

CANADA LIFE LIMITED

**REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**



Registered Number: 00973271

CANADA LIFE LIMITED

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CANADA LIFE LIMITED

Directors and advisers

Directors

K Abercromby
D Brown
M Campbell
S Cronin
P Mahon
S McArthur
M McIntyre
D Netherton
S Vanaselja

Company secretary

L Rodriguez

Registered office

Canada Life Place
Potters Bar
Hertfordshire
EN6 5BA

Independent auditor

Deloitte LLP
1 New Street Square
London
United Kingdom
EC4A 3HQ

CANADA LIFE LIMITED

Strategic report for the year ended 31 December 2019

Canada Life Limited ("the Company") is a wholly-owned subsidiary of The Canada Life Group (U.K.) Limited ("CLG") incorporated in England. The Company is ultimately wholly owned by Great-West Lifeco Inc.

The Company's strategy is to be a leader in our chosen markets - payout annuities, group insurance and wealth management.

Business Review, Financial Performance and Key Performance Indicators

New business from pensions (mainly annuities) has decreased by 48% to £953m (2018: £1,835m). During 2019, the sale of bulk annuities, where the Company takes on the liability of a number of pensions in payment of a defined benefit pension scheme, has decreased to £437m (2018: £1,333m) while sales of individual annuities have increased over the prior year.

New unit-linked life premiums have decreased by 19% to £142m (2018: £175m) and Group insurance gross written premium has increased by 4% to £540m (2018: £519m).

Claims experience has been slightly less favourable than in the prior year for the annuity business, partially offset by more favourable experience on group business. The impact of updating assumptions in the calculation of technical provisions has had a smaller positive impact compared to the prior year.

Investment return was significantly higher than in the prior year, primarily driven by gilt yields decreasing during the year, resulting in unrealised gains across the bond portfolios. UK commercial property values have weakened, led by the retail sector with a number of closures, partially offset by office and distribution warehouse properties where values have remained stable.

Profit for the year is £406.7m (2018: £172.6m). Dividends received from subsidiary undertakings in 2019 are £204.6m (2018: £43.6m).

Total assets and total liabilities have decreased by 4.3% to £29.3bn (2018: £30.6bn) primarily due to the Part VII transfer of policies to Scottish Friendly (as described below) and the expected run off of business partially offset by unrealised gains in our invested asset portfolio and new money coming in from bulk annuity deals.

On 21 June 2018, the Company announced an agreement to sell a heritage block of individual policies to Scottish Friendly of £2.4bn, comprising unit-linked policies of £1.9bn and non-unit-linked policies of £0.5bn. On 1 November 2019, the scheme effective date, the Company completed the sale under Part VII of the Financial Services and Markets Act 2000.

On the same date, the Company also entered into a Unit-Linked Reinsurance Agreement with Scottish Friendly related to specific property investments previously invested on behalf of transferred policyholders. Under this agreement, the Company retains legal ownership of the £218m of underlying assets that back these liabilities but is now also required to recognise a liability to Scottish Friendly equal to the value of the assets.

CANADA LIFE LIMITED

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

Outlook

On 31 January 2020 the UK formally exited the European Union ("Brexit") entering into a transition period expected to last through 2020. The exact implications continue to remain uncertain until formal negotiations are concluded between the UK and the European Union. Given the majority of the Company's business is conducted domestically, the overall impact from Brexit, aside from any economic implications, is considered to be low. However, the Company continues to work closely with its customers, business partners and regulators over the transition period.

The uncertainty created by Brexit has the potential to result in adverse economic conditions such as interest rate volatility and impact the Company's investments such as credit rating downgrades, as well as create operational challenges. Reflecting the range of outcomes, we have undertaken analysis to ensure our capital position remains resilient under a number of scenarios, as described in Note 30.

Following the guidance issued by the European Insurance and Occupational Pensions Authority ("EIOPA"), a small number of Canada Life Limited policyholders who were resident in Ireland and Germany when their policies were sold will need to be transferred to an EU registered affiliate.

The ongoing coronavirus pandemic (COVID-19) is an emerging risk to which the Company is exposed. The Company is monitoring the situation closely, including carrying out stress and scenario testing, which includes both pandemic and economic shock scenarios, and has made preparations to ensure that it will continue to operate effectively while ensuring the safety and well-being of customers, employees and wider communities. Continuity plans are in operation with employees working remotely to maintain service levels to customers. Further details are disclosed in Note 33.

Company employees, respect for human rights and social matters

The employees of Canada Life Limited were transferred to a fellow group company in 2005. The costs of staff are charged to Canada Life Limited, as well as other group companies, as appropriate. This section of the strategic report takes into account group employees as a whole that are based in the UK.

Employees are core to the success of the Company's business and it aims to:

- Attract, retain and reward qualified and experienced staff who will contribute to its success;
- Motivate its staff to meet the annual corporate and individual performance goals; and
- Enhance long-term shareholder and policyholder value.

The Company has a Code of Conduct that all members of staff are required to attest to each year. The code sets out the core values that guide the decisions and actions of employees.

The Company's Remuneration Policy sets out the underlying principles and the key requirements to ensure that remuneration principles are applied consistently and fairly across the business. Our goal is to reward staff fairly, based on the responsibilities and performance of each employee, their team or the Company. We train and develop our employees to perform their roles to a high standard and to encourage them to reach their potential.

CANADA LIFE LIMITED

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

Company employees, respect for human rights and social matters (continued)

Internal and external training is offered to employees on skills related to their current and possible future roles including technical as well as soft skills training on topics such as leadership development. The trainee scheme offers financial subsidies and study leave to support relevant professional qualifications, for example actuarial and accountancy bodies.

The Company has developed a Well-Being at Work Policy to support the well-being of its employees and is committed to creating a workplace where every member of staff can perform to the best of their ability, by promoting their health and well-being. Regular stress risk assessments are carried out and reviewed which involves identifying stressors in the workplace. Employees are encouraged to live healthy and active lifestyles and initiatives or facilities are offered, where feasible, to enable participation in fitness programs. Employee events and social interaction is fostered through the Company's Sports and Social Club.

The Employee Assistance Programme, which is free for employees to use, offers employees with a confidential telephone and face-to-face counselling service, as well as support with everyday matters via an independent professional provider.

The Staff Forum provides a framework for regular and effective consultation between management and staff, where issues of mutual interest and concerns can be freely discussed. The Company has an established consultative forum made up of a body of employee nominated individuals who consult with management on behalf of staff on a wide number of issues. Alongside the relationship with line management, the consultative forum provides an additional channel for information, feedback and suggestions. Opinion and feedback is gathered and fed back to management to consider and implement changes to improve the way we work together.

The Company is an equal opportunities employer. The Equal Opportunities and Diversity at Work Policy and Anti-Discrimination Policy sets out the Company's aims to ensure that all individuals are treated equally and fairly and decisions on recruitment, selection, training, promotion and every other aspect of employment are based solely on objective and job-related criteria.

