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SANLAM LIFE & PENSIONS UK LIMITED

Annual Report and Financial Statements for the year ended 31 December 2018

Sanlam Life & Pensions UK Limited (980142)

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Sanlam Life & Pensions UK Limited (980142)

COMPANY INFORMATION

Board of Directors

N A Parry*	Chief Executive
J P Gibson*	
J Polin*	
P B Hanratty	
J A A Samuels	
B S Laggar	

* denotes Executive Director

Company Secretary

J M Warren

Chief Actuary

W B Friend

Independent Auditors

Ernst & Young LLP
The Paragon
Counterslip
Bristol
BS1 6BX

Registered Office

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BS1 2NH

Company Registration Number

980142

Sanlam Life & Pensions UK Limited (980142)

STRATEGIC REPORT

The directors have pleasure in submitting their Strategic Report for the Company (registered number 980142) for the year ended 31 December 2018.

Principal activity, review of the business and future developments

The principal activity of the Company continues to be the transaction of life assurance and pensions business. This will continue to be the principal activity for the foreseeable future.

Sanlam Life & Pensions UK Limited forms part of the Sanlam UK group whose vision is to be a leader in advice led wealth management within the UK market. This includes ensuring that policyholders continue to receive the promised benefits from their existing policies.

Sanlam Life & Pensions UK Limited's main role within Sanlam UK is that of life insurance and investment administrative services provider. To deliver this the Company focuses on the provision of specialist investment wrappers to affluent and high net worth clients through offering open architecture and self-investment choice and the provision of 'vanilla' investment wrappers to affluent clients through Sanlam model portfolios combined with the Sanlam Portal. On-going investment continues to be made in enhancing the Company's products, systems and service.

Since December 2012, Sanlam Life & Pensions UK Limited has been providing a version of its onshore bond product to Nucleus Financial Services Limited (based on the existing Portal bond). The distribution and administration of this bond has been outsourced to Nucleus Financial Services Limited who in turn have outsourced the administration of the bond to GenPact.

In March 2018 Sanlam Life & Pensions UK Limited purchased 20,000 ordinary shares in Sanlam Financial Services UK Limited ('SFS') at £50 per share.

The Solvency II regime became effective as of 1 January 2016 and the Company is reporting to the Prudential Regulation Authority on that basis.

Principal risks and uncertainties

Sanlam Life & Pensions UK Limited is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and policyholder liabilities, in particular that the proceeds from financial assets are not sufficient to fund the obligations arising from contracts with policyholders. The most important components of this financial risk are market risk, insurance risk, credit risk and financial soundness risk, all of which are managed in accordance with the risk management framework described in note 32. Whilst the Company permits the use of derivative instruments on condition that they conform to its strict policy, as well as to statutory and regulatory prescriptions, the Company had no exposure to derivative contracts in its own portfolio of assets as at 31 December 2018 or during the year then ended. A change in investment strategy within the defined benefit pension scheme has given rise to the option for exposure to derivatives within the scheme's assets which may impact upon the Company.

Brexit

A considerable amount of uncertainty surrounds the Brexit process. The Company is keeping a watching brief on developments. Brexit is not expected to have much of an impact on the Company as its target client base is UK residents and there are no plans to move into Europe. Membership of trade and professional bodies helps provide an industry wide perspective on developments.

Whilst the method of withdrawal from Europe remains open to negotiation and political influence, there will be different interpretations of potential impact, risks and opportunities. As a business, we need to be able to adapt to the changing situation.

Results

The profit after tax for the year amounted to £4.9m (2017: £4.9m). Details of the results are set out in the Statement of Comprehensive Income on page 20.

The profit for the year has been impacted by a number of factors. There has been a change to a later set of assumptions in relation to annuitant mortality and a number of gains on trades in the non-linked asset portfolio; these trades increased the valuation discount rate which in turn led to a £0.6m reduction in reserves. However, these positives were partially offset by the impact of lower than expected volumes and equity markets and higher than expected one off expenses. There has been a significant change in tax, from a charge of £6.2m in 2017 to a credit of £6.4m in 2018. The 2018 total tax credit is primarily a reflection of the market downturn experienced during 2018 given that the company's tax profile is driven by its investment assets' performance. A tax loss of circa £30m was suffered in connection with the pool of collective investments held. This had the combined impact of significantly reducing the current year tax charge and the carried forward deferred tax liabilities.

The Company's new business volumes of £183.4m have increased marginally from £183.1m in 2017. Total new business volumes including Sanlam Life & Pensions UK Limited's subsidiary Sanlam Financial Services UK Limited (SFS), have decreased compared from 2017 (£216.4 vs £261.6m). The decrease in volumes written is mainly as a result of lower volumes being sold by Sanlam Wealth Planning and Sanlam UK Distribution during the year.

The embedded value methodology and assumption setting process is largely determined by guidance issued by the Actuarial Society of South Africa as contained in Advisory Practice Note 107 on Embedded Value Reporting. The embedded value consists of net worth, plus the present value of future shareholder cash flows from in-force covered business, less the cost of required capital. The Company's embedded value has decreased in 2018, moving from £75.9m in 2017 to £71.5m. Whilst equity has increased from £33.8m to £38.9m; the overall decrease was due to poor equity market performance decreasing the expected value of future charges and as a result of an increase in expense assumptions.

Sanlam Life & Pensions UK Limited (980142)

STRATEGIC REPORT continued

Reconciliation of shareholders' equity to embedded value

	£'000
Equity Value	**38,868**
Revalue participation in SFS from cost to net asset value	(5,191)
Embedded value shareholder's net asset value	**33,677**
Value of business in-force	37,854
Embedded value	**71,531**

The Company's solvency position has decreased slightly during the year to 142% (2017: 143%) and is within the agreed range within the Company policy. The capital resources have decreased due to a fall in equity markets, although this has been offset by a corresponding decrease in the capital requirement due to the fall in equity markets. In addition the fall in size of the risk margin had a positive effect on capital resources.

By Order of the Board

Nick Parry
Chief Executive
7 May 2019

Sanlam Life & Pensions UK Limited (980142)

DIRECTORS' REPORT

The directors have pleasure in submitting their Directors' Report and audited Financial Statements for the Company (registered number 980142) for the year ended 31 December 2018.

Directors, directors' interests and directors' qualifying third party indemnity provisions

The directors throughout the year were:

N A Parry
J P Gibson
J Polin
P B Hanratty (appointed 21 January 2018)
J A A Samuels
B S Laggar

None of the directors have any interests in the shares of the Company.

In accordance with the requirements of section 234 of the Companies Act 2006, qualifying third party indemnity provisions were in force throughout the year for the benefit of the directors of Sanlam Life & Pensions UK Limited and its associated companies. Such qualifying third party indemnity provisions remain in force as at the date of approving the Directors' report.

A review of the business including likely future developments is included within the Strategic Report.

Share capital

There was no change in the authorised and issued share capital of the Company during the year.

Dividend

A dividend of £3.0m is proposed in respect of the financial year ending 31 December 2018 (2017: Nil).

Corporate governance

The directors recognise that financial results only tell part of the full performance story - that it is critical to look past financial performance and to give substance to stakeholder considerations. Sanlam Life & Pensions UK Limited is committed to high standards of corporate governance and, whilst it is exempt from the requirements of the UK Corporate Governance Code, it fully supports its aims and principles, recognising too its responsibility to conduct its affairs with prudence and integrity, with transparency and accountability.

The Board, which currently comprises 3 non-executive directors and 3 executive directors, is responsible to the shareholders for the governance of the Company including financial, operational and compliance controls and risk management processes. To support the Board in meeting that responsibility, an organisational structure has been established with clear operating procedures, lines of responsibility and authority.

The Audit, Actuarial and Risk Committee is a sub-committee of the Board, and is chaired by a non-executive director. It meets on a quarterly basis and comprises 3 non-executive directors. Its purpose, with the assistance of management where required, is to assist the Board in fulfilling its oversight responsibilities by:-

- Setting and overseeing the overall standards for financial and actuarial reporting, compliance, risk management, internal controls and ethical conduct within the Company;
- Monitoring the effectiveness of compliance and business risk management processes in the Company, and monitoring that Conduct Risk principles and processes are embedded throughout the Company;
- Engaging with the external and internal auditors on the quality and acceptability of the control environment and reporting structures;
- Recommending appropriate follow-up action to the Board; and
- Reviewing and assessing the quality of the work done by the professionals responsible for financial and actuarial reporting, compliance, client assets (CASS) and internal control.

The Human Resources and Remuneration Committee is a sub-committee of the Sanlam Investment Holdings UK Limited Board, is chaired by a non-executive director and is responsible for the Company's intellectual human capital and maintaining an effective management team. The committee is also responsible for the remuneration strategy of the Company and determines the remuneration packages for members of the Executive Management team.

The Investment Performance Oversight Committee is a sub-committee of the Board. It meets quarterly, is chaired by the Group CEO and includes the Chief Executive Officer and a non-executive director. The Committee monitors the investment activities of the Company's insured funds, assists the Company to achieve their investment objectives and to fulfil their responsibilities to customers through monitoring all applicable parties compliance with investment management agreements, monitoring the competitiveness of the funds and model portfolios, reviewing mandates and appointments and removals of investment managers, custodians and administrators.

The Balance Sheet Management Committee is a sub-committee of the Board. It meets quarterly with the aim to develop and recommend a strategic framework for the management of the Company's balance sheet.

This includes the following activities:

- Oversight of the management of assets in the shareholder portfolios and the policyholder portfolios where the Company carries all the investment risks;
- Oversight of capital efficiency within the Company. This includes the management of required capital within the boundaries of risk appetite; and the utilization and optimisation of returns on discretionary capital;
- Oversight over Liability Driven Investment (LDI) portfolios, in particular Asset Liability Management (ALM) over the non-participating policy holder portfolios;
- Working capital and liquidity management;
- The Company's 'estate' portfolios i.e. portfolios where the shareholder carries all the investment risk. This includes all shareholder capital portfolios as well as any policyholder liability portfolios where the shareholder carries all investment risk;
- Oversight of the investment strategy of the defined benefit pension scheme of which the Company is the sponsor (in conjunction with the Scheme's trustees); and
- Carry out certain business relating to personal and private funds.

DIRECTORS' REPORT continued

The Executive Management Committee, chaired by the Chief Executive Officer, meets on a monthly basis to consider strategic, operational, projects and human resources issues. Significant projects are also reviewed by the Group Executive Management Committee. The Executive Management Committee is also responsible for reviewing monthly management information, monitoring new and existing risks, and considering any compliance, prudential, legal and regulatory issues with support from the Assurance Committee.

The Company also meets periodically with its distribution partners, Sanlam UK Distribution and Sanlam Wealth, to assess the performance of its distribution and marketing activities. This activity is further supported by a monthly meeting of the Sanlam UK Proposition and Client Interest Committee which is a sub-committee of the Sanlam UK Executive Committee.

A Statement of Business Principles is in place to provide guidance as to the standards expected when acting on behalf of the Company. These aim to ensure that Sanlam Life & Pensions UK Limited conducts its business in full compliance with the law and its regulatory obligations and adheres to the highest professional and ethical standards.

Risk Management Framework

The management of the Company is in line with the approved Risk Management Framework it has in place which sets out the Company's risk management framework and includes elements such as the definition of risk appetite and the process for the identification, assessment, monitoring, reporting and control of risk.

The Company's risks are ranked in priority order using financial and risk-based capital criteria. Progress in the management of the key risks is reviewed on a regular basis by senior management and the Audit, Actuarial and Risk Committee. The Company's key risks are detailed in the Strategic Report on page 3.

The risk management objectives and policies as well as the Company's exposures to key risks and uncertainties are set out in note 32.

Regulatory compliance

The Compliance function is regarded as an integral part of Sanlam Life & Pensions UK Limited's corporate governance structure and risk management framework, and is represented at the Executive Management Committee and all the sub-committees listed above except for the Human Resources Committee.

The Compliance function reports directly to the Chief Executive Officer and has unencumbered access to all parts of the business. It reports to the Audit, Actuarial and Risk Committee on a quarterly basis. The Committee has the option to discuss compliance issues without executive management being present. A compliance plan is produced for Board approval on an annual basis, and progress against the plan is reported on and reviewed quarterly by the Board.

Employees

All Human Resources policies are accessible on the Company's intranet system and are reviewed on an annual basis. These include Sanlam Life & Pensions UK Limited's policies on, for example, absence, flexible working conditions, discipline, grievance, maternity and harassment. An employee handbook contains further details on contractual information, policies and procedures, Code of Ethics, employee benefits and training and development.

The Company has an Equal Opportunities Policy to ensure that no discrimination occurs on grounds of an individual's age, nationality, race, colour, religion or religious beliefs, sex or sexual orientation, marital status or disability. The Equal Opportunities Policy covers recruitment and selection, conditions of work, equal pay, access to training and development, and every other aspect of employment.

Interviewees are subject to an objective competency-based interview to ensure they have the right skills and attributes required for any position advertised. A comprehensive induction process ensures that all new employees are provided with corporate information from the day they join the Company.

An established performance management process includes various performance incentive systems and an annual appraisal system. Financial incentives include a 'profit-like' reward scheme for the majority of employees and a performance recognition programme for certain key employees. Development needs from appraisal sessions are fed back to Human Resources in order to process training requirements. Job descriptions are reviewed in conjunction with employee performance reviews to ensure that they remain accurate and relevant.

Information on aspects of the Company's activities is imparted regularly to employees through departmental channels, team and Company briefings, and staff employee computer desk-tops, with a grievance policy available for employees to raise concerns or issues.

The Company's Employee Development Programme ensures that employees are given adequate training and support to develop their capabilities, including developing from non-managerial posts to more senior positions.

Annual remuneration statements are provided to all employees, providing them with a clear statement of their total remuneration packages to ensure transparency.

Going concern

The Company's business activities, together with the factors likely to affect its future development, its financial position, risk management strategy and its key risk exposures are described on page 3 of the Strategic Report. The Company has considerable financial resources together with long term contracts spread across a significant number of customers. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully. After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

DIRECTORS' REPORT continued

Appointment of auditor

Ernst & Young LLP has expressed its willingness to continue in office as auditor and a resolution proposing its re-appointment will be submitted at the Annual General Meeting.

Disclosure of information to the auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the Company's auditor is unaware.

Having made enquiries of fellow directors and the Company's auditor, each director has taken all steps that a director might reasonably be expected to have taken to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

By Order of the Board

Nick Parry
Chief Executive

27 May 2019

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Strategic Report, the Directors' Report and the Financial Statements in accordance with applicable law and regulations.

