued)

Insurance risk (continued)

Sensitivity analysis of net income and shareholders' equity to various underwriting risks as shown below has been assessed. The sensitivities considered represent an increase or decrease of mortality and morbidity rates or lapse rates during the relevant year.

5% increase in mortality rates (2014: 5%)

5% decrease in mortality rates (2014: 5%)

0.75% increase in long term future improvement in longevity assumption (2014: 0.75%)

20% increase in lapses (2014: 20%)

20% decrease in lapses (2014: 20%)

10% increase in morbidity rates (2014: 10%)

10% decrease in morbidity rates (2014: 10%)

The longevity stress is an increase in the long-term future improvement assumption of +0.75%. It represents the chance that future improvements happen quicker than expected leading to lower mortality assumptions. The Group is party to a longevity swap with RGA in order to transfer mortality risk on £1.5 billion of annuities to RGA.

The only sensitivities that had a significant impact on net income or shareholders' equity for 2015 and 2014 were in respect of mortality and longevity as shown below.

	2015		2014	
	Impact on net income £m	**Impact on equity £m**	Impact on net income £m	Impact on equity £m
Immediate change				
5% increase mortality rates	**102.6**	**102.6**	99.7	99.7
5% decrease mortality rates	**(107.8)**	**(107.8)**	(104.6)	(104.6)
Mortality improvement stress	**(270.1)**	**(270.1)**	(299.4)	(299.4)

29 Risk management (continued)

Operational risk

In the normal course of business, reviews of processes and procedures are undertaken to ensure that customers are treated fairly, and to respond to matters raised by customers and their representatives. The Group does not believe that material liabilities will arise from such reviews, however there is a risk that the Group is not able to resolve such matters in the manner that it expects.

30 Related party transactions

(a) Immediate and ultimate parent undertaking

At 31 December 2015, the Group's immediate and ultimate parent undertakings were the partnerships comprising the Fourth Cinven Fund, being funds managed and advised by Cinven Limited, a company incorporated under the laws of England and Wales. Accordingly, the Directors consider the Company's ultimate controlling party at that date to be Cinven Limited, the manager and advisor to the Cinven Funds.

At 31 December 2015, the 2,400,792 issued ordinary "A" shares of the Company were held by the Fourth Cinven Fund. Of the 12,747 issued ordinary "B" shares of the Company, 11,251 shares were held by the Fourth Cinven fund and 1,253 shares were held by management and 243 were held by the Employee Benefit Trust.

The 529,802 issued ordinary "C" shares and the 2 issued ordinary "D" shares of the Company were held by management and the Employee Benefit Trust.

As a result of the completion of the acquisition of the Group and the Company by Swiss Re Life Capital Holdings Limited on 6 January 2016, the Company's new immediate parent undertaking is Swiss Re Life Capital Holdings Limited, and ultimate parent undertaking is Swiss Re Limited, a company incorporated under the laws of Switzerland. Accordingly, the Directors consider the Company's ultimate controlling party to be Swiss Re Limited as at the date of signing the accounts.

30 Related party transactions (continued)

(b) Year end balances and transactions with related parties

On 23 November 2011, Swiss Re Admin Re Limited (formerly Guardian Midco Limited) issued unsecured "A" loan notes totalling £166.2 million to the Fourth Cinven Fund. The interest rate is fixed at 10 per cent and is payable semi-annually on the interest payment dates (30th of June and 31st of December). Interest may be paid in cash or by the issuance of PIK notes, or the interest may be deferred to a future interest payment date. When interest is deferred it shall be added to the aggregate nominal amount (with future interest calculated on this aggregated nominal amount.) The loan note was contractually due for full repayment on 22 November 2041. The "A" loan notes and any PIK notes issued are listed on the Channel Islands Stock Exchange.

Swiss Re Admin Re Limited (formerly Guardian Midco Limited) also issued unsecured "B" loan notes totalling £0.8m to the Fourth Cinven Fund and £0.1 million to management. Both loans were advanced on 23 November 2011 and were contractually due for repayment in full on 22 November 2041. The loans carry a fixed interest rate charge at 10 per cent and the interest is payable semi-annually.

On 5 July 2012, Swiss Re Admin Re Limited (formerly Guardian Midco Limited) issued unsecured "C" Loan notes totalling £139.6 million to the Fourth Cinven Fund. The interest rate is fixed at 15 per cent and is payable semi-annually on the interest payment dates (30th of June and 31st of December). Interest may be paid in cash or by the issuance of PIK notes, or the interest may be deferred to a future interest payment date. When interest is deferred it shall be added to the aggregate nominal amount (with future interest calculated on this aggregated nominal amount). The loan note was contractually due for full repayment on 22 November 2041. The "C" loan notes and PIK notes issued are listed on the Channel Islands Stock Exchange.

Outstanding borrowings of the Group with related parties are detailed within Note 22.

Outstanding receivables with the Company are in the form of an intercompany balance of £44,000 with Admin Re Jersey Two Limited (formerly Guardian One Limited), the immediate subsidiary undertaking of the Company, and an intercompany balance of £161,000 with Guardian Financial Services Holdings UK Limited, an indirect subsidiary undertaking of the Company. Refer to Note 17.