It is the Company's policy to treat all employees and job applicants fairly and equally regardless of their sex, sexual orientation, gender reassignment, marital status, race, colour, nationality, ethnic or national origin, religion or belief, age or disability.

We believe that enhancing diversity and inclusiveness will make the Company stronger and deliver superior results. We have made progress towards gender equality and inclusivity and are committed to driving initiatives across all aspects of diversity and inclusion.

This includes:

- How we attract the best candidates from all backgrounds for roles at all levels of our organisation.
- How we develop and engage with our talent to ensure everyone has every opportunity to fulfil their potential.
- How we create a flexible working culture which supports a diverse workforce.
- How we engage with and retain the people we need to drive future success.

The Company promptly and thoroughly investigates any reports of unlawful discrimination. Where the Company determines that unlawful discrimination has occurred, it will take appropriate disciplinary action against those responsible.

The Company's Harassment and Bullying at Work Policy states its commitment to providing a working environment for its entire staff that is comfortable and free from all forms of bullying and harassment.

CANADA LIFE LIMITED

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

Company employees, respect for human rights and social matters (continued)

The Company encourages employees to immediately report any such issues confidentially and, if preferred, anonymously. The Company is committed to the implementation of these policies and to a programme of action to ensure that they are fully effective.

Following the introduction of the Modern Slavery Act 2015, the Company first published its Modern Slavery Act Statement in 2016. The statement sets out the steps that have been taken to ensure the detection and prevention of modern slavery across the Company's operations and supply chain.

The Company's internal policies and procedures are supported by our parent company's Code of Conduct: The Great-West Life Code of Conduct 'Building Trust by Doing What's Right'. The Code of Conduct requires all employees to act ethically and in accordance with our core values. Every year all employees are required to complete a mandatory training module on the Code and to acknowledge that they are in compliance with the Code.

The Company takes its social responsibilities seriously and supports and contributes to worthy causes locally and nationally. To support this, the Company has developed a Policy that governs the way that we help charities and has an established Charity Committee. The Committee meets regularly throughout the year to review charitable requests received from both internal and external sources and to make decisions about which charities to support.

During 2019, Canada Life in the UK supported three charities that were nominated by its employees. Voluntary monthly salary donations by members of staff are matched by Canada Life. Charitable donations are made through its service company.

In addition to supporting the nominated charities, the Company made a number of donations to registered charities where employees participated in charity challenge events over the course of the year. Charity days were also conducted throughout the year to raise money for a variety of other charities.

Anti-Corruption and Anti-bribery matters

The Company is committed to integrity and ethical behaviour in all its activities. High standards of conduct are important in maintaining the trust and confidence of our customers, shareholders, people with whom we do business and the communities in which we live and work. We are committed to maintaining the highest standards of ethics and do not tolerate any form of Financial Crime.

The Company has a Financial Crime Operating Policy which sets out the key requirements to ensure that areas where there is high risk of financial crime are identified and effective internal controls and processes are in place to prevent these.

The Company has a number of standards in place to support the Financial Crime Operating Policy, these include:

- Anti-corruption and Anti-bribery standard – This standard sets out the Company's approach against making or accepting bribes inducements, kick-backs, facilitation payments or other improper payments and provides guidance of what activity constitutes bribery and corruption.
- Raising a Concern Policy – This Policy outlines the Company's approach to support employees in being able to raise concerns in a safe and constructive way.

To ensure that all members of staff are aware of the Policies a number of mandatory training exercises are carried out each year. Members of staff pass a test at the end of each training session to demonstrate an appropriate level of understanding of the requirements.

CANADA LIFE LIMITED

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

Environmental matters

Sustainability risk is the risk of loss arising from the inability to maintain business operations and sustain the Company's growth due to negative externalities such as environmental degradation, social risk issues and climate change. The Company may experience direct or indirect financial, operational or reputational impact stemming from these externalities.

The Company's business and financial condition may be adversely impacted if the Company does not adequately prepare for or manage both physical and transition risks related to climate change. Climate-related risks may also adversely affect invested assets, tenants, customers, reinsurance counterparties and suppliers, which in turn may negatively impact the Company's operations and financial condition.

Physical risks are associated with direct and indirect damage from weather-related events or environmental disasters. Climate-related events may negatively impact the Company's insurance liabilities, the value of the Company's corporate and investment properties and their ability to generate income, and business continuity. The Company may experience direct or indirect financial, operational or reputational impact stemming from environmental risk events. For example, liability under environmental protection laws resulting from the Company's commercial mortgage loan portfolio and real estate investments may harm the Company's financial strength and reduce its profitability.

Contamination of a property may give rise to a lien on the property to secure recovery of the costs of clean-up. Events such as these could harm the Company's financial strength and decrease its profitability.

Physical risks can also manifest by causing shifts in mortality and morbidity rates over the short and long terms. The Company's results of operations and financial performance may be adversely affected if mortality and morbidity rates deviate from management's assumptions.

Transition risks refer to reputational, market, regulatory, policy, legal and technology-related risks that arise from the shift toward a lower-carbon economy. The Company's exposure to transition risk consists primarily of exposure to credit risks arising from its investment portfolio, as industries adjust to legal and policy changes, changing business models and consumer behaviour. Through debt investments or supplier relationships, the Company may also become subject to the negative impacts of transition risks on third parties. The Company's financial condition may be negatively impacted by costs associated with changes in environmental laws and regulations and regulatory enforcement. Further, the Company's reputation, financial performance and ability to generate business may suffer if the Company fails to meet stakeholder expectations on environmental risk mitigation practices and carbon reporting.

The Company's operations have a relatively limited impact on the environment. The main areas of potential impact are in respect of its investment portfolio and the premises from where it operates.

The Company has a strong belief that minimising its environmental footprint is the right thing to do for the well-being of its stakeholders and its communities and has a long standing commitment to do so. It is committed to responsible environmental risk management in making investment decisions and in managing its investment portfolio. Guidelines to support this commitment are set out in the Investment Policy.

CANADA LIFE LIMITED

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

The primary objective of the environmental policy is to minimise the exposure of its investments to risks associated with or arising from environmental issues.

In addition, the Company looks for opportunities to reduce and improve its environmental impact in a number of areas. The head office has been refurbished with changes being made to improve energy efficiency and looks to reduce waste by providing centralised recycling and waste areas so the majority of physical waste is recycled. A Cycle to Work scheme and a free of charge bus service is offered to employees to encourage the use of greener modes of transport.

Our parent Great-West Lifeco Inc conducted an environmental audit under a global sustainability reporting programme, Carbon Disclosure Project (CDP). The CDP is a global disclosure system that enables companies, cities, states and regions to measure and manage their environmental impacts. As part of the CDP's climate change programme, companies can earn a position on the "A List" by disclosing high-quality data related to their carbon emissions and the management of climate change related risks and opportunities.