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

In preparing these financial statements, the directors are required to:-

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF SANLAM LIFE & PENSIONS UK LIMITED

Opinion

We have audited the financial statements of Sanlam Life & Pensions UK Limited for the year ended 31 December 2018 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity and the related notes 1 to 36, (except for that element in both note 31 and 32 (4) (iii)) which are marked as unaudited) including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

Overview of our audit approach

Key audit matters	• Inappropriate actuarial assumptions applied resulting in incorrect valuation/measurement of insurance contract liabilities
Key audit matters	• Incorrect measurement / valuation of current and deferred tax calculation
Materiality	• Overall materiality of £675k which represents 2% of equity.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit, Actuarial & Risk Committee
Inappropriate actuarial assumptions applied resulting in incorrect valuation/measurement of insurance contract liabilities Refer to the Critical accounting estimates (page 35); Accounting policies (page 33) and note 23 and 31 of the financial statements (pages 52, 56-59) The insurance contract liabilities of £230.3m (2017: £257.5m) are disclosed in note 23 of the financial statements, with the principal assumptions, sensitivities and analysis of changes to key	To obtain sufficient audit evidence to conclude on the appropriateness of actuarial assumptions, we engaged our actuaries as part of our audit team and performed the following procedures: We performed walkthroughs and tested the key controls over management's process and governance for setting actuarial assumptions. We validated the completeness and accuracy of data used in the experience investigation processes by testing controls that demonstrate consistency with policyholder data used in the financial reporting processes. We assessed the results of management's experience analysis, which supports the adopted assumptions and methodology, to assess whether these are justified and checked that the assumptions including annuitant mortality and expense	We determined that the actuarial assumptions used by management are reasonable based on the analysis of experience to date, industry practice and the financial and regulatory requirements. We concluded that the economic and non-economic assumptions have been appropriately included within the year end actuarial models.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF SANLAM LIFE & PENSIONS UK LIMITED continued

assumptions disclosed in note 31. The risk is that the insurance contract liabilities are not set within a reasonable range of estimates based on the information available leading to a material mis-statement in the financial statements. The assumptions that we have considered to have the most significant impact are the life expectancy of the policyholders (annuitant mortality), expense assumptions and economic assumptions.	assumptions, used are consistent with this experience analysis. We have benchmarked the demographic and economic assumptions against those of other industry participants. We challenged and assessed whether the final assumptions were within a reasonable range based on our expert judgement, management's internal experience analysis and the assumptions used were in line with those we would expect based on market practice. We ensured the actuarial assumptions used were in line with financial and regulatory requirements.	
Incorrect measurement / valuation of current and deferred tax balances Refer to the Critical accounting estimates (page 36); Accounting policies (pages 32-33) and note 11 of the financial statements (pages 39-41) The recognition and valuation of current and deferred tax balances remains fundamental to the overall result of the Company and also introduces some volatility in the reported results as the quantum of deferred tax assets and deferred tax liabilities is dependent on fluctuations in the stock markets.	To obtain sufficient audit evidence to conclude on the appropriateness of valuation of current and deferred tax balances, we engaged our tax specialist as part of our audit team and performed the following procedures: We performed a walkthrough of the tax process to assess the design effectiveness of the current controls in place. Management has undertaken a detailed review of the capital gains tax (CGT) calculation model during 2018 which has given rise to adjustments in respect of the open years' tax computations and as presented in note 11. We checked management's analysis to ensure that the tax balances are correctly reflected in the financial statements. We checked the recognition and valuation of tax credit and deferred tax assets and liabilities is in accordance with the relevant legislation and requirements of the accounting standards. We challenged and validated that the	We determined that the approach to calculating current and deferred tax balances is reasonable and that the recognition and valuation of tax credit and deferred tax assets and liabilities is in accordance with the relevant legislation and requirements of the accounting standards. During these audit procedures management processed two adjustments. Consequently, both the tax credit and the year end tax balances were updated accordingly in the financial statements.

	profit forecasts assumptions that support the recognition of the deferred tax asset.	

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality: *The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.*

We determined materiality for the company to be £675k (2017: £680k), which is 2% (2017: 2%) of equity. The primary stakeholders of the Company are its shareholders (primarily concerned with capital surplus), the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA') as regulators (primarily interested in balance sheet strength and solvency), and policyholders (main interest is solvency as it reflects the ability to pay claims). Having considered these factors we believe that equity provides us with an appropriate basis on which to determine materiality.

During the course of our audit, we reassessed initial materiality and concluded that materiality assessed at planning stage of our audit remained appropriate.

Performance materiality: *The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.*

On the basis of our risk assessments, together with our assessment of the company's overall control environment, our judgement was that performance materiality was 50% (2017: 50%) of our planning materiality, namely £337k (2017: £340k). We have set performance materiality at this percentage because our prior year audit experience indicates a higher risk of misstatements, both corrected and uncorrected.

Additionally, we recognise that the audit differences in respect of the assets held to cover linked liabilities and the technical provisions for linked liabilities would offset each other with no net impact on the income statement. As a result, similar to prior year we applied a higher testing threshold of £72.6m (2017: £76.9m) to our testing of assets held to cover linked liabilities and the related liabilities, being 3% (2017: 3%) of the assets held to cover linked liabilities.

Reporting threshold: *An amount below which identified misstatements are considered as being clearly trivial.*

We agreed with the Audit, Actuarial & Risk Committee that we would report to them all uncorrected audit differences in excess of £33k (2017: £34k) which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF SANLAM LIFE & PENSIONS UK LIMITED continued

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or 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
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities Statement set out on page 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit:

- in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management; and .

- in respect to irregularities, considered to be non-compliance with laws and regulations, are to obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements ('direct laws and regulations'), and perform other audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements. We are not responsible for preventing non-compliance with laws and regulations and our audit procedures cannot be expected to detect non-compliance with all laws and regulations.

Our approach was as follows:

- We obtained a general understanding of the legal and regulatory frameworks that are applicable to the company and determined that the direct laws and regulations, related to elements of company law and tax legislation, and the financial reporting framework. Our considerations of other laws and regulations that may have a material effect on the financial statements included permissions and supervisory requirements of the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').

- We obtained a general understanding of how the Company complies with these legal and regulatory frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters. We also reviewed correspondence between the Company and UK regulatory bodies; reviewed minutes of the Board, the Audit, Actuarial and Risk Committee and Executive Management Committee; and gained an understanding of the Company's approach to governance, demonstrated by the Board's approval of the Company's governance framework and the Board's review of the Company's risk management framework ('RMF') and internal control processes.

- For direct laws and regulations, we considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

- For both direct and other laws and regulations, our procedures involved: making enquiry of those charged with governance and senior management for their awareness of any non-compliance of laws or regulations, inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, inquiring about the company's methods of enforcing and monitoring compliance with such policies, inspecting significant correspondence with the FCA and PRA.

- The Company operates in the insurance industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur, by considering the controls that the Company has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgement, and the impact these have on the control environment. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk, including the procedures over the actuarial assumptions noted above as well as testing manual journals over revenue accounts. These procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error.

Other matters we are required to address

- We were appointed by management to audit the financial statements for the year ending 31 December 1987 and subsequent financial periods.
- Our total uninterrupted period of engagement is 31 years, covering periods from our appointment through to the year ending 31 December 2018.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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.

Ernst & Young LLP

Richard Page (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Bristol
7 May 2019

Sanlam Life & Pensions UK Limited (980142)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 £'000	2017 £'000
Revenue			
Gross written premiums		3,509	4,010
Premiums ceded to reinsurers		(967)	(911)
Net premiums earned		**2,542**	**3,099**
Fee income	5	18,561	18,736
Investment income	6	38,194	46,338
Net (losses)/gains on assets and liabilities at fair value through profit or loss	7	(124,900)	207,012
		(68,145)	**272,086**
Total revenue		**(65,603)**	**275,185**
Expenses			
Gross benefits and claims paid		18,087	17,276
Claims ceded to reinsurers		(322)	(772)
		17,765	**16,504**
Gross change in contract liabilities	24	(132,181)	197,604
Change in contract liabilities ceded to reinsurers	19	246	329
		(131,935)	**197,933**
Operating expenses	8	16,621	16,133
Investment expenses	9	33,249	33,177
Finance costs	10	210	351
		50,080	49,661
Total expenses		**(64,090)**	**264,098**
(Loss)/profit before taxation		**(1,513)**	**11,087**
Taxation credit/(charge)	11	6,412	(6,201)
Profit after taxation		**4,899**	**4,886**
Other Comprehensive Income			
Re-measurement of the net pension scheme liability	18	209	(667)
Other comprehensive income/(expense) for the year, net of tax		**209**	**(667)**
Total Comprehensive Income for the year, net of tax		**5,108**	**4,219**

The accompanying notes form an integral part of these financial statements.

Sanlam Life & Pensions UK Limited (980142)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Note	2018 £'000	2017 £'000
Assets			
Property and equipment	12	430	207
Investment in subsidiaries	13	7,160	6,160
Investment properties	14	90,924	92,073
Financial assets			
Financial assets at fair value through profit or loss	15	2,415,103	2,575,262
Loans and receivables	17	263	297
Reinsurance assets	19	2,857	3,103
Income tax receivable		4,065	-
Trade and other receivables	20	10,876	11,453
Cash and cash equivalents	21	118,173	110,686
Total assets		**2,649,851**	**2,799,241**
Equity and reserves			
Capital and reserves attributable to Company's equity shareholder			
Share capital	22	25,000	25,000
Retained earnings		13,868	8,760
Total equity		**38,868**	**33,760**
Liabilities			
Gross Insurance contract liabilities	23	230,316	257,450
Gross Investment contract liabilities	24	2,352,442	2,464,050
Provisions for liabilities	25	3,974	4,212
Borrowings	26	6,246	9,406
Deferred tax liabilities	11	2,290	10,177
Current tax liabilities		-	3,193
Pension Scheme deficit	18	729	1,265
Trade and other payables	27	14,986	15,728
Total liabilities		**2,610,983**	**2,765,481**
Total equity and liabilities		**2,649,851**	**2,799,241**

The accompanying notes form an integral part of these financial statements.

Approved by the Board, 7 May 2019

Nick Parry
Chief Executive

Sanlam Life & Pensions UK Limited (980142)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 £'000	2017 £'000
Operating activities			
(Loss) / Profit before tax:		(1,513)	11,087
Adjusted for:			
Change in operating assets	28	162,165	(182,575)
Change in operating liabilities	28	(143,209)	185,742
Non-cash items included in the profit before tax			
Depreciation of fixed assets	12	138	156
Tax paid		(8,733)	(3,292)
Net cash flows from operating activities		**8,848**	**11,118**
Investing activities			
Investment in subsidiaries	13	(1,000)	(1,000)
Payment for property and equipment	12	(361)	(164)
Net cash flows used in investing activities		**(1,361)**	**(1,164)**
Net increase in cash and cash equivalents		7,487	9,954
Cash and cash equivalents at the beginning of the year		110,686	100,732
Net cash and cash equivalents at the end of the year	21	**118,173**	**110,686**

	2018 £'000	2017 £'000
Operational cash flows from interest and dividends		
Interest received	3,814	6,798
Dividend received	26,105	29,938

The accompanying notes form an integral part of these financial statements.

Sanlam Life & Pensions UK Limited (980142)

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	Share Capital £'000	Retained Earnings £'000	Total £'000
Balance as at 1 January 2017	25,000	4,541	29,541
Profit for the year after tax	-	4,886	4,886
Other comprehensive income	-	(667)	(667)
Total comprehensive income	-	4,219	4,219
Balance as at 31 December 2017	25,000	8,760	33,760
Profit for the year after tax	-	4,899	4,899
Other comprehensive income	-	209	209
Total comprehensive income	-	5,108	5,108
Balance as at 31 December 2018	25,000	13,868	38,868

The accompanying notes form an integral part of these financial statements.

Not all of the above amounts can be distributed to the equity shareholder since the Company is required to meet regulatory capital requirements. Further details are given in note 32.

1. Corporate Information

Sanlam Life & Pensions UK Limited owns 100% of the ordinary share capital of the following companies which are all registered in England: Sanlam Trustee Services UK Limited, which acts as bare trustee to the Sanlam Personal Retirement Scheme; and Sanlam Financial Services UK Limited, which provides administration and other services to the Company and its subsidiaries. The Financial Statements present information about the Company as an individual undertaking and not about the Group.

2. Accounting policies

(a) Basis of preparation

The Financial Statements have been prepared:

- in accordance with International Accounting Standards ("IASs") and International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and the Standards and Interpretations ("SICs") and International Financial Reporting Interpretations ("IFRICs") issued by its International Financial Reporting Committee, as endorsed by the European Union;
- in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRSs; and
- under the historical cost convention, as modified by the revaluation of investment properties and certain financial assets and financial liabilities at fair value through profit or loss, as set out in the relevant accounting policies.

The Directors are satisfied that the Company has adequate resources to continue in business for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

In accordance with IAS 1 *"Presentation of Financial Statements"*, assets and liabilities in the Statement of Financial Position are presented in accordance with management's estimated order of liquidity. Analysis of assets and liabilities of the Company into amounts expected to be received or settled within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented within the notes.

The Company is exempt from the obligation to prepare group financial statements under s401 of the Companies Act 2006.

The financial statements are stated in Sterling which is the Company's functional and presentational currency. Unless otherwise stated, the amounts shown in these financial statements are in thousands of pounds sterling (£'000).

(b) **Summary of significant accounting policies**

Product classification

The Company issues contracts that transfer insurance risk, financial risk or both.

Insurance contracts are those contracts when the Company has accepted significant insurance risk by agreeing with the policyholder to pay benefits if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary. Significant insurance risk exists where it is expected that for the duration of the policy or part thereof, policy benefits payable on the occurrence of the insured event will significantly exceed the amount payable on early termination, before allowance for expense deductions at early termination. Once a contract has been classified as an insurance contract, the classification remains unchanged for the remainder of its lifetime, even if the insurance risk reduces significantly during this period.

Investment contracts are those contracts that transfer significant financial risk and no significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Financial assets and financial liabilities

The classification of financial assets and financial liabilities is determined at initial recognition. All financial assets and financial liabilities are designated at fair value through profit and loss, with the exception of loans and receivables which are stated at amortised cost. The classification depends on the purpose for which the financial assets and financial liabilities were acquired. Further detail is provided in the specific accounting policies below.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Company has transferred substantially all of the risks and rewards of ownership. Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Fair value methodology

All assets and liabilities carried at fair value, or for which a fair value measurement is disclosed, are categorised into a fair value hierarchy by the following valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The particular valuation methods adopted for financial assets and liabilities are disclosed in the individual accounting policy statements associated with each item.

Further analysis of the Company's instruments held at fair value is set out at note 32.

No assets are classified as held-to-maturity or available-for-sale. The Company did not hold any derivatives during the year.

Transfers between different levels of the fair value hierarchy are deemed to have occurred at the next reporting date after the change in circumstances that caused the transfer.

Revenue recognition

Premiums

Premiums received in respect of life insurance contracts are recognised as revenue when they become payable by the policyholder. Premiums ceded to reinsurers are recognised when they become payable. Gross and ceded premiums are recorded through the relevant lines in the statement of comprehensive income.

Revenue from contracts with customers

Fee income from investment contracts relates to the provision of investment management and administration services, and is recognised over time as services are provided. There have been no front-end fees charged during the year. Fee income is charged monthly or quarterly and is recognised when received which is at the same time as the services are provided.