The Company has not provided or benefited from any guarantees for any related party receivables or payables. During the year ended 31 December 2015 the Company and Group has not made any provision for doubtful debt relating to amounts owed by related parties (2014: same).

During the year, the Group paid £0.4 million (2014:£0.4 million) to Cinven Partners LLP for services provided to the Group.

As disclosed in Note 31, on 6 January 2016, the shareholders sold 100% of the issued share capital of the Company and its immediate and indirect subsidiary undertakings to Swiss Re Life Capital Holdings Limited, the parent company of Admin Re UK Limited, Swiss Re's Life Capital Limited unit active in the closed life book business, for a total consideration of £1.6 billion. As at 31 December 2015, reinsurance assets include £14.0 million in relation to Swiss Re.

30 Related party transactions (continued)

(c) Compensation of key management personnel

The key management of the Company consists of the Board of Directors. In respect of the year to 31 December 2015, the Directors received remuneration (as outlined below). The Directors did not receive any pension benefits or pension contributions, nor did they receive remuneration under a long-term incentive plan.

Key management personnel remuneration	**2015**	2014
	£m	£m
Short term employee benefits	**11.8**	2.4
Post-employment employee benefits	**-**	-
Termination benefits	**1.4**	-
Total remuneration	**13.2**	2.4

(d) Transactions with employees

During 2013, the Company advanced £4.2 million to certain Group Directors and managers. From the amount advanced to Directors, £1.4 million was outstanding as at 31 December 2015 (2014: £1.4 million). This consisted of the following separate loans to the Directors of:

£m	**31 December 2015**	31 December 2014
Loan 1	**0.87**	0.87
Loan 2	**0.42**	0.42
Loan 3	**0.07**	0.07
Loan 4	**0.03**	0.03

All the loans to Directors and managers carry no interest. This can only be changed on the agreement of both the Company and the relevant Director or manager. The loans are repayable in the following circumstances:

1. From the cash proceeds of the sale, dividend, distribution or return relating to any C ordinary shares in the Company directly or indirectly owned by the Director or manager;
2. From any cash bonus or distribution from the Employee Benefit Trust to the Director or manager; or
3. At the discretion of the Director or manager.

The Director's or manager's liability to the Company will terminate on full repayment of the advance or after six months from the date that the Director or manager no longer holds any C ordinary shares in the Company, either directly or indirectly.

31 Post balance sheet events

On 6 January 2016, the shareholders sold 100% of the issued share capital of the Company and its immediate and indirect subsidiary undertakings, including the Company, to Swiss Re Life Capital Holdings Limited, the parent company of Admin Re UK Limited, Swiss Re Life Capital Limited's unit active in the closed life book business, for a total consideration of £1.6 billion. On the date of the acquisition, 100% of the share capital and voting equity interests of Admin Re UK Limited were contributed at net book value of £3,123.7m from Swiss Re Life Capital Limited through the Jersey-based Guardian entities to Swiss Re AR Midco Limited (formerly Guardian Finance Limited). As such, as at the date of signing, the parent company of Admin Re UK Limited is Swiss Re AR Midco Limited (formerly Guardian Finance Limited) with Admin Re UK Limited the immediate parent company of Guardian Financial Services Holdings UK Limited.

As a result of the acquisition, the outstanding balance of the external borrowings was repaid in full and the loans to Directors detailed in note 30(d) were repaid in full by the Directors.

Subsequent to the year end, the operating lease on 80 Cheapside has been terminated at a cost of £0.1m as a result of the relocation of the London based employees to the offices of Swiss Re.

On 1 April 2016, the Company changed its name by special resolution from Guardian Holdings Europe Limited to Admin Re Jersey One Limited.

REGISTERED OFFICE OF THE ISSUER

Swiss Re Admin Re Limited
22 Grenville Street
St. Helier
Jersey JE4 8PX

FISCAL AGENT, PAYING AGENT AND REGISTRAR

BNP Paribas Securities Services
Luxembourg Branch
33, rue de Gasperich
Howald-Hesperange
L-2085 Luxembourg

INDEPENDENT AUDITORS TO THE SRLC GROUP

PricewaterhouseCoopers AG
Birchstrasse 160
CH - 8050 Zurich

INDEPENDENT AUDITORS TO THE ISSUER

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

JOINT LEAD MANAGERS

BNP Paribas
10 Harewood Avenue
London NW1A 6AA

Barclays Bank PLC
5 The North Colonnade
Canary Wharf
London E14 4BB

HSBC Bank plc
8 Canada Square
London E14 5HQ

Lloyds Bank plc
10 Gresham Street
London
EC2V 7AE

RBC Europe Limited
2 Swan Lane
London EC4R 3BF

LEGAL ADVISERS

To the Issuer

as to U.S. law
Paul, Weiss, Rifkind, Wharton & Garrison LLP
Alder Castle
10 Noble Street
London EC2V 7JU

as to Jersey law
Mourant Ozannes
125 Old Broad Street
London
EC2N 1AR

To the Joint Lead Managers

Allen & Overy LLP
One Bishops Square
London E1 6AD

LISTING AGENT

BNP Paribas Securities Services
Luxembourg Branch
33, rue de Gasperich
Howald-Hesperange
L-2085 Luxembourg