The programme is designed to increase energy efficiency and reduce the environmental impact of our operations. During the year, our parent earned an A- rating from the project. This achievement reflects our commitment to sustainability across our operations around the world including Canada Life Limited.

Principal risks, uncertainties and financial risk management objectives

As a life insurance company, our business is to take on and manage life insurance and its associated risks effectively, in line with our business strategy. We manage these risks in accordance with the Company's risk appetite.

The ongoing coronavirus pandemic (COVID-19) is an emerging situation that increases the exposure to some of the risks already identified in this section but particularly operational, mortality and credit risk.

Management have taken action to mitigate the operational risks and enable the Company to continue to conduct its business activities effectively while ensuring the safety and well-being of customers, employees and wider communities. Continuity plans are in operation with employees working remotely to ensure service levels to customers are maintained.

The Company's strong capital position, combined with a high quality and well diversified investment portfolio, means that it is able to withstand the financial impacts of credit deterioration in credit markets. Stress and scenario testing shows we can withstand a range of events including pandemics, economic downturns and property market events. Management is also monitoring developments for any further deterioration. Further details are disclosed in Note 30.

The Company is exposed to financial risk through its assets, liabilities, reinsurance assets and policyholder liabilities. In particular, the key financial risk is that the proceeds from assets are not sufficient to fund the obligations arising from policies as they fall due. The most important components of this financial risk are market risk (primarily interest rate risk and property risk), credit risk and insurance risk.

The Company manages many of these risks through its asset liability management (ALM) approach that has been developed to ensure that the assets are sufficient to meet the liabilities arising from insurance contracts under a wide range of financial conditions. A separate portfolio of assets is maintained for each distinct category of liabilities.

The Company does not use hedge accounting for UK statutory reporting purposes.

The significant risks of the business are outlined below.

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

Interest rate risk

Interest rate risk is the potential loss or volatility of earnings or capital arising from the effect of the volatility and uncertainty of future interest rates on asset cash flows relative to liability cash flows and on surplus assets. This also includes changes in the amount and timing of cash flows related to asset and liability optionality including interest rate guarantees and book value surrender benefits. Furthermore, by considering the impact on liabilities as well as assets, this covers the impact of any ALM mismatching.

The Company manages interest rate risk by matching closely the cash flows of the investment portfolio and the policyholder liabilities. Assets of the appropriate quality and duration are managed to maintain this matched position which is regularly monitored and reported to management. The Company also holds capital to protect its financial position from adverse interest rate movements.

Property risk

Property risk is considered as part of the wider category of Equity Risk, as such this is defined as:

This is the potential loss or volatility of earnings or capital arising from an adverse change in of the values of assets, liabilities, financial instruments and fee revenue to changes in the level or the volatility of market prices of common shares or residential and commercial property, when those shares are considered to be held for the purposes of backing specified liabilities.

Property risk arises from the Company's investment in properties, commercial mortgages, equity release mortgages and finance leases that back the annuity portfolio. The key areas where this risk could result in a loss are as follows:

- default or void periods on property tenancy agreements and mortgage repayments resulting in the reduction of the income stream; and
- adverse movements in property values.

The Company manages this risk by holding additional capital to protect itself from a significant fall in property values, close monitoring of its property exposures and careful selection of properties and limiting exposure to properties in aggregate and by geography, industry and type of property. Exposures are regularly monitored, reported and managed to ensure compliance with the Company's investment policy.

Credit risk

Credit risk is the risk of potential loss or volatility of earnings or capital arising from the inability or unwillingness of a counterparty to meet its on-balance sheet and off-balance sheet contractual obligations. Financial losses are attributed to:

- the default of that security in its financing obligations;
- the downgrade of a security's creditworthiness; and
- a change in the yield premium required by the market in respect of credit risk on risky assets.

Key areas where the Company is exposed to credit risk are:

- exposure to corporate bonds and privately placed bonds (as well as finance leases and other financing arrangements);
- exposure to mortgages;
- exposure to financial derivatives; and
- exposure to the reinsurers' share of insurance liabilities.

CANADA LIFE LIMITED

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

The Company's investment policy sets limits on the Company's exposure (which are linked to credit rating) to a single counterparty and geographical and industry segments. These exposures are monitored and reported regularly to senior management in order to ensure compliance with the Company's exposure limits. Regular reviews of counterparties are performed in order to identify the most appropriate opportunities for managing the Company's credit exposures more efficiently.

Reinsurance is used to manage insurance risk. The Company cedes insurance risk to reinsurance counterparties in order to mitigate insurance risk. Reinsurance counterparty risk represents the potential loss or volatility of earnings or capital arising from a reinsurance counterparty failing to maintain its contractual obligations in relation to payments under the reinsurance contract. The creditworthiness of reinsurers is considered when treaties are entered into and monitored on an ongoing basis.

Currency risk

Currency risk is the potential loss or volatility of earnings or capital arising from adverse changes in the value of assets, liabilities and financial instruments to changes in the level or in the volatility of currency exchange rates.

Currency risk arises principally from the Company's investment in Irish Life, a Company that conducts the majority of its operations in Euros. A devaluation of the Euro against Sterling that is considered to be permanent could trigger an impairment of the carrying value of this investment.

The Company has entered into a currency hedge in place for commercial reasons and in February 2019, extended the term of the hedge; this will mitigate the impact of adverse currency fluctuations. Movements in the market value of these contracts are taken through the income statement in the period they arise.

Insurance risk

Insurance risk is the risk of loss due to the inherent uncertainties as to the occurrence, amounts and timing of insurance liabilities. Key areas where the Company is exposed to insurance risk are:

- mortality/longevity risk – The potential loss or volatility of earnings or capital arising from an adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of mortality rates. For mortality risk, an increase in the mortality rate leads to an increase in the value of insurance liabilities.
- morbidity risk – The potential loss or volatility of earnings or capital arising from an adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of disability, health, critical illness and other sickness rates, where an increase in the incidence rate or a decrease in the disability recovery rate leads to an increase in the value of insurance liabilities.
- catastrophe risk – The potential loss or volatility of earnings or capital arising from adverse change in the value of insurance liabilities, resulting from the significant uncertainty of pricing and provisioning assumptions related to extreme or irregular mortality or morbidity events.

The details on other risks such as market risk, operational risk and conduct risk are discussed in note 30.

The Company manages its insurance risks by including a margin in its pricing and reserving bases, holding additional capital for insurance risks and where appropriate, entering into reinsurance arrangements to reduce the risks to an appropriate level.

CANADA LIFE LIMITED

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

Section 172(1) Statement

The directors of the Company must act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard to (amongst other matters) those laid out in Section 172 of the Companies Act 2006.

The Board is collectively responsible for the long-term success of the Company and its subsidiaries. It sets Company values and culture and ensures that obligations to its shareholder, customers and other stakeholders are understood and met.