Commissions received or receivable are recognised as revenue on the start date of the policy.

There is no variable consideration in respect of contracts with customers.

Investment Income

Investment income includes dividends, interest, rental income, realised/unrealised gains and losses on investments and related expenses. Investment income is included on an accruals basis. Dividends on ordinary shares are included by reference to ex-dividend dates. All investment income is shown gross of tax.

Net gains on assets and liabilities at fair value through profit or loss

Realised gains and losses on investments are calculated as the difference between net sales proceeds and their original cost.

Unrealised gains and losses on investments represent the difference between the valuation of investments designated at fair value through the profit and loss at the balance sheet date and their original cost or, (if they have been previously fair valued) the valuation at the last balance sheet date. They also include adjustments in respect of unrealised gains and losses recorded in prior years which, having been realised during the year, are reported as realised gains and losses in the current profit and loss account.

Expense recognition

Claims

Claims are recorded as an expense on the earlier of the maturity date or the date on which the claim is notified. Claims recoveries from reinsurers are recognised when the related claims are recognised. Claims and claims recoveries are recognised through the relevant lines in the statement of comprehensive income. Settlement costs, claims handling costs and costs arising from mortgage endowment complaints and the pension business reviews and redress programmes are also included within claims.

Operating expenses

Fees paid in respect of business written by the Company are recognised through the statement of comprehensive income, within operating expenses.

Other operating expenses are recognised in the statement of comprehensive income as incurred, within operating expenses.

The Company incurs expenses on behalf of its subsidiary undertaking, Sanlam Financial Services UK Limited (SFS), and recharges those expenses to SFS. The recharges are netted off operating expenses as the company does not act as a service company and the Directors believe this provides the most appropriate disclosure of the cost base of the Company.

Investment expenses

Expenses for asset management services received are recognised in the statement of comprehensive income as they accrue, within investment expenses.

Finance Costs

Interest expense for all interest-bearing financial instruments is recognised in the statement of comprehensive income as it accrues, within finance costs.

Acquisition Costs

Acquisitions costs are recognised in the statement of comprehensive income when the expense is incurred. There are no separable incremental costs identified in relation to acquiring investment contracts.

Property and equipment

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided on a straight line basis over the useful lives of the following classes of assets:

Computer equipment	4 years
Fixtures, fittings and office equipment	2 years
Leasehold improvements	Over period of lease

The assets' residual values, useful lives and method of depreciation are reviewed and adjusted, if appropriate, at each financial year end and adjusted prospectively, if appropriate.

Impairment reviews are performed when there are indicators that the carrying value may not be recoverable. Impairment losses are recognised in the statement of comprehensive income as an expense.

An item of property and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the year the asset is derecognised.

Investment in subsidiaries

Investments in subsidiaries are stated at cost less any provisions for impairment. Where the recoverable amount of the investment is less than the carrying amount, an impairment is recognised.

Investment properties

Investment properties are measured initially at cost. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included within investment income in the statement of comprehensive income in the year in which they arise.

Investment properties consist of properties held in the unit-linked property fund and self-invested fund properties.

The properties held in the unit-linked property fund are valued on a monthly basis by Jones Lang Lasalle (JLL), an independent property valuer, on an open-market basis. Their valuation is prepared in accordance with the Practice Statements in the RICS Appraisal and Valuation Standards (5th Edition).

Fair value is measured as the most probable price reasonably obtainable in the market at the date of valuation between a willing buyer and a willing seller in an arm's-length transaction. Therefore it is the best price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer.

Fair value is understood as the value of a property estimated without regard to costs of sale or purchase, and without offset for any associated taxes. All such valuations are prepared and expressed exclusive of VAT payments, unless otherwise stated.

The self-invested fund properties are valued prior to purchase and then triennially, by an independent professional valuer acceptable to the Company, on an open market basis using valuation models in line with the above.

Investment properties are derecognised either when they have been disposed of, or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised within investment income in the statement of comprehensive income in the year of retirement or disposal.

Financial assets at fair value through profit or loss

Initial measurement

Investments at fair value through profit or loss comprise equities and similar securities, investment funds and corporate interest bearing investments.

Subsequent measurement

Subsequent to initial measurement, financial instruments classified as at fair value through profit or loss are re-measured at fair value at each reporting date with changes in fair value recognised in the statement of comprehensive income as investment income.

The fair values of financial assets are based on current bid prices. If the market for a financial asset is not active, and also for unlisted securities, the Company establishes fair value by using valuation techniques. These include the use of similar arm's length transactions and reference to other instruments that are substantially the same, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

For equity investments that are quoted and actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the final pricing point on the reporting date. Prices are provided by vendors such as Reuters or Bloomberg or by direct reference to the Stock Exchange.

For quoted debt security investments, bid prices at the final pricing point on the reporting date are obtained from index providers who obtain prices from a number of leading brokers, investment banks and market makers. Where no independent price is available, a valuation technique is used to determine fair value. The technique uses a spread over a comparable term gilt as the best estimate of fair value. Spreads are calculated by reference to the wider market movement in credit spreads, the way in which the security is structured, other assets issued by the issuer or other assets with similar characteristics.

For corporate bonds, the Company's management perform a comparison of information received from the index provider used against other available price sources on a monthly basis to ensure that prices can be supported by market data.

The fair value of holdings in collective investment vehicles (including OEICs and Unit Trusts) is determined as the last published price applicable to the vehicle at the reporting date.

Impairment of financial assets

For credit exposures for which there has not been a significant change in credit risk since initial recognition, the Company provides for expected losses for default events that have a reasonable probability of occurring within the next 12 months.

The impairment provisions for financial assets discussed in note 20 are based on assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on past experience and existing market conditions as well as forward looking estimates at the end of each reporting period.

The loss allowance reduces the carrying value of the financial asset and is reassessed at each reporting date. The Company adopts a simplified approach for trade receivables with maturities less than 12 months.

There have been no such circumstances during the year and as such no impairment has been applied to financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the asset. All transaction costs directly attributable to the acquisition are also included in the cost of the asset. Subsequent to initial recognition, these assets are carried at amortised cost, using the effective interest method. In practice the carrying value of these balances equates to the fair value of the amounts included within loans and receivables.

A charge for impairment in respect of loans and receivables would be made in the statement of comprehensive income if required in accordance with the policy outlined in note 2 "*Impairment of Financial Assets*".

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of the asset's estimated future cash flows discounted at the original effective interest rate, and is recognised in the statement of comprehensive income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can objectively be attributed to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the statement of comprehensive income, to the extent that the carrying amount of the financial asset does not exceed what the amortised cost would have been had the impairment not been recognised.

Pension scheme costs

The Company operates a pension scheme providing benefits based on Final Pensionable Salary. The accounting policy for pension commitments is consistent with the requirements of IAS 19 *Employee Benefits* and is detailed within note 18.

The defined benefit scheme closed to new entrants in April 2001, and was replaced by a contributory defined contribution scheme. The defined benefit scheme itself became contributory on 1 October 2003. It was closed to future accrual on 31 December 2013.

The cost of the defined contribution scheme to the Company arises from the payment of premiums into a group personal pension scheme and is recognised in the Financial Statements as premiums fall due.

Share based payments

The cost of prospective cash settled share based payments is measured by reference to the increase either in the Company or in the value of the parent Company over the period from the date of the granting of share appreciation rights to the date of their exercise.

Any liability for share based payments is recognised over the period in which they vest and, until settled, is re-measured at each reporting date, with changes in the fair value thereof recognised in the statement of comprehensive income.

Reinsurance assets

The Company cedes reinsurance in the normal course of business.

All reinsurance ceded by the Company is in relation to contracts with significant insurance risk. These assets are recognised within assets arising from reinsurance contracts held. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the underlying contracts and in accordance with the terms of each reinsurance contract. These balances are subject to an annual impairment review.

Premiums ceded and claims reimbursed are recognised when due and disclosed separately on the face of the statement of comprehensive income.

Trade and other receivables

Trade and other receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, trade and other receivables are measured at amortised cost. A charge for impairment in respect of trade and other receivables would be made in the statement of comprehensive income if required in accordance with the policy outlined in note 2 "*Impairment of Financial Assets*".

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets.

Dividends payable

Dividends payable on ordinary shares are recognised as a liability and deducted from equity when they are approved by the shareholders. Interim dividends are deducted from equity when they are paid.

Taxation

Current tax

Current tax is the expected tax payable on the taxable income for the period, using tax rates and legislation enacted or substantively enacted at the reporting date, together with adjustments to estimates made in prior years.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of comprehensive income.

Deferred tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates and legislation enacted or substantively enacted at the reporting date.

Deferred tax assets are only recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences, carry-forward of unused tax assets and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred income tax asset to be utilised.

Insurance contract liabilities

For unit linked contracts, each contract is valued individually and tested to ensure that any future valuation strains are avoided under all foreseeable circumstances. This would mean that the reserves held should at all times be sufficient to meet financial obligations as they fall due on the valuation basis.

For unit linked contracts, the liabilities are made up of the unit reserve and the non-unit reserve.

The unit reserve is taken as the number of units allocated to each policy, multiplied by the relevant valuation unit price multiplied by the appropriate funding factor. The unit liability is tested to ensure that it is not less than the unit surrender value.

The non-unit reserve is held to cover non-unit liabilities, such as expenses of managing the business that are not expected to be covered by future charges taken from unit-linked contracts. The non-unit reserve for unit-linked policies is calculated as follows:

Starting with the final month of the policy and counting back to the valuation date, the non-unit reserve at each duration is calculated. At the beginning of a month, this is equal to the amount which, when increased by the non-linked income during the month and interest and reduced by the non-linked outgo during the month will provide the non-unit reserve required for the survivors at the end of the month.

For unit linked annuities, each contract is valued individually and tested to ensure that any future valuation strains are avoided under all foreseeable circumstances. The unit liability is taken as the present value of expected future annuity payments allowing for actuarial funding of 0.5% p.a. These contracts do not have a surrender value.

For conventional annuities, the reserve was calculated on an individual policy basis as the present value of the expected future annuity payments plus the present value of the expected future expenses associated with managing the annuity business.

Investment contract liabilities

The Company's investment contracts are market-related liabilities. The liability is determined by the value of the corresponding units allocated to the policyholders at the statement of financial position date. The unit liability is tested to ensure that it is not less than the unit surrender value.

Provisions for other liabilities and charges

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, when it is probable that the obligation will result in an outflow of resources to settle the obligation and when a reliable estimate of the amount of the obligation can be made.

The Company recognises a provision for onerous contracts when the expected benefits to be derived from contracts are less than the unavoidable costs of meeting the obligations under the contracts.

Further detail on each of the provisions held is contained in note 25.

Borrowings

Borrowings comprises of capital amounts outstanding on mortgage bonds taken out over properties held in the unit-linked policyholder funds of the Company. The mortgage over each such property is negotiated separately, varies in term from 5 to 20 years, and bears interest at fixed or floating rates that are agreed at the time of inception of the mortgage. These are valued at amortised cost and matched by specific financial assets.

Trade and other payables

Trade and other payables are initially recognised at fair value less directly attributable transaction costs and subsequently measured at amortised cost. In practice, the carrying value of these balances equates to the fair value due to the short-term nature of the amounts included within trade and other payables.

Foreign currency translation

The Company's functional currency and presentational currency is sterling. Transactions in foreign currencies are recorded in the functional currency at the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

Leases

Rentals payable under operating leases are charged in the statement of comprehensive income on an accruals basis throughout the lease term. Any lease incentives are recognised as a reduction of rental expense over the lease term.

The Company has not entered into any finance lease arrangements either as lessor or lessee during the year.

3. Standards and interpretations effective in 2018

- IFRS 9 - *Financial Instruments* (effective 1 January 2018) The Company has adopted this standard from 1 January 2018 using the modified retrospective approach and will not make use of any of the deferral options provided in IFRS 4: Insurance Contracts. IFRS 9 restricts the number of categories in which a financial asset can be classified to two - those measured at amortised cost and those measured at fair value. During 2017, the Company performed an impact assessment of IFRS 9 and since most financial assets within the Company are already held at fair value and receivables and payables are currently held at amortised cost there is no significant impact on the balance sheet. The impact of adopting IFRS 9 has been minimal as there have been no changes to the Company's classification and measurement of financial assets, therefore no adjustment is required to retained earnings. Comparative figures have not been restated. The additional disclosure required in relation to IFRS 9 can be found in note 16.

- IFRS 15 - *Revenue from Contracts with Customers* became effective for annual reporting periods beginning on or after 1 January 2018. IFRS 15 establishes the principles to be applied when reporting information about the nature, amount, timing and uncertainty of revenue and cash flows from a contract with a customer. In applying IFRS 15, an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An assessment of the impact of IFRS 15 has been performed for each type of contract with customers entered into by the Company. This has not led to a significant impact on the Company's accounting policies nor critical accounting judgements. The additional disclosure required in relation to IFRS 15 has been included in note 5. There are no transitional adjustments in respect of IFRS 15.

4. Critical accounting judgements, estimates and assumptions

The Company's management makes estimates and judgments that affect the reported amount of assets, liabilities, income and expenses. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Insurance contract and investment contract liabilities

The estimation of the ultimate liability arising from insurance contracts which are not unit linked is the Company's most critical accounting estimate.

For insurance contracts the liabilities are calculated using a projection of future cash flows after making prudent assumptions about matters such as investment return, expenses, credit default and mortality. Discount rates used to value the liabilities are set with reference to the risk adjusted yields on the underlying assets. The most critical non-economic assumptions are mortality rates in respect of annuity business written and levels of future expenses. Such assumptions are based on recent actual experience, supplemented by industry information where appropriate. No critical accounting estimates apply for investment contracts as the contract liabilities are almost entirely current unit values.

At each reporting date, the estimates and assumptions referred to above are reassessed for adequacy and changes will be reflected in adjustments to the liability, through the statement of comprehensive income. Further information on these assumptions is given in note 31.

Taxation

The Company recognises current and deferred tax assets in line with IAS 12 *"Income Taxes"*. In recognising these assets, management takes into account the likely impact of tax issues that are subject to ongoing discussion with HM Revenue and Customs (HMRC) and other tax authorities. With regard to the Company's deferred tax assets, a significant feature is the management judgment applied in determining the timing, sensitivities and probability of them reversing. This judgment is based on tax forecasts reflecting new business assumptions, sensitivities and proposed management actions. Further information in relation to the Company's current and deferred tax assets is set out in note 11.

Fair value of financial instruments

In accordance with IFRS 7 *Financial Instruments; Disclosure*, the Company categorises financial instruments carried on the statement of financial position at fair value using a three level hierarchy. Financial instruments categorised as level 1 are valued using quoted market prices and therefore there is minimal judgement applied in determining fair value. However, the fair value of financial instruments categorised as level 2 and, in particular, level 3 is determined using valuation techniques. These valuation techniques involve management judgement and estimates, the extent of which depends on the complexity of the instrument and the availability of market observable information. Further details of these valuations are described in note 32.