The Company's workforce is employed by a service company within the Group. The Company has a general Staff Forum which meets quarterly. The aim of the forum is to represent the views of the workforce, communicate with management, provide feedback to the workforce and consult with them on key issues. The Company also conducts a workforce engagement survey every year. The responses to this survey are presented to the Board which provides an important level of feedback. This helps to identify aspects of the business which the Company may need to improve on as well as those which it is implementing successfully.

Engagement is sought from the workforce through an Employee Consultation Forum (ECF). The purpose of the ECF is to give the Company's workforce (through their elected representatives) the opportunity to work collectively and collaboratively with management to understand, support and influence proposals which may impact the workforce and the wider business.

The Company's customers are at the core of its business and at the forefront of its strategy and service. The Company is committed to dealing with customers honestly and fairly. This is embedded in the culture, values and Code of Business Conduct. Our vision is to help build better futures and be a world class financial services provider. Putting customers at the heart of everything we do and working in line with our values of people, excellence, integrity and together.

The Company recognises that it has a varied customer base and different customers will inevitably have different and specific needs. A great deal of time and effort is taken to fully understand all our different customers, by reaching out through surveys and conducting market research, so that we can deliver an excellent level of service.

As part of the Part VII transfer to Scottish Friendly, all customers were contacted ahead of time with full details regarding the ongoing management of their policies. The priority was always to ensure customers received the highest standards of care both during the transition period and beyond.

The Company understands the importance of strong supervision and fosters open and transparent relationships with both its UK and overseas regulators. Proactive engagement ensures we stay ahead of any new regulations and can react and implement changes efficiently and effectively.

The Company makes every effort to ensure it works with suppliers in line with their Code of Conduct and the supply chain is assessed with regard to the Modern Slavery Act 2015. Outsourcing arrangements and professional service contracts are governed by an Outsourcing and Supplier Risk Operating Policy and Standard. As with customers, suppliers are treated fairly with regular communication and timely financial payments. Vital suppliers are assigned a relationship manager to maintain open dialogue and implement regular monitoring and assessment to ensure the continued effectiveness of the arrangement.

CANADA LIFE LIMITED

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

Section 172(1) Statement (continued)

The Company takes its charitable giving responsibilities seriously – both in the communities it operates in and also at a national level to support important causes throughout the year. Donations are carried out through the Group's **Service Company**. During the year donations were made through the workforce nominated charity scheme with further amounts being raised at fundraising events held across the UK offices. In 2019 the Company launched its new Sustainability Group, which has launched a number of initiatives to help make Canada Life more environmentally friendly. These included reducing the use of plastic cups in the office and switching to 100% renewable energy sources.

The Company is pleased to have won many prestigious awards within the financial industry over the year. This recognition demonstrates Canada Life's strengths within the market and commitment to high standards of business conduct.

The Company is a subsidiary of CLG, the sole shareholder. Communications take place regularly with both CLG and Great-West Lifeco Inc, the ultimate parent company.

Approved by the Board of Directors
and signed on behalf of the Board



D Brown

Director
Canada Life Place, Potters Bar, Hertfordshire EN6 5BA

29 April 2020

CANADA LIFE LIMITED

Directors' report for the year ended 31 December 2019

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

1 Principal activity and future developments

The Company's principal activity is the transaction of ordinary long-term life assurance and this will continue to be the main activity for the foreseeable future.

2 Dividends

Interim dividends of £246.6m (2018: £133.6m) were proposed and paid during the year (Note 27). No further dividends were proposed after the end of the year.

3 Directors

The names of the persons who were directors during the year and up to the date of this report are set out below.

K Abercromby
D Brown
M Campbell
S Cronin
A Jamal
P Mahon
S McArthur
M McIntyre
D Netherton
S Vanaselja

Appointed on 13 November 2019
Resigned on 26 February 2020

4 Political contributions

During the year the Company made no political donations (2018: £nil).

5 Charitable contributions

During the year the Company made no charitable donations (2018: £nil).

6 Directors' indemnities

The Company has made third party indemnity provision for the benefit of the directors of Irish Life Group Limited and Irish Life Assurance Plc. These have been in force throughout the year and remain in force at the date of this report.

7 Financial Instruments

Details of financial instruments are included in the Strategic Report and form part of this report by cross-reference.

CANADA LIFE LIMITED

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

8 Auditor

Each of the persons who is a director at the date of approval of this report confirms that:

(1) so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and

(2) the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

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

9 Corporate Governance

The Company has adopted the Wates Principles of Corporate Governance.

Purpose and Leadership

The Board has a well-developed purpose to ensure and promote the success of the Company. Clearly defined corporate values are integrated across all functions and form the basis of each area's operating model, informing the expected behaviour and practices of the organisational culture. Effective monitoring through a variety of methods, including employee engagement surveys, ensures a healthy culture is embedded throughout the organisation. The Board sets and promotes a collective vision when developing its strategy to generate long-term sustainable value. The Company has established a transparent code of conduct and has systems in place for raising a concern which are regularly reviewed to maintain effectiveness in ensuring the achievement of the Company's long-term goals.

Board Composition

The Board is chaired by a nominated non-executive director who is responsible for facilitating constructive discussion and ensures all directors have the appropriate information and sufficient time to be able to perform effectively. Appointments to the Board promote a balance of expertise, diversity and objectivity and training is provided to enable directors to discharge their responsibilities with ample knowledge and skill. The Board size and structure is appropriate to meet the strategic needs of the organisation and consists of non-executive directors and the CEO enabling effective decision-making.

Director Responsibilities

The Board have established a framework of corporate governance policies setting out clear lines of accountability and responsibility to safeguard the long-term future of the Company. A Conflict of Interest policy operates to identify and manage any conflicts that may arise to avoid compromising objective decision-making. Fit and Proper and Code of Conduct policies are in place to ensure persons act with due care and an appropriate level of skill for their role and for the organisation as a whole. The Board makes use of committees to help with matters relating to financial-reporting, risk, audit and remuneration while the responsibility for the final decision lies with the Board. A robust system of controls operates to enable the Board to rely on the integrity of the information provided so they can monitor and challenge the performance of the company, and make informed decisions. Controls are regularly reviewed and tested to maintain their effectiveness and safeguard the integrity of operations.

CANADA LIFE LIMITED

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

Opportunity and Risk

Enterprise Risk Management identifies potential events or emerging issues that may affect the Company, manages risks to be within its risk appetite and provides reasonable assurance regarding the achievement of organisational objectives. The Board has oversight of all aspects of risk and accountability to stakeholders. Responsibility is delegated to a Risk Committee to monitor and review processes designed to determine the nature and extent of principal risks, the appropriate response in line with the accepted level of risk and the internal and external communication channels. Risk is embedded in every part of the organisation and designated Business Unit Risk Officers are appointed in each area to ensure risk management systems are operating effectively.