Provisions for other liabilities and charges

(a) Other mis-selling

The reserve for other mis-selling complaints arising in respect of business issued prior to 23 December 2003 is £4.0m (2017 - £3.9m). This provision relates to the number of new complaints expected over the next two years on business which did not form part of the Pensions, FSAVC or Endowment Reviews. This reserve has increased as a result of a recent increase in the number of complaints arising from the Company's legacy book. As noted in (b) below, these costs are covered under a pecuniary loss insurance contract.

(b) Recovery under pecuniary loss insurance contract

Under the terms of the sale of the Company to Sanlam Netherlands Holding BV, a pecuniary loss insurance contract was effected between the Company and Allianz Cornhill. This enables the Company to claim costs and expenses it incurs in compensating point of sale mis-selling complaints upheld in respect of business written by the Company prior to the change of ownership, other than for such complaints which fall under the auspices of the Personal and FSAVC Pension Reviews. However, the terms of the contract require the Company to meet the first £6m of such costs from 1 January 2003 and 10% of the next £24m of costs.

As at 31 December 2018, the expected recovery under the insurance contract is £3.7m (2017: £3.9m).

5. Fee income

	2018 £'000	2017 £'000
Fund management and policy admin fees	18,561	18,736

Fee income representing all of the Company's revenue from contracts with customers as defined and within the scope of IFRS 15 are set out in the table below.

The 2017 balance of fee income has been restated as fees received from Nucleus and rebates in respect of certain funds administered by Curo totalling £2,368k have been moved into this category from investment income (note 6). This reanalysis has no impact on the result or net assets as previously reported.

Timing of revenue recognition under IFRS 15

	Over time		Not in the scope of IFRS 15		Total	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Asset administration fees	17,101	17,218	-	-	17,101	17,218
Revenue not within the scope of IFRS 15	-	-	1,460	1,518	1,460	1,518
Total	17,101	17,218	1,460	1,518	18,561	18,736

Revenue above consists of financial services income in relation to investment products only. Income in relation to insurance products is out of scope for IFRS 15. All revenue disclosed above is in relation to UK business.

6. Investment income

	2018 £'000	2017 £'000
Income on assets designated at fair value through profit or loss		
- Dividend income	26,105	29,938
- Interest Income	3,814	6,798
Rental income on investment properties	8,424	9,480
(Losses)/gains on shareholder investments	(129)	147
Net cost on pension scheme	(20)	(25)
Total	38,194	46,338

The 2017 balance of investment income has been restated as fees received from Nucleus and rebates in respect of certain funds administered by Curo totalling £2,368k have been moved out of this category into fee income (note 5). This reanalysis has no impact on the result or net assets as previously reported.

7. Net gains on assets and liabilities at fair value through profit or loss

	2018 £'000	2017 £'000
Investments designated at fair value through profit or loss	(127,235)	203,774
Investment properties at fair value through profit or loss	2,335	3,238
Total	(124,900)	207,012

8. Operating expenses

	2018 £'000	2017 £'000
Acquisition costs	10,549	10,940
Maintenance costs	4,437	4,161
Other expenses	1,635	1,032
Total	16,621	16,133

Operating expenses include the following:

	Note	2018 £'000	2017 £'000
a) Auditors' remuneration			
- audit services		318	247
- other assurance services		-	133
- non-audit services		-	9
b) Depreciation of tangible assets	12	138	156
c) Operating lease rentals on land and buildings	29	359	164

The directors of the Company are also directors of Sanlam UK Limited and Sanlam Life & Pensions UK Limited and fellow associates. The directors received total remuneration for the year of £1,335,254 (2017: £1,233,857), all of which was paid by either Sanlam UK Limited or Sanlam Life & Pensions UK Limited. The directors do not believe that it is practicable to apportion this amount between their services as directors of the Company and their services as directors of Sanlam UK Limited and Sanlam Life & Pensions UK Limited and fellow associate companies. The remuneration for the highest paid director was £594,500. No other benefits were due to the highest paid director.

	2018 £'000	2017 £'000
e) Employee information		
Employee costs (including directors) amounted to:		
- salaries and other employment costs	5,444	4,967
- share based payments	100	22
- employer national insurance costs	438	419
- defined benefit pension scheme charge	914	339
- other pension costs	209	176
Total	7,105	5,923

£1,115,463 of the staff costs detailed above have been recharged to Sanlam Financial Services UK Limited (2017: £1,060,930) and are deducted from the operating expenses above.

The average number of persons employed by the Company during the year was 122 (2017: 127).

9. Investment expenses

	2018 £'000	2017 £'000
Investment management fees	33,249	33,177
Total	33,249	33,177

10. Finance costs

	2018 £'000	2017 £'000
Bank interest	210	351
Total	210	351

11. Taxation

Analysis of tax (charge)/credit:

	2018 £'000	2017 £'000
Current tax:		
UK corporation tax	799	3,928
Foreign tax	912	1,064
Adjustment in respect of prior years	(236)	(3)
Total current tax	**1,475**	**4,989**
Deferred tax:		
Non-BLAGAB gains/(losses) (see below)	714	(537)
BLAGAB trading losses	-	(40)
Deferred acquisition expenses	(23)	(7)
Unrealised (losses)/gains	(8,448)	1,796
Fixed asset differences	(130)	-
Total deferred tax	**(7,887)**	**1,212**
Total income tax (credit)/charge	**(6,412)**	**6,201**

The adjustments to current and deferred tax in respect of prior years primarily arose from the recalculation of unit-linked chargeable gains for 2016 and 2017 following a comprehensive internal review of the calculation model used to prepare the figures during the year for these open tax returns.

The net deferred tax income figure above results from:

	2018 £'000	2017 £'000
Origination and reversal of temporary differences	(8,684)	1,128
Adjustment in respect of prior years	829	-
Changes in tax rates	(32)	84
Total deferred tax	**(7,887)**	**1,212**

The policyholder tax benefit is included in the total income tax credit. Policyholder tax is a benefit of £7,382k including the prior year expense of £593k (2017: expense of £5,598k).

Tax losses carried forward in respect of non-BLAGAB business (formerly referred to as gross roll-up business, and primarily pension business) which can be utilised in future years amounted to £21m at 31 December 2018 (2017: £28m).

Deferred tax:

	2018 £'000	2017 £'000
Deferred acquisition expenses	(1,418)	(1,395)
Unrealised gains/(losses)	5,004	13,452
Non-BLAGAB trade losses	(1,166)	(1,880)
Fixed asset differences	(130)	-
Deferred tax liability as at 31 December	**2,290**	**10,177**

The non-BLAGAB deferred tax asset of £1.16m (2017: £1.88m) is based on the anticipated relief between 2019 - 2024 of approximately £7m of the £21m losses. An asset has not been recognised in respect of the remaining £14m loss as it has not been possible to reliably estimate future profits beyond 2024 and therefore it has been concluded that it is not probable that the remaining losses can be utilised. The losses are not expected to expire and will be carried forward indefinitely unless utilised.

A deferred tax asset has not been recognised in respect of £6.6m of BLAGAB unrealised losses given that as it has not been possible to conclude that sufficient BLAGAB gains will be available to offset these losses in the periods in which they are expected to unwind as they unwind to the income statement (losses due to unwind in 2023 and 2024).

Deferred tax assets not recognised:
Deferred tax assets have not been recognised on the following gross items:

	2018 £'000	2017 £'000
Non-BLAGAB losses (see above)	14,000	17,000
Pension scheme deficit	729	1,265
Share Based Payments	91	17
Non-BLAGAB decelerated capital allowances	-	691
BLAGAB Unrealised Losses	6,566	-

Reconciliation of tax charge/(credit)

(Loss)/Profit before tax	**(1,513)**	**11,087**
Tax at 19% (2017: 19.25%)	(287)	2,134
Effect of UK tax basis for life insurance profits	(7,630)	3,006
Overseas taxes	912	1,064
Adjustment in respect of prior years	593	(3)
Total	(6,412)	6,201

The rate of corporation tax reduced from 20% to 19% on 1 April 2017 and will reduce to 17% on 1 April 2020. The rate applicable to policyholder profits is 20% (2017: 20%). UK corporation tax has therefore been charged at a composite rate to reflect a 20% tax rate (2017: 20%) on profits attributable to policyholders and currently a 19% tax rate (2017: 19.25%) on profits attributable to shareholders.

As the above rates have been substantively enacted, deferred tax has been calculated using these (where shareholder rates apply rather than the policyholder rate of 20%).

12. Property and equipment

31 December 2018

	Computer Equipment £'000	Fixtures, Fittings and Office Equipment £'000	Leasehold Improvements costs £'000	Total £'000
Cost				
At 1 January 2018	2,771	989	-	3,760
Additions	20	66	275	361
At 31 December 2018	2,791	1,055	275	4,121
Depreciation				
At 1 January 2018	2,564	989	-	3,553
Charge in year	105	33	-	138
At 31 December 2018	2,669	1,022	-	3,691
Net book value				
At 1 January 2018	207	-	-	207
At 31 December 2018	122	33	275	430

31 December 2017

	Computer Equipment	Fixtures, Fittings and Office Equipment	Total
	£'000	£'000	£'000
Cost			
At 1 January 2017	2,607	989	3,596
Additions	164	-	164
At 31 December 2017	2,771	989	3,760
Depreciation			
At 1 January 2017	2,430	967	3,397
Charge in year	134	22	156
At 31 December 2017	2,564	989	3,553
Net book value			
At 1 January 2017	177	22	199
At 31 December 2017	207	-	207

13. Investment in subsidiaries

	2018	2017
	£'000	£'000
At 1 January	6,160	5,160
Purchase of additional shares	1,000	1,000
At 31 December	**7,160**	**6,160**

The investments in subsidiaries are held at cost and are generally recoverable more than one year after the reporting date.

No impairment charges have been made on subsidiaries held at cost during the year (2017: £nil)

Sanlam Life & Pensions UK Limited purchased 20,000 shares in Sanlam Financial Services UK Limited at a value of £50 per share in both February 2017 and February 2018.

The following are the particulars of the Company's subsidiaries:

Name	Class of Share or Stock	Percentage Held	Country of Registration or Incorporation	Nature of Business
Sanlam Financial Services UK Limited	Ordinary	100%	England and Wales	Investments
Sanlam Trustee Services UK Limited	Ordinary	100%	England and Wales	Pension Scheme Trustee

14. Investment properties

	2018	2017
	£'000	£'000
At 1 January	92,073	97,276
Additions	3,691	2,114
Disposals	(7,176)	(10,555)
Fair value gains	2,336	3,238
At 31 December	90,924	92,073

The investment properties are valued independently as detailed in note 2.

All of the above total is expected to be realised more than one year after the reporting date.

15. Financial assets

	2018	2017
	£'000	£'000
Government interest bearing investments	47,923	105,036
Corporate interest bearing investments	63,389	78,638
Listed Equities and similar securities	341,280	525,368
Investment funds	1,962,511	1,866,220
Total	2,415,103	2,575,262

Of the above total, £2,405,876k (2017: £2,564,732k) is expected to be realised more than one year after the reporting date.

16. Financial instruments

Classification of financial instruments for IFRS 9 purposes

2018

	Mandatorily FVTPL £'000	Designated FVTPL £'000	Amortised cost £'000	Non-financial instruments £'000	Total £'000
Equities and similar securities	341,280	-	-	-	341,280
Interest bearing investments	-	111,312	-	-	111,312
Investment funds	1,962,511	-	-	-	1,962,511
Cash, deposits and similar securities	-	118,173	-	-	118,173
Loans	-	-	263	-	263
Trade and other receivables	-	-	10,292	584	10,876
Reinsurance assets	-	-	2,857	-	2,857
Income tax receivable	-	-	4,065	-	4,065
Total financial assets	2,303,791	229,485	17,477	584	2,551,337
Gross investment contract liabilities	-	2,352,442	-	-	2,352,442
Borrowings	-	-	6,246	-	6,246
Trade and other payables	-	-	13,505	1,481	14,986
Total financial liabilities	-	2,352,442	19,751	1,481	2,373,674

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 31 DECEMBER 2018

2017

	Mandatorily FVTPL £'000	Designated FVTPL £'000	Amortised cost £'000	Non-financial instruments £'000	Total £'000
Equities and similar securities	525,368	-	-	-	525,368
Interest bearing investments	-	183,674	-	-	183,674
Investment funds	1,866,220	-	-	-	1,866,220
Cash, deposits and similar securities	-	110,686	-	-	110,686
Loans	-	-	297	-	297
Trade and other receivables	-	-	11,090	363	11,453
Reinsurance assets	-	-	3,103	-	3,103
Total financial assets	2,391,588	294,360	14,490	363	2,700,801
Gross investment contract liabilities	-	2,464,050	-	-	2,464,050
Borrowings	-	-	9,406	-	9,406
Trade and other payables	-	-	15,728	-	15,728
Current tax liability	-	-	3,193	-	3,193
Total financial liabilities	-	2,464,050	28,327	-	2,492,377

Maturity analysis of other investments

2018

	Due within 1 year	Due within 2 to 5 years	Due within 5 to 10 years	Due within 10 to 20 years	Due after 20 years	Open ended	Total
Equities and similar securities	-	-	-	-	-	341,280	341,280
Interest bearing investments	15,656	22,956	15,326	22,801	34,573	-	111,312
Investment funds	-	-	-	-	-	1,962,511	1,962,511
Cash, deposits and similar securities	118,173	-	-	-	-	-	118,173
Loans	263	-	-	-	-	-	263
Trade and other receivables	10,876	-	-	-	-	-	10,876
Reinsurance assets	2,857	-	-	-	-	-	2,857
Income tax receivable	4,065	-	-	-	-	-	4,065
Total financial assets	151,890	22,956	15,326	22,801	34,573	2,303,791	2,551,337

	Due within 1 year	Due within 2 to 5 years	Due within 5 to 10 years	Due within 10 to 20 years	Due after 20 years	Open ended	Total
Gross investment contract liabilities	69,384	406,395	618,410	595,800	32,299	630,154	**2,352,442**
Borrowings	-	-	6,246	-	-	-	**6,246**
Trade and other payables	14,986	-	-	-	-	-	**14,986**
Total financial liabilities	**84,370**	**406,395**	**624,656**	**595,800**	**32,299**	**630,154**	**2,373,674**

2017

	Due within 1 year	Due within 2 to 5 years	Due within 5 to 10 years	Due within 10 to 20 years	Due after 20 years	Open ended	Total
Equities and similar securities	-	-	-	-	-	525,368	**525,368**
Interest bearing investments	7,066	36,363	28,720	43,543	63,911	4,071	**183,674**
Investment funds	-	-	-	-	-	1,866,220	**1,866,220**
Cash, deposits and similar securities	110,686	-	-	-	-	-	**110,686**
Loans	297	-	-	-	-	-	**297**
Trade and other receivables	11,453	-	-	-	-	-	**11,453**
Reinsurance assets	3,103	-	-	-	-	-	**3,103**
Income tax receivable	-	-	-	-	-	-	**-**
Total financial assets	**132,605**	**36,363**	**28,720**	**43,543**	**63,911**	**2,395,659**	**2,700,801**
Gross investment contract liabilities	66,702	368,486	665,717	697,169	41,664	624,312	**2,464,050**
Borrowings	-	-	9,406	-	-	-	**9,406**
Trade and other payables	15,728	-	-	-	-	-	**15,728**
Current tax liability	3,193	-	-	-	-	-	**3,193**
Total financial liabilities	**85,623**	**368,486**	**675,123**	**697,169**	**41,664**	**624,312**	**2,492,377**

There are no transitional adjustments in respect of IFRS 9.

17. Loans and receivables

	2018 £'000	2017 £'000
Policyholder loans	263	297
Total	263	297

Of the above total, £263k (2017: £297k) is expected to be recovered more than one year after the reporting date.

Historical loss experience has been used by the Company to establish a 12-month ECL rate of 0% as there has been zero losses or impaired balances in recent years. Therefore, no loss allowance or impairment provision has been recognised.

18. Pension scheme liability

The Company operates a defined benefit scheme in the UK which provides both pensions in retirement and death benefits to members. Pension benefits are related to the members' final salary at retirement and the length of their service.

The assets of the scheme are held separately from those of the Company being invested under the control of an independent investment manager. The contributions are determined by a qualified actuary on the basis of regular valuations.

The scheme is a registered scheme under UK legislation and is contracted out of the State Second Pension. The scheme is subject to the scheme funding requirements outlined in UK legislation.

The most recent full actuarial valuation of the Scheme was carried out as at 31 July 2017. This showed that on that date the value of the Technical Provisions was £55.6m and the value of the assets was £50.1m.

The Trustees and Sponsoring Employer have agreed to eliminate the funding shortfall at the valuation date by the payment of an additional contribution of £600,000 which will be paid in equal monthly instalments over a two year period, and deficit contributions of £861,474 per annum. The amount due will increase each 1 August by 3.5%, with the first increase having applied from 1 August 2018.

The scheme was established from 22 July 1976 under trust and is governed by the scheme's trust deed and rules dated 20 January 2003. The Trustees are responsible for the operation and the governance of the scheme, including making decisions regarding the scheme's funding and investment strategy in conjunction with the Company.

The ultimate cost of the scheme to the Company will depend upon actual future events rather than the assumptions made. Many of the assumptions are unlikely to be borne out in practice and as such the cost of the scheme may be higher or lower than disclosed.

In general, the risk to the Company is that the assumptions underlying the disclosures or the calculation of the contribution requirements are not borne out in practice and the cost to the Company is higher than expected. This could result in higher contributions required from the Company and a higher deficit disclosed.

More specifically, the assumptions not being borne out in practice could include:

- The return on the scheme's assets being lower than assumed, resulting in an unaffordable increase in the required Company contribution rate.
- Falls in asset values (particularly equities) not being matched by similar falls in the value of liabilities.
- Unanticipated future changes in mortality patterns leading to an increase in the scheme's liabilities. Future mortality rates cannot be predicted with certainty. This is especially so bearing in mind the youngest scheme members could still be alive in 60 years or more and it is not possible to reliably predict what medical advances may or may not have occurred by this time.
- The potential exercise (by members or others) of options against the scheme.
- The relatively small number of scheme members is likely to lead to volatility in the deficit and the Company contributions as the future demographic experience of such a group is more uncertain than would be the case for a larger group.

The scheme closed to new entrants in April 2001 to be replaced by a contributory defined contribution scheme. The scheme closed to future accrual on 31 December 2013.

Following the recent High Court judgement in the Lloyds case, overall pension benefits now need to be equalised to eliminate inequalities between males and females in Guaranteed Minimum Pensions ("GMP") accrued after 17 May 1990. The defined benefit scheme's liabilities have been assumed to increase by 1.1% to reflect a best estimate of the cost.

The pension cost for the period was £1,123,174 (2017: £515,076). This comprised £387,161 (2017: £338,948) for the final salary scheme and £527,000 (2017: NIL) for GMP equalisation plus £209,013 (2017: £176,128) for the defined contribution scheme.

Assumptions:

	As at 31 December 2018	As at 31 December 2017
Discount rate	2.8%	2.4%
Rate of inflation (RPI)	3.2%	3.2%
Rate of inflation (CPI)	2.2%	2.2%
Rate of increase to pensions in payment		
RPI max 5% pension increases	3.1%	3.1%
• CPI max 3% pension increases	1.9%	1.9%

Assumed life expectancies on retirement at age 63 are:

	As at 31 December 2018 (years)	As at 31 December 2017 (years)
Males retiring immediately	24.8	24.9
Females retiring immediately	26.9	26.9
Males retiring in 18 years time	26.1	26.2
Females retiring in 18 years time	28.2	28.3

The assets in the scheme are:

	Value at 31 December 2018 £'000	Value at 31 December 2017 £'000
Equity	12,340	21,828
Corporate bonds	25,734	30,736
Structured equity	9,549	-
Cash and cash equivalents	41	448
Total	47,664	53,012

	31 December 2018 £'000	31 December 2017 £'000
Actual return on assets over the period	(2,577)	4,497

The scheme does not hold any ordinary shares issued or property occupied by the Company.

The amounts recognised in the balance sheet are as follows:

	As at 31 December 2018 £'000	As at 31 December 2017 £'000
Present value of funded obligations	48,393	54,277
Fair value of scheme assets	47,664	53,012
Net deficit in balance sheet	(729)	(1,265)

Reconciliation of opening and closing balances of the present value of the defined benefit obligation:

	Year end 31 December 2018 £'000	Year end 31 December 2017 £'000
Benefit obligation at the start of the year	**54,277**	**50,399**
Interest cost	1,259	1,293
Net remeasurement (gains)/losses- financial	(4,228)	1,623
Net remeasurement (gains)/losses - demographic	(232)	(922)
Net remeasurement (gains)/losses - experience	435	3,195
Benefits paid	(3,645)	(1,311)
GMP equalisation provision	527	-
Benefit obligation at the end of the year	**48,393**	**54,277**

Reconciliation of opening and closing balances of the fair value of scheme assets:

	Year end 31 December 2018 £'000	Year end 31 December 2017 £'000
Fair value of scheme assets at the start of the year	**53,012**	**48,982**
Interest income on scheme assets	1,239	1,268
Return on assets, excluding interest income	(3,816)	3,229
Contributions by employers	874	844
Expenses by employers	387	339
Benefits paid	(3,645)	(1,311)
Scheme administration cost	(387)	(339)
Fair value of scheme assets at the end of the year	**47,664**	**53,012**

The amounts recognised in the statement of comprehensive income are:

	31 December 2018 £'000	31 December 2017 £'000
Scheme administration cost	387	339
GMP equalisation cost	527	-
Net interest cost	20	25
Total expense	**934**	**364**

The amounts recognised in OCI are:

	31 December 2018 £'000	31 December 2017 £'000
Net remeasurement - financial	4,228	(1,623)
Net remeasurement - demographic	232	922
Net remeasurement - experience	(435)	(3,195)
Return on assets, excluding interest income	(3,816)	3,229
Total gain/(expense) recognised in OCI	**209**	**(667)**

19. Reinsurance assets

The Company's assets arising from reinsurance contracts held all relate to insurance contracts.

	Total £'000
At 1 January 2017	3,432
Movement recognised through the statement of comprehensive income	(329)
At 31 December 2017	3,103
At 1 January 2018	3,103
Movement recognised through the statement of comprehensive income	(246)
At 31 December 2018	2,857

Assets arising from reinsurance contracts held include £2,684k (2017: £2,933k) that is expected to be settled more than one year after the reporting date.

20. Trade and other receivables

	2018 £'000	2017 £'000
Amounts due from group companies	3,044	1,906
Prepayments and accrued income on investments	1,854	1,732
Reassurance debtors	120	427
Recovery under pecuniary loss insurance contract	3,696	3,902
Annual management charges receivable	936	984
Investment debtors	931	1,290
Other	295	1,212
Total	10,876	11,453

All of the above total is expected to be recovered within one year after the reporting date. The carrying amounts disclosed above reasonably approximate the fair values as at the year end.

Annual management charges receivable is classified as contract receivables under IFRS 15. Annual management charges receivable relates to fees receivable from policyholders. Historical loss experience has been used by the Company to establish a 12-month ECL rate of 0% as there has been zero losses or impaired balances in recent years. Therefore, no loss allowance or impairment provision has been recognised.

21. Cash and cash equivalents

	2018 £'000	2017 £'000
Cash at bank	9,086	9,933
Short term deposits	109,087	100,753
Total	118,173	110,686

Cash and cash equivalents in the above table contains amounts of £102.9m (2017: £87.4m) which are held entirely within the long-term insurance funds of the Company. These balances are therefore not readily available for use by the Company.

Of the above total, £7.8m (2017: £8.7m) cash is held in a trust account on behalf of the Company.

22. Share capital

	2018 £'000	2017 £'000
Authorised		
32,010,000 ordinary shares of £1 each	32,010	32,010
Allocated, called up and fully paid share capital		
25,000,000 ordinary shares of £1 each	25,000	25,000

There have been no changes to share capital during the years ended 31 December 2018 and 31 December 2017.

23. Insurance contracts

Gross insurance contract liabilities

	2018 £'000	2017 £'000
At 1 January	**257,450**	**256,468**
Premiums received	3,509	4,010
Claims paid	(18,088)	(17,276)
Change in existing business provisions	(6,312)	13,659
Economic assumption changes	(3,555)	1,629
Operating assumption changes	(2,688)	(1,040)
At 31 December	**230,316**	**257,450**

The change in existing business provisions is largely due to market movements during the year, which have resulted in a decrease in the value of units.
An analysis of the expected maturities of insurance and investment contract liabilities is given in note 32.

Change in insurance liabilities

	2018 £'000	2017 £'000
At 1 January	257,450	256,468
At 31 December	230,316	257,450
Change in insurance liabilities	(27,134)	982

24. Investment contracts

Gross investment contract liabilities

	2018 £'000	2017 £'000
At 1 January	2,464,050	2,274,607
Deposits received	200,833	200,552
Deposits returned	(207,394)	(207,731)
Change in existing business provisions	(105,047)	196,622
At 31 December	2,352,442	2,464,050

The change in existing business provisions is largely due to market movements during the year, which have resulted in a decrease in the value of units.

Gross change in contract liabilities

	2018 £'000	2017 £'000
Change in insurance liabilities	(27,134)	982
Change in existing business provisions (investment liabilities)	(105,047)	196,622
At 31 December	(132,181)	197,604

An analysis of the expected maturities of insurance and investment contract liabilities is given in note 32.

25. Provisions for liabilities

	Endowment and other mis-selling £'000	Dilapidations £'000	Total £'000
At 1 January 2017	3,665	-	3,665
Charge for the year	1,593	320	1,913
Amounts utilised during the year	(1,366)	-	(1,366)
At 31 December 2017	3,892	320	4,212
At 1 January 2018	3,892	320	4,212
Charge for the year	1,434	-	1,434
Amounts utilised during the year	(1,352)	(320)	(1,672)
At 31 December 2018	3,974	-	3,974

Further details in respect of the mis-selling provision are provided in note 4. The expected reimbursement from Allianz in respect of the mis-selling provision is £3.7m (2017: £3.9m).

26. Borrowings

	2018 £'000	2017 £'000
Term Finance	6,246	9,406
Total	6,246	9,406

Term finance comprises capital amounts outstanding on mortgage bonds taken out over properties held in the unit-linked policyholder funds of the Company. The mortgage over each such property is negotiated separately, varies in term from 5 to 20 years, and bears interest at fixed or floating rates that are agreed at the time of inception of the mortgage. The fair value of the term finance is not materially different to the carrying value shown above.

27. Trade and other payables

	2018 £'000	2017 £'000
Amounts due to group companies	2,607	2,971
Claims outstanding	7,814	8,708
Accrued expenses	4,565	4,049
Total	14,986	15,728

Of the above total, £14,986k (2017: £15,728k) is expected to be settled within one year after the reporting date.

Claims outstanding comprise amounts due to policyholders for death claims, maturities and surrenders.

28. Increase/decrease in operating assets and liabilities

	Note	2018 £'000	2017 £'000
Decrease/(Increase) in operating assets			
Decrease in loans and receivables	17	34	-
Decrease in investment properties	14	1,149	5,203
Decrease/(increase) in financial assets at fair value through profit or loss	15	160,159	(188,038)
Decrease in reinsurance assets	19	246	329
Decrease/(increase) in trade and other receivables	20	577	(69)
Net decrease/(increase) in operating assets		162,165	(182,575)

	Note	2018 £'000	2017 £'000
(Decrease)/Increase in operating liabilities			
(Decrease)/increase in insurance contract liabilities	23	(27,134)	982
(Decrease)/increase in investment contract liabilities	24	(111,608)	189,443
(Decrease)/increase in provisions and other charges	25	(238)	547
(Decrease) in borrowings	26	(3,160)	(5,226)
(Decrease)/increase in trade and other payables	27	(742)	815
(Decrease) in pension scheme obligations		(327)	(819)
Net (decrease)/increase in operating liabilities		(143,209)	185,742
Net change in operating assets and liabilities		(18,956)	(3,167)

29. Leases

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	2018 £'000	2017 £'000
Land and building:		
Due within one year	480	164
Due within two to five years	232	-
Due after more than five years	-	-
Total operating lease commitments	712	164

The balances above all relate to the renewal of lease of the Company's office premises. This lease expires in June 2020.

30. Provision for share based payments

In 2006, the Company introduced a Long Term Incentive Scheme (LTIS) for certain key employees, in terms of which such employees may receive cash payments based on the increase either in the value of the Company or in the value of the parent Company over the period from the date of the granting of share appreciation rights to the date of their exercise.

In terms of the scheme, the exercise price of each option is equal to the value of an ordinary share in either the Company or in the parent Company (before the value dilution impact of the scheme) at the date of issue of the options. The options vest in tranches over a period of five years from their date of issue (40% after 3 years, 30% after 4 years and the final 30% after 5 years), subject to target growth rates in the share price being achieved. Consequently it is not possible to calculate the amount receivable to the participants under the LTIS.

Participants may exercise options that have vested at any time up until eight years from their issue date (seven years for option grants made after 2008). No shares will be issued or transferred to participants at any stage, and consequently there will be no dilution of the Company's issued share capital.

Grants 2010 to 2013	2018		2017	
	Number '000	Weighted average exercise price £/share	Number '000	Weighted average exercise price £/share
Options in issue at the start of the year	850	235.51	2,510	180.48
Options vested, exercised or cancelled during the year	(850)	-	(1,660)	261.29
Options in issue at the end of the year	-	-	850	235.51

The share based payment expense for 2018 is £100k (2017: (£22k)) resulting in a net decrease in the provision of £15k for 2018.

Accrued costs of £1k (2017: £17k) have been made in these Financial Statements for the value of the options outstanding as at the year end.