Remuneration

The Company have a Remuneration Operating Policy providing effective governance of compensation (including the salary and bonus programmes and the Executive Remuneration programme) and the management of risks associated with how it remunerates its staff. The policy promotes the achievement of goals in a manner consistent with the objectives of the Board of Directors, fair customer outcomes, **regulatory requirements, and the Company's Code of conduct, vision and values, risk culture and Risk Appetite Framework.** Incentives are designed to attract and retain competent, experienced and skilled people as an essential part of the business strategy. Executive remuneration includes Long Term Incentives linked to the Performance Share Unit Plan and Stock Option Plan to align with the long-term sustainable success of the Company.

Stakeholder Relationships and Engagement

The Board has regard for all its stakeholders including its workforce, customers, suppliers, regulators and the wider community and environment in which it operates. Consideration is given to how company activities may impact both current and future stakeholders including impacts on the environment. The strategic report provides more detail on stakeholder engagement and initiatives that the Company has launched to ensure a sustainable future for the Company, its stakeholders and the environment.

10. Events after the end of the reporting period

The details of events occurring after the reporting period are presented in Note 33, **while their impacts on consideration of the Company's Going Concern status are presented in Note 3A.**

Approved by the Board of Directors
and signed on behalf of the Board



D Brown

Director

Canada Life Place, Potters Bar, Hertfordshire, EN6 5BA

29 April 2020

CANADA LIFE LIMITED

Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report and 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and FRS 103 "Insurance Contracts". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards 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 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CANADA LIFE LIMITED

Independent auditor's report to the members of Canada Life Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Canada Life Limited (the 'company' or 'CLL'):

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and Financial Reporting Standard 103 "Insurance Contracts"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Income Statement;
- the Statement of Financial Position;
- the Statement of Changes in Equity; and
- the related notes 1 to 33, excluding the capital disclosures in note 29 calculated in accordance with the Solvency II regime which are marked as unaudited.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and Financial Reporting Standard 103 "Insurance contracts" (United Kingdom Generally Accepted Accounting Practice).

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.

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 as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We confirm that, with one exception, no non-audit services prohibited by the FRC's Ethical Standard were provided to the company. The one exception related to a senior actuarial Deloitte UK employee acting in an advisory capacity on the company's with profits fund. This had previously been a permitted non-audit service but, in response to a new regulatory regime in December 2018, this role became a designated 'senior manager function'. It was subsequently identified that undertaking this role with this designation constituted a breach of the FRC's Ethical Standard given the additional responsibilities conferred. As a result the Deloitte UK employee resigned from the position with immediate effect. The substance of the work was considered, including that the individual was not involved in management decision making or preparation of financial statements. The substance of the non-audit service was considered not to be inconsistent with the objectives of our work as external audit. Following this investigation it was concluded in agreement with the Audit Committee that given the size, substance and scope of the services provided and their potential impact, as well as the safeguards in place, the provision of these services did not impact upon our integrity, objectivity and independence as auditor to the company. Fees for this non-audit service were £60,000.

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

CANADA LIFE LIMITED

Independent auditor's report to the members of Canada Life Limited (continued)

Summary of our audit approach

Key audit matters

The key audit matters that we identified in the current year were:

- Coronavirus – event after the end of the reporting period
- Significant assumptions used for actuarial reserving
- Complex modelling used in the valuation of insurance contract liabilities
- Complex asset classification and valuation
- Loan loss provisioning

Within this report key audit matters are identified as follows:

- ⚠ Newly identified
- ⬆ Increased level of risk
- ⬅ Similar level of risk

Materiality

The materiality that we used in the current year was £61.8m which was determined on the basis of 3% of adjusted equity.

Scoping

Audit work to respond to the risks of material misstatement was performed directly by the audit team together with internal specialists including IT, Tax, Actuarial, Valuations, Pensions, Financial instruments and Real Estate.

Significant changes in our approach

There are no significant changes in our approach in comparison to the prior audit except in relation to the Key Audit Matter on Coronavirus.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

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 forming our opinion thereon, and we do not provide a separate opinion on these matters.

CANADA LIFE LIMITED

Independent auditor's report to the members of Canada Life Limited (continued)

Coronavirus – event after the end of the reporting period

Key audit matter description

As disclosed in Note 33, subsequent to the balance sheet date a global pandemic of a new strain of Coronavirus ("the virus") has emerged. The virus, and responses taken by organisations and governments to manage its spread in markets to which the company is exposed, have led to increased volatility and economic disruption. Management judge the matter to be a non-adjusting event in accordance with accounting standards, since it is indicative of conditions that arose after the reporting period. It is therefore not reflected in the measurement of assets and liabilities at the balance sheet date.

In response to Coronavirus, management have made updates to its financial statements to disclose the virus as a subsequent event, and has assessed the impact on going concern. To support this management performed procedures to assess the financial and operational impacts of Coronavirus up to the date of approval of the financial statements, including:

- An assessment of operational resilience, ability to continue to serve customers, comply with conduct regulations, maintain appropriate internal controls and governance, critical business functions, crisis management, and the impact on key stakeholders;
- Considerations around solvency position and monitoring, liquidity projections, and the Company's exposure to market risk, widening credit spreads and falls in yields. This included stress and scenario testing and plans for certain management actions if the company falls outside its approved risk appetite; and
- A review of balance sheet asset and liability valuations. Through this review management challenged the exposure of financial assets to market, interest rate and credit risk, and the sensitivity of technical provisions to mortality and expense assumptions.

The assessment of the impact of Coronavirus on the Company requires management judgement and consideration of a range of factors. Management have placed a particular focus on the level of capital surplus that has been maintained post year end, the stress and scenario testing and the liquidity position.

Having considered the results of the activities described above, management believes that the company continues to be a going concern due to having a solvency position within tolerance levels set by the Board and appropriate plans to manage liquidity and credit risks. The company's business continuity plans have also been initiated and management consider that these will enable them to continue to deliver critical business services across the Company.

The Company has made disclosures throughout the annual report and financial statements to reflect the results of its assessment, in line with applicable accounting standards and company law. Due to the inherent management judgement in, and the increased level of audit effort focused on the appropriateness of, the financial statement disclosures, we considered these to be a key audit matter.

Refer to management's disclosure in notes 3.A. and 33 of the financial statements. Further detail is also included in the Directors' Report on page 14 and the Strategic Report on page 3.

CANADA LIFE LIMITED

Independent auditor's report to the members of Canada Life Limited (continued)

How the scope of our audit responded to the key audit matter

We evaluated management's approach to assessing the impact of Coronavirus on the company and challenged the financial statement disclosures by performing the following procedures:

- With the involvement of our actuarial specialists, we evaluated management's stress and scenario testing, including reverse stress testing, and challenged management's key assumptions, assessing its consistency with other available information and our understanding of the business;
- Evaluated management's assessment of the risks facing the company including liquidity risk, asset credit risk and operational matters;
- Made inquiries of senior management in relation to their assessment of the impacts of Coronavirus on the Company, including further steps the Company will take in case economic and other factors deteriorate further;
- Inspected correspondence between the company and its regulators related to the Company's responses to the emergence of Coronavirus; and
- Assessed the disclosures made by management in the financial statements against applicable accounting standards and guidance issued by the Financial Reporting Council, including management's judgment that Coronavirus is a non-adjusting post balance sheet event, and evaluated the consistency of the disclosures with our knowledge of the company.

Key observations

Based on the procedures described above, and the evidence obtained, we consider that, in relation to the potential impact of Coronavirus, that the post balance sheet event disclosures in the financial statements are appropriate.

CANADA LIFE LIMITED

Independent auditor's report to the members of Canada Life Limited (continued)

Significant assumptions used for actuarial reserving

Key audit matter description

The assumptions for annuitant mortality (both base mortality assumptions and mortality improvements) are fundamental in ensuring that appropriate insurance contract liabilities are held for this business. The technical provisions balance as at 31 December 2019 amounted to £19,195m (2018: £18,904m) and is detailed in Note 15 Technical Provisions to the financial statements.

Significant assumptions used for actuarial reserving require a high degree of judgement due to the number of factors which may influence mortality experience. We have therefore identified a fraud risk in this area. The differing factors which affect the assumptions are underlying mortality experience, industry and management views on the future rate of mortality improvements and external factors arising from developments in the annuity market. An example of this is the updated Continuous Mortality Investigation Tables ("CMI") that have been adopted by the Company in 2019 as detailed in Note 29 Supplementary information in respect of Financial Reporting Standard 103 Insurance contracts and Note 4.B. Critical accounting judgements and estimation uncertainty.

The assumptions used for actuarial reserving are derived for each block of business on the basis of past experience, adjusted for a best estimate of how experience may develop in the future, for example, for expected future mortality improvements.

How the scope of our audit responded to the key audit matter

In respect of significant assumptions used for actuarial reserving, working with our actuarial specialists, we performed the following procedures:

- We evaluated the design and implementation of controls over the assumption-setting process;
- We tested, including via replication, a sample of in-year experience studies relating to the significant assumptions identified above. This included testing the data and calculations used in the experience study, assessing the appropriateness of the experience study methodology for each sample selected, and assessing the resulting conclusions with respect to the revised assumptions;
- Where the timing and amount of an assumption change, or a decision not to make a change, required significant management judgement, we examined, on a sample basis, the supporting documentation to validate the reasonableness of the assumption change, including consideration of possible management bias;
- Where externally available models or data were used in the assumption setting-process, we assessed, on a sample basis, management's use of this information in the assumption setting process and its relevance; and
- Where appropriate, we compared the assumptions selected by Management to those used by peer companies, i.e. those with significant exposure to similar risks.

Key observations

Based on the work performed and the evidence obtained, we consider the assumptions used for annuitant base mortality to be reasonable.

CANADA LIFE LIMITED

Independent auditor's report to the members of Canada Life Limited (continued)

Complex modelling used in the valuation of insurance contract liabilities

Key audit matter description

The modelling used in the reserving process is inherently complex with a number of inputs (policyholder data, economic data and assumptions) together with model changes made during the year, which gives rise to a risk that the particular model is not functioning as intended. The method used in determining insurance contract liabilities involves projecting future annuity payments and maintenance costs and discounting these cash flows, making allowance for expected future investment returns. This complex discounted cash flow modelling is carried out using actuarial modelling software. The valuation models used by management vary in complexity, and certain models, including certain annuity blocks and group health claims, represent a heightened risk of material misstatement. The total insurance contract liability balance as at 31 December 2019 amounted to £19,195m (2018: £18,904m) and is detailed in Note 15 Technical Provisions to the financial statements.

Given the complexity of the modelling used, we identify this as a key audit matter in the current year to reflect the focus by the audit team in this area.

How the scope of our audit responded to the key audit matter

In respect of modelling used for the technical provisions, using our actuarial specialists, we performed the following procedures:

- We obtained an understanding of controls in relation to the complex model and in particular the model change process;
- We assessed the reasonableness of reserve movements following significant valuation model changes; and
- We replicated the insurance contract liabilities on a sample basis for heightened risk annuity blocks and group health claims, to verify that the models used for insurance contract liabilities to within an acceptable tolerance threshold. The model replication procedures included the following:
 - Agreeing the valuation data in the model to the underlying policyholder data including policy details and reinsurance details;
 - Assessing whether the assumptions used in the models are appropriate;
 - Testing the model set-up to assess whether the model is appropriately valuing the significant features of policies sampled in accordance with Canadian Standards of Practice / Solvency II guidance; and
 - Independently valuing a sample of insurance contract liabilities at a policy level.
- We assessed the reasonableness of the changes to the model for lines of business not subject to replication procedures.

Key observations

Based on the work performed and the evidence obtained, we have not identified any material misstatements in the complex modelling used in the valuation of insurance contract liabilities.

CANADA LIFE LIMITED

Independent auditor's report to the members of Canada Life Limited (continued)

Complex asset classification and valuation

Key audit matter description

The financial assets of CLL enable it to support its insurance contract liabilities and meet regulatory capital requirements, as well as provide returns on shareholder assets (the assets available for distribution to shareholders after taking account of policyholder liabilities, including associated guarantees, options and bonuses).

The majority of CLL's financial assets are valued by reference to prices on active markets. However, some are priced by reference to unobservable data and internal valuation models as detailed in Note 11 Investments and Note 4.B. Critical accounting judgements and estimation uncertainty. The total portfolio of these financial investments amounted to £469m at the year ended 31 December 2019 (2018: £344m).

Additionally, management are required by FRS 102 to consider the design of these complex arrangements and determine whether they should be classified as new financial leases or financial instruments. This classification also affects the valuation methodology: if classified as financial leases, they are accounted for at amortised cost and if classified as financial instruments, they are accounted for at fair value.

Given the subjectivity involved in the classification of these financial investments, coupled with the unobservable inputs (for example management's spread ratios) and valuation methodology used in the internal valuation models, we identified a key audit matter in relation to the valuation of these financial assets and the classification of acquired assets of this nature in the year.

How the scope of our audit responded to the key audit matter

In respect of the classification of new financial assets as either finance leases or financial instruments:

- We obtained an understanding of controls that CLL has in place when determining the classification of these financial assets;
- We reviewed the underlying contracts of the financial assets so as to establish the nature of the transaction and considered whether the classification is in line with Financial Reporting Standard 102; and
- We benchmarked the accounting treatment of such asset investments to market practice.

For the valuation of complex investments:

- We obtained an understanding of controls that CLL has in place to monitor these processes;
- We assessed both the methodology and assumptions used by management in the calculation of the year end values with assistance from our internal financial instrument specialists; and
- We agreed the non-market observable inputs to calculations or supporting documents and considered whether they were in line with our expectations with assistance from our internal financial instrument specialists.