The scheme has now been closed.

A new scheme has been set up in Sanlam UK Limited. Details of this scheme are available in the financial statements of Sanlam UK.

31. Insurance and investment contract liabilities - assumptions, changes in assumptions and sensitivities

This note explains how the Company calculates its policyholder liabilities. The table below shows the Company's total liabilities to policyholders for insurance and investment products, before reinsurance.

	2018 £'000	2017 £'000
Composition of policy liabilities (Gross of reinsurance)		
Unit-linked contracts	2,509,411	2,638,830
Conventional annuities	70,138	79,178
Other contracts	3,209	3,492
Total policy liabilities	**2,582,758**	**2,721,500**

Long-term business insurance liabilities

This section analyses the Company's insurance liabilities by type of product and assumptions used.

The table below shows the Company's total insurance liabilities before reinsurance.

	2018 £'000	2017 £'000
Composition of policy liabilities (Gross of reinsurance)		
Unit-linked contracts	156,969	174,780
Conventional annuities	70,138	79,178
Other contracts	3,209	3,492
Total policy liabilities	**230,316**	**257,450**

Assumptions

The key assumptions are as follows:

- Interest rates

The following interest rates were used as at 31 December 2018 and 31 December 2017:

Net Valuation Interest Rate	31 December 2018	31 December 2017
Unit Linked Life	1.31%	1.27%
Unit Linked Annuities	2.37%	1.88%
Non-Linked Annuities	2.37%	1.88%
RPI-Linked Annuities	(1.60%)	(1.64%)

- Mortality

The following mortality assumptions were used as at 31 December 2018 and 31 December 2017:

	Aggregate	Non-smoker	Smoker
Males	82% A67/70 ult	73% A67/70 ult	107% A67/70 ult
Females	93% FA75/78 ult	81% FA75/78 ult	121%FA75/78 ult

In addition, male mortality is adjusted for 50% of Basis R6A of the Institute of Actuaries Working Party Paper on AIDS.

- Annuitant mortality

The following mortality assumptions were used as at 31 December 2018 and 31 December 2017:

31 December 2018	Base table	Age rating	Improvement factors
Conventional annuities			
Males	106% PCMA00	None	CMI 2016, 1.75% LTI
Females	106% PCFA00	None	CMI 2016, 1.75% LTI
Unit linked annuities			
Males	87% PCMA00	-2	CMI 2016, 1.75% LTI
Females	87% PCFA00	-2	CMI 2016, 1.75% LTI

31 December 2017	Base table	Age rating	Improvement factors
Conventional annuities			
Males	109% PCMA00	None	CMI 2014, 1.75% LTI
Females	109% PCFA00	None	CMI 2014, 1.75% LTI
Unit linked annuities			
Males	90% PCMA00	-2	CMI 2014, 1.75% LTI
Females	90% PCFA00	-2	CMI 2014, 1.75% LTI

- Expenses

The following expenses per policy were used as at 31 December 2018 and 31 December 2017:

Class	31 December 2018		31 December 2017	
	Live	Paid-up	Live	Paid-up
UL Bond	-	£44.06	-	£37.94
UL Savings Endowment	£46.33	£44.06	£39.86	£37.94
Conventional annuities	-	£39.48	-	£35.81
Unit linked annuities	-	£217.65	-	£194.97

- Unit growth rates

The following unit growth rates were assumed before annual management charges:

Unit Growth Rate	31 December 2018	31 December 2017
Unit Linked Life - Gross	1.68%	1.64%
Unit Linked Life - Net	1.34%	1.31%
Unit Linked Annuities	2.37%	1.88%

- Inflation

Renewal expenses and monthly expense charges were assumed to increase at 4.25% p.a.

- Persistency

Discontinuance rates are based on the Company's recent experience.

Long-term business investment liabilities

The table below shows the Company's total investment liabilities before reinsurance.

	2018 £'000	2017 £'000
Composition of policy liabilities (Gross of reinsurance)		
Unit-linked contracts	2,352,442	2,464,050
Total policy liabilities	**2,352,442**	**2,464,050**

Sensitivity analysis (unaudited)

The effect on the embedded value of changes to the principal assumptions is shown below. The embedded value is the present value of all future IFRS profits expected to emerge on in force business, note that future new business is excluded. For each of the sensitivities, all other assumptions are left unchanged.

Assumption	2018 £'000 (unaudited)	2017 £'000 (unaudited)
Embedded value on best estimate assumptions	71,779	75,770
Equity/property assets fall by 10%	(4,413)	(5,634)
Increase expected return on equities/property assets by 1.0% p.a.	2,288	3,573
Maintenance unit expenses decrease by 10%	3,047	2,672
Discontinuance rates decrease by 10%	2,622	2,911
Base mortality and morbidity rates decreased by 5% for life assurance	352	167
Base mortality and morbidity rates decreased by 5% for annuity business	(616)	(1,057)
Currency, a 10% strengthening of Sterling against all other currencies	(2,529)	(2,979)

32. Risk management

Governance Framework

The Company has an approved Risk Management Policy in place that sets out the Company's risk management framework and includes elements such as the definition of risk appetite and the process for the identification, assessment, monitoring, reporting and control of risk. The Company embeds risk management into the organisation through a 'three lines of defence' methodology, with the first line of defence being line managers who are tasked with the day to day management of those risks allocated to them. The Risk Management function forms the second line of defence, through overseeing the risk framework to ensure that it is operating effectively, and Internal Audit forms the third line of defence, through the implementation of the internal audit annual plan and by way of its periodic reviews as to whether the risk management framework remains fit for purpose.

The Company's risks are ranked in priority order using financial and risk-based capital criteria. Progress in the management of the key risks is reviewed on a regular basis by senior management and the Audit, Actuarial and Risk Committee.

The Company's key risks currently include persistency, annuitant longevity and pension scheme funding.

Risk Appetite

Risk Appetite is the amount and type of risk that the Board is prepared to seek, accept or tolerate.

The Company's risk appetite setting process is set out in the Company's Risk Management Strategy document; this outlines the preferred trade-off between risk and reward that the business is willing to accept in pursuit of its strategic goals, given the expectations of different stakeholders.

The intention behind the risk appetite statement is to enable the Board to set out clearly how much and what types of risk the Company is permitted to take in pursuit of achieving the Board's approved business strategy. Performance against the agreed risk appetite is then monitored on a monthly basis by the Executive Management Committee and is reported on a quarterly basis to the Board. Any breaches are dealt with according to the risk escalation matrix in the Company's Risk Management Policy.

Financial Risks

The Company is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and policyholder liabilities, in particular that the proceeds from financial assets are not sufficient to fund the obligations arising from contracts with policyholders. The most important components of this financial risk are market risk, insurance risk, credit risk and financial soundness risk, all of which are managed in accordance with the risk management framework.

(1) Market Risk

Market risk is the risk that arises from fluctuations in values of/income from assets or in interest rates or exchange rates.
The Company's main market risk exposures and the impact on the Company if they were to crystallise are as follows:

- Unit linked matching. The Company would suffer a hit to its solvency position and statement of comprehensive income if it was running a mismatch between unit linked assets and unit linked liabilities and unit prices were to move adversely at the same time.
- Unit pricing. The Company would suffer a potentially significant hit if unit prices were calculated incorrectly and the markets were to move adversely before the error could be corrected.
- Non-linked matching. This could significantly impact the Company's solvency and income statement if assets and liabilities weren't adequately matched and interest rates were to move in an adverse way.
- Pension scheme matching. The liabilities of the Company's final salary pension scheme are guaranteed both in terms of longevity and future inflation levels. It is currently not possible to hedge out the liabilities at a competitive price; instead, a proportion of the scheme's assets are invested in real assets in order to provide a partial hedge. Any adverse impact from this mismatch of assets and liabilities will result in additional contributions being made by the Company to the scheme.
- Fund based charges. This impacts both the level of the Company's revenue in the period as well as the capitalised impact of future charges via sterling reserves, the embedded value and the level of the Company's Own Funds available to meet its Solvency II capital requirements.
- Free assets. These are assets representing the Company's capital and retained profits and, as such, they are available to meet the Company's solvency requirements. The exposure to market risk depends on the type of asset invested in e.g. cash investments are only exposed to interest rate risk whereas equities would be exposed to fluctuations in market values.

Market risk is managed in the following ways:

- Unit linked matching. The Company has in place a detailed set of processes and controls to manage and mitigate any impact. Some residual exposure is permitted within detailed limits for the sake of operational efficiency.
- Unit pricing. The unit pricing of the largest funds has been outsourced to CURO in South Africa and a detailed Service Level Agreement is in place to monitor and manage their performance. A SAS70 report is produced annually which outlines the quality of CURO's control environment. The Company does retain the pricing for the smaller 'trust linked' funds, personal funds and Portal funds and for these, it has in place a detailed set of processes and controls to manage and mitigate any impact.
- Non-linked matching. The Company has in place a detailed investment mandate with SAMI to mitigate any potential impact. The mandate has clear rules over what constitutes an acceptable level of matching and these are reviewed on a regular basis. Performance is reviewed on a monthly basis.
- Pension scheme matching. The Scheme's Trustees have in place an investment strategy together with a set of detailed investment limits which are set out in the Scheme's Statement of Investment Principles. Performance against the Scheme's Statement of Investment Principles by the investment manager is reviewed on a regular basis. There is however a sizeable amount of residual risk given the nature of the benefit guarantees that have been granted.
- Fund based charges. In general, the Company is happy to accept this risk so the only mitigant currently in place is to apply a sterling based minimum per policy charge to cover the risk of fund values dropping below a certain level.
- Free assets. The Company has in place a detailed set of guidelines that it operates which includes items such as acceptable investments and diversification criteria. The guidelines are reviewed on a regular basis and performance against them is monitored on a monthly basis.

Below is an analysis of assets and liabilities at fair value through profit or loss and assets and liabilities for which a fair value is required to be disclosed, according to the fair value hierarchy.

As at 31 December 2018	Fair Value Hierarchy			
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investment properties	-	-	90,924	90,924
Financial assets at fair value through profit or loss	2,344,268	70,835	-	2,415,103
Loans and receivables	-	263	-	263
Reinsurance assets	-	2,857	-	2,857
Total assets	**2,344,268**	**73,955**	**90,924**	**2,509,147**
Investment contract liabilities	-	2,352,442	-	2,352,442
Total liabilities	**-**	**2,352,442**	**-**	**2,352,442**

As at 31 December 2017	Fair Value Hierarchy			
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investment properties	-	-	92,073	92,073
Financial assets at fair value through profit or loss	2,481,104	94,158	-	2,575,262
Loans and receivables	-	297	-	297
Reinsurance assets	-	3,103	-	3,103
Total assets	**2,481,104**	**97,558**	**92,073**	**2,670,735**
Investment contract liabilities	-	2,464,050	-	2,464,050
Total liabilities	**-**	**2,464,050**	**-**	**2,464,050**

In the prior period figures, a reclassification from level 1 into level 2 of £7.8m has been made in order to take account of assets for which up to date prices were not available at the year end. This brings the approach in the prior period in line with the current year. This reclassification has no impact on the results nor net assets as previously reported.

Assets classified as Level 3 comprises of investment properties.

Investment properties are independently valued as described in note 2. Fair value of investment properties is measured as the most probable price reasonably obtainable in the market at the date of transaction between a willing buyer and a willing seller in an arm's-length transaction. The judgements used in determining the fair value can also be found in note 2.

The table below shows movements in the assets and liabilities measured at fair value based on valuation techniques for which any significant input is not based on observable market data (level 3 only).

	2018 £'000 Assets	2017 £'000 Assets
At 1 January	**92,073**	**97,276**
Total net gains recognised within net realised and net fair values gains on assets at fair value through profit or loss in the statement of comprehensive income	2,336	3,238
Purchases	3,691	2,114
Disposals	(7,176)	(10,555)
At 31 December	**90,924**	**92,073**
Total gains for the period included in the statement of comprehensive income for assets and liabilities held at 31 December	2,336	3,238

Total gains or losses for the period included in the statement of comprehensive income as well as total gains or losses relating to assets and liabilities held at the reporting date are presented in the statement of comprehensive income, through net gains/losses on assets at fair value through profit or loss.

(i) Equity and property risk

The Company is not exposed to any material investment guarantees that would be directly affected by a fall in equity values. As at 31 December 2018, none of the Company's non-linked assets were invested in equities. However, a fall in equity values could potentially damage the Company's solvency in the following key ways:

- Lower fund administration charges;
- Reduced new business /worse persistency; and,
- Higher pension scheme contributions and worsened surplus/deficit position.

A fall in equity values may also increase the likelihood of other risks occurring. For example, mis-selling reserves are more likely to be inadequate following a fall in equity values since policy values would be reduced, potentially leading to higher compensation costs.

None of the Company's non-linked assets or shareholder's funds are invested in property. The direct effect of a fall in property values would only have a minimal impact on the Company's solvency because:

- Unit linked property assets and liabilities are fully matched;
- Only 10% of the Company's linked assets are invested in property and so the effect of lower management charges would be relatively minor; and
- The Pension Scheme is not invested in property.

However, new business could be adversely affected by a fall in property values if consumer confidence in property as a long term investment also fell. As well as this, the risk of new mis-selling complaints may increase if clients who have invested in property lose a large part of their investment.

The sensitivity analysis (note 29) illustrates how the fair value of future cash flows in respect of equities and properties, net of offsetting movements in insurance and investment contract liabilities, will fluctuate because of changes in market prices at the reporting date.

(ii) Interest Rate Risk

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in the interest rates and the shape of the yield curve. Interest rate risk in respect of the Company's insurance and investment contracts arises when there is a mismatch in duration or yield between liabilities and the assets backing those liabilities.

For non-linked contracts a fall in market interest rates will result in a lower yield on the assets supporting guaranteed investment returns payable to policyholders. This investment return guarantee risk is managed by matching assets to liabilities as closely as possible. As detailed above, the Company has in place a detailed investment mandate with SAMI to mitigate any potential impact of assets and liabilities not being adequately matched if interest rates were to move in an adverse way. The mandate has clear rules over what constitutes an acceptable level of matching and these are reviewed on a regular basis. Performance is reviewed on a monthly basis.

The effect on the Company of changes in the value of investments held in respect of unit-linked contracts due to fluctuations in market interest rates is negligible as any changes will be offset by movements in the corresponding liability.

(iii) Currency Risk

Some of the Company's unit linked funds are invested in overseas linked assets and as such an increase in the value of sterling compared to other currencies will lead to a reduction in the value of capital resources through lower future fund administration charges. In addition, a relative increase in sterling will produce a larger staff pension scheme deficit. It should be noted that the assets held to match the Company's other non-linked liabilities are all sterling denominated.

(2) Insurance Risk

Insurance risk is the risk of financial loss arising from fluctuations in the timing, frequency and severity of insured events relative to the expectations of the Company at the time of underwriting or financial reporting.

The Company has in the past had a high tolerance for all aspects of insurance risk as is evidenced by the sizeable in force legacy portfolio. However, the current strategic focus is principally on investment related products and as such there is a low appetite for insurance risk other than that which arises as a by-product of the investment focused strategy e.g. persistency and longevity.

The Company currently seeks to avoid the following insurance risks:

- new mortality exposures;
- critical illness;
- guaranteed decumulation benefits; and,
- long term care.

The Company's key insurance risk exposures are as follows:

- Mortality. This affects all of the Company's business to a certain extent though the main exposure relates to the difference between the in force policies' sums insured and their fund values. In addition, mortality affects the probability and hence the value of future policy charges.
- Longevity. This relates to in force annuity business and also to the Company's final salary pension scheme. Longevity adversely impacts the Company if more payments are made to an annuitant or to a pensioner than were originally assumed when the contract commenced.
- Morbidity. This relates to a small number of legacy products which offered income protection insurance and waiver of premium rider benefits. Morbidity adversely impacts the Company if more benefits are paid out than were originally assumed at the time the policy was issued or was last reserved for.
- Expenses. The maintenance expenses incurred in the on-going administration of the Company's in force book need to be within the original estimates at the time that the policies were issued or when they were last reserved for otherwise profitability will be adversely affected. Similarly, initial expenses need to be within the pricing allowance otherwise products might be loss making.

- Expense inflation. As with expense risk, maintenance expense inflation needs to be contained within pricing and reserving assumptions to avoid adverse financial impacts.
- Persistency. This affects all of the Company's business (apart from annuities) as it impacts the probability and hence the value of future policy charges.
- Tax. As with expense risk, actual tax payments need to be contained within pricing and reserving assumptions to avoid adverse financial impacts.
- Mis-selling reserves. The risk is that either Allianz Cornhill will not honour the contract as originally expected or that the residual cost to the Company on 'other mis-selling' is higher than expected.

Given the Company's risk appetite towards insurance risk, the associated risk limits are as follows:

- Mortality. The Company does not actively seek any new sums at risk mortality exposure.
- Longevity. The Company has no appetite for new longevity exposure apart from where it arises from the vesting of in force pensions business.
- Morbidity. The Company has no appetite for any new morbidity exposure.
- Expenses. The Company has a limited appetite for expense risk and does not seek to outsource its administration activities to a third party administrator on a fixed price contract.
- Expense inflation. The Company has a limited appetite for expense inflation risk and will seek where possible to levy charges in such a way as to provide a hedge against inflation risk.
- Persistency. The Company has a high tolerance for persistency risk given the long term nature of investment wrapper charging structures. That said, processes should be put in place to minimise the risk to the extent that it is possible to do so. For example, wherever possible, product charging structures are designed to minimise persistency risk subject to TCF considerations being met.
- Tax. The Company has a low appetite for tax risk and it requires that the Company should act within all relevant laws and regulations in such a way that it is seen as a low risk business by HMRC.
- Mis-selling reserves. The Company has no appetite for any exposure to legacy mis-selling risk apart from the agreed 10% share of the 'other mis-selling' indemnity with Allianz Cornhill.

New insurance risk exposures are identified as part of existing business as usual processes e.g. product and service developments, business planning, financial reporting and also whenever key business decisions are made. Changes to existing insurance risk exposures are identified as part of the on-going risk management process and also whenever key business decisions are made.

Monthly reports on emerging insurance experience go to the Executive Management Committee as part of the monthly performance pack and the insurance risk dashboard and, once a quarter, key information is reported to the Audit, Actuarial and Risk Committee and to the Board. In addition, annual investigations on historic insurance experience are prepared by the Actuarial Manager for review and sign off by the Chief Actuary. These investigations are used to help set the demographic and expense bases for financial reporting and product profitability purposes which are then signed off by the Board as part of the year end valuation process.

For each of the exposures, the key controls and mitigants that have been put in place to bring the exposure within the required risk limits are shown below.

- Mortality. Mitigants include: underwriting on protection business; variable mortality deductions on protection business; reinsurance arrangements with Swiss Re and Munich Re on protection business; maximum age limits together with minimal sums at risk on investment related business.
- Longevity. Mitigants include: emerging experience is regularly monitored at Board level; a proof of existence exercise is carried out on an ongoing basis by monitoring death registrations to ensure only genuine claims are paid; and, the Company tends only to retain the smaller vesting annuities which typically have worse longevity experience. In the pension scheme, a high proportion of assets are invested in real assets to provide some degree of hedge against improving longevity.
- Morbidity. There is some reinsurance in place. There is some reinsurance in place for the small portfolio of business subject to morbidity risks
- Expenses. The key mitigant is proactive expense management through the budget setting and monitoring processes together with the approval framework and authority guide.
- Expense inflation. As expenses. In addition, a proportion of the assets backing expense related sterling reserves are invested in inflation linked gilts.
- Persistency. Mitigants include: proactive monitoring of emerging experience; on-going persistency initiatives; product design and distributor relationship management. That said, persistency risk is by its nature largely outside management's control and therefore comes with a sizeable residual risk.
- Tax. Mitigants include: proactive tax management; the Tax Manual and associated systems and controls; and, an annual external validation from one of the big four consultancies.
- Mis-selling reserves. Proactive account and relationship management with Allianz Cornhill.

The reinsurance arrangements referred to above are with Swiss Re and Munich Re, with the reinsurance cover split roughly evenly between the two reinsurers. Both treaties commenced during the early 1990's in respect of particular blocks of business and were put in place to limit the Company's exposure to mortality and morbidity risk. Risk premium reinsurance cover is included under the in force treaties, along with a small amount of original terms cover.

Further information on assumptions, changes in assumptions and sensitivities in respect of insurance and investment contracts is given in note 31.

(3) Credit Risk

Credit risk is the risk of financial loss arising from the failure of another party to perform its financial obligations to the firm, including failing to perform them in a timely manner.

The Company will generally seek only to incur credit risk where:

- It is a necessary or normal consequence of the Company's business (e.g. credit risks to policyholders as a result of policy loans or to trade debtors);
- The risk incurred is considered to be preferable to other risks that would otherwise have been incurred (e.g. reinsurance replaces insurance risk with credit risk); or
- The risk incurred is considered to be warranted by some other benefit (e.g. an increased return on investments).

The Company's main credit risk exposures and the impact on the Company if they were to crystallise are as follows:

- Asset default on assets backing non-linked liabilities. The impact would be a straight hit to the Company's solvency position and its statement of comprehensive income;
- Asset default on assets backing final salary pension scheme. The impact would be a worsening in the scheme's solvency and funding position which would require the Company to increase contributions;
- Reinsurer default. If a default did occur the Company would need to hold gross rather than net reserves for the policies affected, and the previously reinsured mortality and morbidity profits or losses would be retained by the Company;
- The failure of the mis-selling indemnity provider to pay amounts due. The impact would be that the Company could no longer take credit for the expected recovery under the pecuniary loss insurance contract with Allianz Cornhill and this would adversely impact the Company's solvency;
- The failure of debtors to pay amounts due. The non-repayment of outstanding loans or the non-settlement of debtor balances would adversely affect solvency;
- The failure of shareholder investments. Any default in shareholder investments would flow straight through into an adverse impact on solvency and the statement of comprehensive income.

New credit risk exposures are identified as part of existing business as usual processes e.g. product and service developments, business planning, financial reporting and whenever key business decisions are made. Changes to existing credit risk exposures are identified as part of the on-going risk management process and whenever key business decisions are made.

Monthly reports on emerging credit experience go to the Executive committee as part of the monthly performance pack and the credit risk dashboard and, once a quarter, key information is reported to the Audit, Actuarial and Risk Committee and to the Board.
Credit risk is managed in the following ways:

- Asset default (non-linked liabilities). The Company has in place an investment management mandate with SAMI to mitigate any potential impact. The mandate has clear rules over the quality and type of asset that can be used to match non-linked liabilities as well as limits on maximum counterparty exposure. These are reviewed on a regular basis and the investment manager's performance against these guidelines is monitored regularly at Investment Committee meetings. No credit default swaps have been purchased.
- Asset default (pension scheme). Limits agreed with the Trustees over the maximum percentage of the assets that can be invested in corporate bonds, investing in corporate bonds via a collective scheme which improves diversification and ensures professional management.
- Reinsurers. Only dealing with good quality reinsurance companies (Swiss Re and Munich Re) with proactive account management. No use has yet been made of deposit backs.
- Indemnity provider. Dealing with a good quality counterparty, Allianz Cornhill, together with account management.
- Debtors. Restrictions over the maximum exposure to any one counterparty, a limit on total debtor exposure and credit control processes, restrictions on the amount policyholders can borrow from their policies.
- Shareholder investments. The Company has in place a detailed set of guidelines that it operates which includes items such as acceptable counterparties and diversification

criteria. The guidelines are reviewed on a regular basis and performance against them is monitored on a monthly basis.

The tables below analyse financial assets subject to credit risk using the composite rating or equivalent. The Company does not hold collateral and therefore the balance sheet carrying value represents the maximum credit risk exposure.

As at 31 December 2018

	Total	AAA	AA	A	BBB or lower	Other and not rated
	£'000	£'000	£'000	£'000	£'000	£'000
Government bonds	47,923	1,959	43,384	-	572	2,008
Corporate bonds	63,389	8,221	12,040	17,684	13,122	12,322
Cash and cash equivalents	118,173	-	-	101,358	1,862	14,953
Trade & other receivables	9,022	-	-	-	-	9,022
Total	238,507	10,180	55,424	119,042	15,556	38,305

Amounts classified as "not rated" in the above table are not rated by the composite or equivalent rating.

Investment funds are treated as equity type assets therefore are not included in the table above.

As at 31 December 2017

	Total	AAA	AA	A	BBB or lower	Other and not rated
	£'000	£'000	£'000	£'000	£'000	£'000
Government bonds	105,036	3,713	99,756	-	626	941
Corporate bonds	78,638	7,705	22,629	31,499	9,102	7,703
Cash and cash equivalents	110,686	-	-	96,882	3,710	10,094
Trade & other receivables	9,721	-	-	-	-	9,721
Total	304,081	11,417	122,385	128,381	13,438	28,459

Amounts classified as "not rated" in the above table are not rated by the composite or equivalent rating. The cash and cash equivalents rated as 'AAA' in 2017 have been reclassified to 'A' and 'BBB or lower' to update the quality of credit rating of the respective counterparties. This reclassification has no impact on the results nor net assets as previously reported.

Investment funds are treated as equity type assets therefore are not included in the table above.

Details of the policy for assessing expected losses are included in note 2 "Impairment of financial assets".

(i) Concentration Risk

Concentration risk is the exposure to increased losses associated with inadequately diversified portfolios of assets and/or liabilities. Concentration risk may arise with respect to investments in a geographical area, economic sector, or individual investments, or due to a concentration of business written within a geographical area, of a policy type, or of underlying risks covered.

The Company's business model, like that of most insurers, relies on the principle of diversification i.e. that not all risks will crystallise at the same moment and this works provided that the underlying sources of risk, i.e. risk drivers or triggers, are independent. Diversification with respect to insurance liabilities is typically achieved through writing a large portfolio of independent contracts, by writing insurance across a number of different lines, or by geographical spread. Asset diversification is typically achieved through spreading investments in order to avoid excessive concentration of assets or exposure to a single counterparty, geographical area or industrial sector.

The Company is not in the business of taking on concentration risk and it will therefore seek to mitigate or manage out any such concentrations that arise as a consequence of its normal business operations.

The Company's key concentration risk related exposures are as follows:

- Assets. Non-linked assets fund investments; shareholder fund investments; reinsurance; and, the mis-selling indemnity provider.
- Liabilities. Geographical area; demographics; insurance class; 'grouped' transactions; and, large cases.

Note that unit linked assets are excluded from the consideration of concentration risk as the policyholder bears the investment risk.

Given the above risk appetite towards concentration risk, the associated risk limits are as follows:

- Assets. Investments need to be well diversified by counterparty, geography and industrial sector such that the Company has limited exposure to concentration risk. Asset holdings should be aggregated across the whole Company and across all asset types when making this assessment (excluding unit linked assets). Holdings in UK gilts are excluded from this requirement.
- Liabilities. Liabilities need to be well diversified across geographical area, demographic grouping (e.g. by age, gender, smoker status, rated lives) and insurance class (e.g. mortality, longevity, morbidity). In addition, limits need to be applied to grouped transactions and to large cases so that the Company is not unduly exposed to the actions of any one individual or any group of policyholders.

New concentration risk exposures are identified as part of existing business as usual processes e.g. product and service developments, business planning and whenever key business decisions are made. Changes to existing concentration risk exposures are identified as part of the on-going risk management process and whenever key business decisions are made. The Investments Manager is the line manager responsible for identifying the various types of asset related concentration risk and on the liabilities side, it is the Actuarial Manager who is responsible.

Monthly reports go to the Executive committee as part of the monthly performance pack and the credit risk dashboard and, once a quarter, key information is reported to the Audit, Actuarial and Risk Committee and to the Board.

For each of the exposures, the key controls and mitigants that have been put in place to bring the exposure within the required risk limits are shown below:

- Assets. Mitigants include: detailed limits over aggregate exposure levels; detailed investment mandate for the non-linked assets fund, the management of which has been outsourced to SAMI.

- Liabilities. Mitigants include: underwriting process; reinsurance cover; maximum retained sum assured per life; diversified distribution; a portfolio of around fifty different in force products; only entering into material distribution relationships if the Company is able to exert a reasonable amount of control e.g. via an equity holding or via board membership.

The management of the assets side is mainly performed by the Investments Manager supported by SAMI and on the liability side, it is a combination of the Actuarial Manager and the Head of Sanlam Wealth Distribution.

(4) Financial Soundness risk

Financial soundness risk covers the risk of financial failure, reputational loss or loss of earnings and/or value arising from a lack of liquidity, funding or capital and/or the inappropriate recording, reporting or disclosure of financial, taxation and regulatory information.

(i) Financial and prudential regulatory reporting, tax and disclosure risks

The Company is exposed to the risk that policies and procedures are not sufficient to maintain adequate books and records to support statutory, regulatory and tax reporting and to prevent and detect financial reporting fraud.
The Company has developed procedures to ensure that compliance with both current and potential future requirements are understood and that policies are aligned to its risk appetite. The Company has established a system of internal controls, the objective of which is to provide reasonable assurance that transactions are recorded and undertaken in accordance with delegated authorities that permit the preparation and disclosure of financial statements, regulatory reporting and tax returns in accordance with IFRSs, statutory and regulatory requirements.

The Company undertakes a programme of work designed to support an annual assessment of the effectiveness of internal controls over financial reporting, to identify tax liabilities and to assess emerging legislation and regulation.

(ii) Liquidity Risk

Liquidity risk is the risk that the Company, though solvent, does not have sufficient financial resources available to enable it to meet its obligations as they fall due. Liquidity risk arises if there are circumstances when the Company has insufficient liquid or readily realisable assets to meet its commitments and is forced to rely upon the sale of assets that cannot be realised at short notice at a reasonable cost.