Key observations

Through our audit procedures performed, we found the classification of newly acquired assets and the valuations of all complex assets in the financial statements to be appropriate.

CANADA LIFE LIMITED

Independent auditor's report to the members of Canada Life Limited (continued)

Loan loss provisioning

Key audit matter description

We have identified a key audit matter relating to the valuation of CLL's mortgage loan portfolio that is not held at fair value. The mortgage loans are valued at amortised cost using the effective interest rate method, and subsequently reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. The total portfolio of mortgage loans amounted to £2,497.9m (2018: £2,062.4m) at the year ended 31 December 2019.

Loan loss provisioning and use of illiquid assets is a complex and judgmental area, and is subject to increased regulatory scrutiny. A subset of CLL's mortgage instruments represent a higher credit risk given the exposure of the mortgage loan portfolio to the retail sector which remains under significant pressure with a number of high street retailers entering administration in 2019. As a result, there is risk that CLL does not recognise an impairment provision on these loans when required by Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and International Accounting Standards 39 "Financial Instruments: Recognition and Measurement", in light of the criteria being subject to interpretation. The total provision amounted to £29.8m (2018: £11.7m) at the year ended 31 December 2019. Whilst this amount is immaterial, there is a significant risk of understatement around the provision recognised. Given the judgement inherent in the provisioning process, this is an area susceptible to fraud.

Further details are included within Note 11 and Note 4.B. to the financial statements.

How the scope of our audit responded to the key audit matter

We tested the key controls that mitigate the risk over the valuation of investments not held at fair value. Our audit procedures will involve the following:

- We engaged with our real estate specialists to review the objectivity, professional qualifications, experience, resources and valuation approach adopted by valuers to value the impaired loans of interest;
- We challenged the methodology used in the assessment of credit risk within the investment portfolios that are held at amortised cost against best practice in the wider financial services market;
- We traced a sample of interest payments to bank during the year to test for default or delinquency in interest payments; and
- We challenged management on loans of interest where indicators could point to borrower financial difficulty, obtaining evidence to assess whether the position taken by management is reasonable.

Key observations

We did not note any additional indicators of impairment within the loan portfolios and therefore deem the amount held as a provision against the mortgage portfolio to be reasonable.

CANADA LIFE LIMITED

Independent auditor's report to the members of Canada Life Limited (continued)

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality

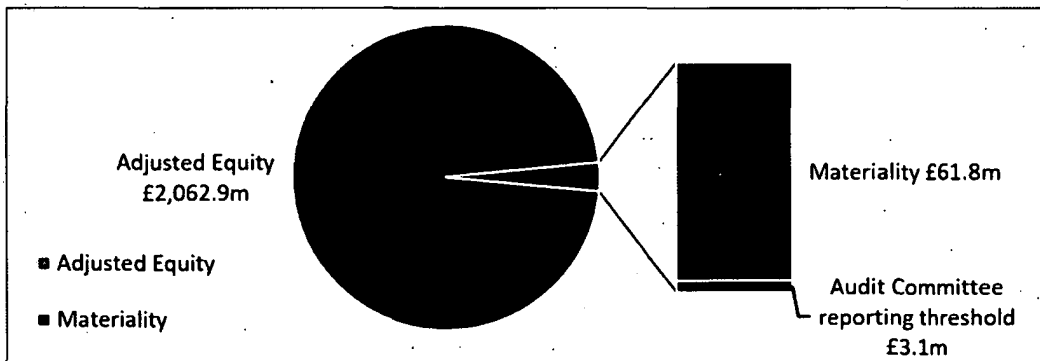
£61.8m (2018: £57.0m)

Basis for determining materiality

We determined materiality based on 3% (2018: 3%) of CLL's adjusted year-end equity. Equity is adjusted to exclude part of the investment in subsidiary balance as denoted in Note 11 to the financial statements which does not relate to the company's regulated insurance business.

Rationale for the benchmark applied

We consider CLL's shareholder's equity to be the most appropriate benchmark as it represents the remaining interest that can be given to the shareholder after policyholder assets and corresponding liabilities have been accounted for.



Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2019 audit (2018: 70%). In determining performance materiality, we considered the following factors:

- We have audited the Company for a number of years and so have knowledge of both the Company and the environment it operates in;
- Our ability to rely on controls over a number of significant business processes;
- Our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods; and
- Misstatements noted in prior periods have not been indicative of deficiencies in internal control and so there is a low likelihood they will occur in the current period.

CANADA LIFE LIMITED

Independent auditor's report to the members of Canada Life Limited (continued)

Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £3.1m (2018: £1.1m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

The scope of our audit was determined by obtaining an understanding of CLL and its environment, including internal controls, and assessing the risks of material misstatement at the Company level.

CLL operates from three principal locations: the head office in Potters Bar; the investments front office in London and the group business office in Bristol. Under the direct stewardship of the CLL lead audit engagement partner, the audit team perform a full-scope audit of CLL's entire operations encompassing the three business locations. These three business locations represent 100% of CLL's revenue, 100% of CLL's profit before tax and 100% of CLL's net assets.

Other information

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

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our 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 this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, 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.

CANADA LIFE LIMITED

Independent auditor's report to the members of Canada Life Limited (continued)

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.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

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

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and involving relevant internal specialists including IT, Tax, Actuarial, Valuations, Pensions Financial instruments and Real Estate regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the areas of significant assumptions used for actuarial reserving and loan loss provisioning. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

CANADA LIFE LIMITED

Independent auditor's report to the members of Canada Life Limited (continued)

We also obtained an understanding of the legal and regulatory framework that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context including those imposed by the Financial Conduct Authority (FCA), the Prudential Regulation Authority (PRA), the UK Companies Act (2006), pensions legislation and relevant tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. This included the company's regulatory solvency requirements.

Audit response to risks identified

As a result of performing the above, we identified significant assumptions used for actuarial reserving and loan loss provisioning as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with relevant regulators including HMRC, the FCA and the PRA; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

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

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 any material misstatements in the strategic report or the directors' report.

CANADA LIFE LIMITED

Independent auditor's report to the members of Canada Life Limited (continued)

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, 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.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

Other matters

Auditor tenure

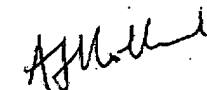
Following the recommendation of the audit committee, we were appointed by the Company at its annual general meeting in July 2004 to audit the financial statements for the year ending 31 December 2004 and subsequent financial periods. Following a competitive tender process, we were reappointed as auditor of the Company for the year ended 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 16 years, covering the years ending 31 December 2004 to 31 December 2019.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

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.