The Company is not in the business of taking on liquidity risk for the purposes of commercial gain. However, it does gain some exposure as a consequence of its normal business operations. Given the adverse reputational and financial costs associated with the crystallisation of liquidity risk, the Company has no appetite for liquidity risk. That is, the Company should have adequate liquidity at all times.

The Company's key liquidity risk related exposures are as follows:

- Expenses. There is an on-going requirement to pay operating expenses using liquid cash balances. If there were insufficient available liquid funds then there would be adverse impacts on a number of different stakeholders with the potential for serious reputational consequences for the Company.
- Policy benefits. There is an on-going requirement for the Company to meet policy benefits as they fall due for payment. Such benefits include: regular payments to in force annuitants and current pensioners in the final salary pension scheme; death benefits; surrender/transfer/withdrawal benefits. As with expenses, there would be serious reputational consequences if the Company was unable to meet the payments as they fell due.
- Forced asset sales. Some of the Company's investment mandates require that assets should be sold if their quality level reduces below a certain level. There is a risk that a sale in stressed circumstances could produce very low sale proceeds which would result in a hit to available capital resources.
- Dividends. When payable to Sanlam UK, dividends would normally be funded out of liquid cash balances. If insufficient liquid funds were available, this may cause Sanlam UK funding problems.
- Settlement periods. Where policyholders switch out of trustlink funds which have T+4 settlement periods into trustlink funds with T+1 settlement periods, the Company effectively provides short term funding to the policyholder. If insufficient liquid funds were available, this could cause reputational issues.

It should be noted that the Company is not exposed to the risk of ratings downgrade triggers, i.e. the need to refinance debt in stressed conditions, because all of its capital resources are funded by share capital and retained earnings.

New liquidity risk exposures are identified as part of existing business as usual processes e.g. product and service developments, business planning and also whenever key business decisions are made. Changes to existing liquidity risk exposures are identified as part of the on-going risk management process and whenever key business decisions are made. The Financial Controller is the line manager responsible for identifying the various types of liquidity risks apart from those in respect of policy benefits where the Actuarial Manager is responsible. The main process used in the on-going identification of liquidity risk is cash flow monitoring and forecasting which is performed on a regular basis by the Finance Department. Monthly reports go to the Executive committee as part of the monthly performance pack and the credit risk dashboard and, once a quarter, key information is reported to the Audit, Actuarial and Risk Committee and to the Board.

The following tables indicate the timing of the contractual cash flows arising from the Company's financial liabilities, as required by IFRS 7. The timing of the cash flows is based on the earliest possible contractual date. For investment contract liabilities, as policyholders can usually choose to surrender at any time, investment contract liabilities have been classified as due within one year. The maturity date due within one year includes liabilities that are repayable on demand.

As at 31 December 2018:

Liabilities

	Due within one year	Due after more than 5 years	Total
	£'000	£'000	£'000
Investment contract liabilities	2,352,442	-	2,352,442
Borrowings	-	6,246	6,246
Trade & other payables	14,986	-	14,986
Total	2,367,428	6,246	2,373,674

As at 31 December 2017:

Liabilities

	Due within one year	Due after more than 5 years	Total
	£'000	£'000	£'000
Investment contract liabilities	2,464,050	-	2,464,050
Borrowings	-	9,406	9,406
Trade & other payables	16,553	-	16,553
Total	2,480,603	9,406	2,490,009

The following tables provide an analysis of the contractual cash flows in respect of insurance and investment contract liabilities by expected contract maturity:

As at 31 December 2018:

Maturity analysis for insurance and investment contracts

	Due within one year	Due within 2 to 5 years	Due after more than 5 years	Total
	£'000	£'000	£'000	£'000
Insurance contract liabilities	897	2,551	226,868	230,316
Investment contract liabilities	69,384	406,395	1,876,663	2,352,442

As at 31 December 2017:

Maturity analysis for insurance and investment contracts

	Due within one year	Due within 2 to 5 years	Due after more than 5 years	Total
	£'000	£'000	£'000	£'000
Insurance contract liabilities	1,094	2,702	253,654	257,450
Investment contract liabilities	66,702	368,486	2,028,862	2,464,050

(iii) Capital Management

Capital management is the process of ensuring that a firm has sufficient capital resources in place to meet regulatory and working capital resource requirements and to fund business growth opportunities, whilst at the same time ensuring that capital is efficiently sourced and invested so as to help ensure that the firm achieves its return on capital targets.

As an independent business unit within the Sanlam UK group, the Company is responsible for the management and optimisation of the capital allocated to it.

The Company is regulated by the PRA. The Company is now calculating its solvency position in accordance with the Solvency II regime, which became effective from 1 January 2016.
For Solvency II purposes the capital is managed as follows:

- Pillar 1. Capital requirements are assessed using Solvency II's Standard Formula and capital resources assessed using a realistic balance sheet as adjusted for detailed Solvency II requirements e.g. technical provisions, the risk margin and own funds.
- Pillar 2. As Pillar 1 adjusted where appropriate for areas where the Company's risk and capital profile differs from the standard Solvency II specifications i.e. as per the ORSA process

The minimum required capital must be maintained at all times throughout the year. These capital requirements and the capital available to meet them are regularly estimated in order to ensure that capital maintenance requirements are being met.

The Company is well-capitalised and holds reserves in excess of those required by its risk profile and the regulatory and market requirements of its business.

The solvency position is sensitive to changes in market conditions, due to both changes in the value of assets and the effect that changes in investment conditions may have on the value of liabilities. It is also sensitive to assumptions and experience relating to mortality and morbidity, expenses and persistency.

The Company does not have any material policy options or material policy maturity guarantees, nor does the Company have any policies with guaranteed annuity rates.

The table below sets out the regulatory capital and the required capital held on a Pillar 1 Solvency II basis. The information is based upon the Solvency II annual quantitative reporting template (QRT) reported position. It should be noted that this reported position for 2018 is not audited.

	2018 £'000 (unaudited)	2017 £'000
Solvency Capital Resources (or Own Funds)	59,843	69,541
Solvency Capital Requirement (SCR)	42,193	49,009
Regulatory capital surplus	**17,650**	**20,532**

The margin of regulatory capital held over the capital resources requirements remains satisfactory under the new Solvency II regime.

Operational Risk

Operational risk is the risk of unexpected financial loss arising from either failed or inadequate processes, people or systems or from external factors.

Operational risks arise due to events occurring that the business was not prepared for or because an area of vulnerability was not managed effectively. Many losses occur due to simple failures in processes. An event is an incident or occurrence emanating from internal or external sources that could affect implementation of strategy and/or achievement of business objectives.

Internal events relate to:

- People e.g. an increase in ex-gratia payments, increased human error or increased propensity for fraudulent behaviour.
- Processes e.g. product or sales quality deficiencies, unexpected downtime or service delays.
- Systems e.g. systems failure resulting in prolonged downtime or processing backlogs, data loss or failure to maintain data integrity.

Potential external events may be categorised as follows:

- Political e.g. international conflict, changes in government and government policy/legislation.
- Economic e.g. new competitors or a sustained downturn in markets.
- Social e.g. changing demographics such as ageing populations.
- Technological e.g. Cyber crime, developments such as wrap platforms and smart phones.

- Legal e.g. changes in law such as the introduction of new EU Directives like Solvency II.
- Environment e.g. disasters and changes in people's attitudes.

New operational risk exposures are identified as part of existing business as usual processes and whenever key business decisions are made. Changes to existing operational risk exposures are identified as part of the on-going risk management process and whenever key business decisions are made. Line managers are responsible for identifying operational risks that relate to their area of responsibility.

New or changed exposures are assessed by the relevant line manager by combining estimates of consequences (impact) and likelihood of occurrence in the context of existing control measures. For risks that have consequences in more than one business area consideration is given to the total impact to the business as well as the local impact.
The level of risk found during the assessment process is compared with the overall risk appetite, tolerance, strategy and limits of the Company, or any other established criteria approved by the Board or Executive Committee.

If a newly identified risk is assessed as being material, there should be an immediate escalation of the risk to the appropriate level of oversight as per the Company's Risk Escalation matrix.

Legal and Regulatory Risk

Legal and regulatory risk is the risk of reductions in earnings and/or value, through financial or reputational loss, from failing to comply with the applicable laws, regulations or codes.

The volume of actual and expected regulatory change remains high and work is ongoing to review, assess and embed new regulatory requirements into day-to-day operational and business practices across the Company.

Regulators are interested in protecting the rights of the policyholders and ensuring that the Company is satisfactorily managing affairs for the benefit of the policyholders. Regulators are also keen to ensure that the Company maintains appropriate solvency levels to meet unforeseen liabilities arising from reasonably foreseeable economic shocks or natural disasters. As such, the Company is subject to regulatory requirements which prescribe and impose certain restrictive provisions.

The Company monitors and manages all legal and regulatory risks closely and has regular interaction with the regulators.

Conduct Risk & Fair Treatment of Customers

Conduct risk is the risk that the behaviour, acts or omissions of the Company and its employees results in:

- the unfair treatment of customers and/or delivery of poor customer outcomes;
- damage to the integrity of the UK financial system; or
- undermining fair market competition.

The Company is committed to sound risk management practices and regards an active awareness and the mitigation of conduct risk exposures to be a business imperative. That is, the Company will avoid taking on activities that could give rise to the unfair treatment of customers and/or the delivery of poor customer outcomes and thereby potentially incur financial loss and/or material disadvantage to customers.

The Company considers the delivery of good customer outcomes as the foundation of its strategy, behaviour and culture; and is committed to treating its customers fairly. As a consequence, the Company will ensure that:

- The products and services that we produce and market are designed to meet the needs of our intended customers and will be targeted accordingly;
- Our customers and intermediaries are provided with clear information about our products and are able to make informed judgements before, during and after the point of sale;
- Our products perform as they are intended to perform, and the associated service we provide is of a superior standard consistent with our customers' and intermediaries' expectations;
- The way that our products are used is monitored by way of exception, and is consistent with our expectations of the typical behaviour and needs of the target market reflecting the distribution channels used. In particular we recognise that many of our clients rely on a third party for investment advice and we will be cognisant of the expertise of that third party;
- We will not impose unreasonable or unfair post-sale barriers to prevent customers from changing their product, switching provider, submitting a claim or making a complaint.

33. Related party transactions

The Company has related party transactions with other entities in the Sanlam group in the normal course of business. These transactions are all made on normal commercial terms.

The following table provides the total amount of transactions and balances that have been entered into with related parties for the relevant financial year.

	2018 £'000	2017 £'000
Income during the period:		
Sanlam Private Investments Ltd	18	-
Sanlam Financial Services Ltd	2,012	1,747
Sanlam Financial Investments Ltd	41	45
English Mutual Ltd	532	473
Sanlam Wealth Planning Ltd	566	232
Nucleus Financial Services Ltd	430	369
Expenses during the period:		
Sanlam UK Ltd	(1,203)	(542)
Sanlam Asset Management (Ireland) Ltd	(9,150)	(8,658)
Sanlam Private Investments Ltd	-	(183)
Sanlam Wealth Planning Ltd	(2,838)	-
English Mutual Ltd	(37)	-
Payable at the period end to:		
Sanlam UK Ltd	(350)	(141)
Sanlam Asset Management (Ireland) Ltd	(2,071)	(2,337)
Sanlam Private Investments Ltd	(135)	(153)
Sanlam Wealth Planning Ltd	(301)	-
Sanlam Financial Services Ltd	(4)	(340)
Receivable at the period end from:		
Sanlam Investments UK Ltd	43	2
English Mutual Ltd	1,759	1,228
Sanlam Wealth Planning Ltd	1,242	676
Nucleus Financial Services Ltd	72	64

The Company was charged LTIP charges of £100k (2017 - £nil) by Sanlam UK during the year. Details of the scheme are included within the financial statements of Sanlam UK Limited.

Punter Southall Limited is a related party due to J A A Samuels being a director of both Companies. Punter Southall Limited receives fees for pension scheme advice, for their annual pension valuation report and for monitoring the investment performance of the SIP managed fund.

Punter Southall Limited	**2018 £'000**	**2017 £'000**
Payables to related parties		
Pension scheme advice and annual valuation costs	29	41

34. Compensation of key management personnel

Key management personnel of Sanlam Life & Pension UK Limited include all directors and executive committee members. The summary of compensation of key management personnel for the year is as follows:

	2018 £'000	2017 £'000
Salaries	609	397
Bonuses	87	118
Other employment benefits	4	6
Total compensation of key management personnel	700	521

35. Parent undertaking

The ultimate parent undertaking, Sanlam Limited, is incorporated in South Africa and is the parent of the largest group of undertakings for which group financial statements are drawn up and of which the Company is a member.

Copies of its group financial statements are available on request from Sanlam Limited, 2 Strand Road, Bellville, South Africa (PO Box 1, Sanlamhof, 7532, South Africa). They are also available online at www.sanlam.co.za.

The immediate parent undertaking is Sanlam UK Limited.

36. Future accounting developments

The following new or revised IFRSs and interpretations have effective dates applicable to future financial years and have not been early adopted:

- IFRS 16 - *Leases* (effective 1 January 2019) The impact of the application of this revised standard and interpretations in future financial reporting periods on the Company's reported results, financial position and cash flow is expected to be zero since the only lease held within the Company is in respect of its office premises. This lease is due to expire in June 2020 so it will continue to be treated as an operating lease.

- IFRS 17 - *Insurance contracts* (effective 1 January 2021) On 18 May 2017, the IASB published IFRS 17 - Insurance Contracts. The Standard will replace the current guidance in IFRS 4 - Insurance Contracts, and is applicable from 1 January 2021. Earlier application is permitted, subject to endorsement by the EU and provided that IFRS 9 - Financial Instruments is applied at the same time. IFRS 17 will significantly change the accounting for insurance contracts as currently applied. IFRS 17 introduces a current fulfilment measurement approach as the general model for all insurance and reinsurance contracts. Insurance obligations will be the sum of current fulfilment cash flows and the unearned profit for a contract or group of contracts. Current fulfilment cash flows comprise the discounted expected future cash in- and outflows in the boundary of a contract or group of contracts, including a risk adjustment. The unearned profit is called Contractual Service Margin (CSM). Contracts that are onerous on initial recognition require an immediate loss recognition. Insurance contracts will be re-measured based on current market information at each reporting date. Under IFRS 17, the performance of the Company will mainly be depicted through the insurance service result (the profit earned from providing insurance coverage) and the financial result (investment income from managing insurance assets and insurance finance expense from discounting insurance obligations). Gross written premiums will no longer be presented on the face of the income statement. Presentation of balance sheet and income statement will change under IFRS 17 compared to current practice. The new Standard also requires additional disclosures and reconciliations to enable users of the Financial Statements to understand the amounts recognised on the balance sheet and in total comprehensive income as well as the risks embedded in insurance contracts that the Company issues. IFRS 17 is expected to require significant changes in systems and processes at potentially substantial cost. The Company has commenced work on a project to assess the requirements of IFRS and set up reporting systems to provide the required information.