Andrew Holland, FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London
29 April 2020

CANADA LIFE LIMITED

Income Statement Technical account – long-term business for the year ended 31 December 2019

	Notes	2019		2018	
		£m	£m	£m	£m
Earned premiums, net of reinsurance					
Gross premiums written	5	1,512.8		2,347.5	
Outward reinsurance premiums	5	<u>(649.1)</u>		<u>(600.0)</u>	
			863.7		1,747.5
Net Investment return	6		1,657.7		(114.5)
Other technical income	7		31.3		45.0
Claims incurred, net of reinsurance					
Gross amount		(2,469.7)		(1,736.1)	
Reinsurers' share		936.1		909.1	
Change in provision for claims outstanding		<u>13.1</u>		<u>(7.3)</u>	
Net claims incurred			(1,520.5)		(834.3)
Changes in technical provisions					
Long-term business provision, net of reinsurance					
Gross amount	8	(325.8)		(341.3)	
Reinsurers' share	18	<u>(256.7)</u>		<u>(455.6)</u>	
		(582.5)		(796.9)	
Technical provisions for linked liabilities net of reinsurance	8	<u>(100.8)</u>		<u>292.6</u>	
Net changes in technical provisions			(683.3)		(504.3)
Net operating expenses	9		(166.2)		(178.7)
Interest receivable/(payable)			9.5		(3.5)
Investment expenses and charges			(20.3)		(16.3)
Tax attributable to the long-term business	10		(32.3)		(5.6)
Transfer to the fund for future appropriations			36.0		2.3
Balance on the technical account - long-term business			<u>175.6</u>		<u>137.6</u>

CANADA LIFE LIMITED

Income Statement Non-technical account for the year ended 31 December 2019

		2019	2018
	Notes	£m	£m
Balance on the technical account			
- Long-term business		175.6	137.6
Tax attributable to balance on technical account			
- Long-term business	10	41.2	32.3
Shareholders' pre-tax profit from long-term business		<u>216.8</u>	<u>169.9</u>
Investment income	6	227.6	69.5
Unrealised gains/(losses) on investments	6	15.8	(18.8)
Realised gains/(losses) on investments	6	3.9	(0.1)
Interest payable and similar charges		(15.1)	(14.6)
Operating profit on ordinary activities before tax		<u>449.0</u>	<u>205.9</u>
Tax charge on profit on ordinary activities	10	(42.3)	(33.3)
Profit for financial year attributable to shareholders		<u><u>406.7</u></u>	<u><u>172.6</u></u>

All amounts derive from continuing operations.

The notes on pages 34 to 91 form an integral part of these financial statements.

The Company has not recognised gains or losses other than those included in the income statement above for the current or the preceding year and consequently no separate statement of other comprehensive income is presented.

CANADA LIFE LIMITED

Statement of Financial Position at 31 December 2019

		2019	2018
	Notes	£m	£m
Investments			
Land and buildings	11	1,586.2	1,638.7
Other financial investments	11	19,120.5	18,643.3
Investments in group undertakings and participating interests	11, 32	1,453.3	1,453.3
Assets held to cover linked liabilities			
	14	2,271.6	3,800.5
Reinsurers' share of technical provisions			
Long-term business provisions		4,082.8	4,339.4
Debtors			
Debtors arising out of direct insurance operations		73.6	59.3
Other debtors	12	238.5	203.2
Other assets			
Cash at bank and in hand		233.2	206.8
Assets under construction	13	6.5	-
Derivative financial instruments	30	16.0	30.2
Prepayments and accrued income			
Accrued interest and rent		179.7	193.2
Deferred acquisition costs		40.1	49.3
Other prepayments and accrued income		16.7	16.1
Total assets		29,318.7	30,633.3

CANADA LIFE LIMITED

**Statement of Financial Position
at 31 December 2019 (continued)**

		2019	2018
	Notes	£m	£m
Capital and reserves			
Called up share capital	16	342.2	342.2
Share premium account		811.8	811.8
Capital contribution		397.4	397.4
Retained earnings		1,502.5	1,342.4
Shareholders' funds			
		3,053.9	2,893.8
Financial liabilities			
	17	330.0	330.0
Fund for future appropriations			
		-	36.0
Technical provisions			
Long-term business provision	15	19,195.5	18,904.4
Claims outstanding		50.1	63.2
		19,245.6	18,967.6
Technical provision for linked liabilities			
	15	2,271.6	3,800.5
Deposits received from reinsurers			
		4,014.7	4,214.8
Provisions for other risks and charges			
Other provisions	21	22.5	35.1
Deferred taxation	19	23.3	12.2
Creditors - due within one year			
Creditors arising out of direct insurance operations		5.1	21.9
Other creditors including taxation	20	229.8	151.3
Derivative financial instruments			
	30	70.4	107.4
Deferred income			
Deferred income reserve		51.8	62.7
Total liabilities		<u>29,318.7</u>	<u>30,633.3</u>

The notes on pages 34 to 91 form an integral part of these financial statements.

The financial statements of Canada Life Limited (registered number 00973271) were approved by the Board of Directors and authorised for issue on 29 April 2020

They were signed on its behalf by:



D Brown
Director
29 April 2020

CANADA LIFE LIMITED

Statement of Changes in Equity for the year ended 31 December 2019

	Ordinary share capital	Share premium account	Capital contribution	Retained earnings	Total
	£m	£m	£m	£m	£m
Balance at 1 January 2018	342.2	811.8	397.4	1,303.4	2,854.8
Profit and total comprehensive income attributable to shareholders	-	-	-	172.6	172.6
Dividend paid and declared (Note 27)	-	-	-	(133.6)	(133.6)
At end of the year	342.2	811.8	397.4	1,342.4	2,893.8
Balance at 1 January 2019	342.2	811.8	397.4	1,342.4	2,893.8
Profit and total comprehensive income attributable to shareholders	-	-	-	406.7	406.7
Dividend paid and declared (Note 27)	-	-	-	(246.6)	(246.6)
At end of the year	342.2	811.8	397.4	1,502.5	3,053.9

All shareholders' funds are attributable to equity shareholders.

CANADA LIFE LIMITED

1 Principal accounting policies

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

1A General information

Canada Life Limited ("the Company") is a private company limited by shares and is incorporated and domiciled in United Kingdom. The address of its registered office is Canada Life Place, Potters Bar, Hertfordshire EN6 5BA. The Company is a wholly-owned subsidiary of The Canada Life Assurance Company (incorporated in Canada).

The Company's principal activity is the transaction of ordinary long-term life insurance and this will continue to be the main activity for the foreseeable future.

The functional currency of the Company is pounds sterling because that is the currency of the primary economic environment in which the Company operates.

2 Statement of Compliance

The Financial Statements of the Company have been prepared in compliance with United Kingdom Accounting Standards, including FRS 102, FRS 103 and the Companies Act 2006.

The Company meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its financial statements. Exemptions have been taken in relation to presentation of cash flow statement, intra-group transactions and remuneration of key management personnel.

3 Principal accounting information

The principal accounting policies applied in the preparation of these Financial Statements are summarised below. These policies have been consistently applied to all the years presented, unless otherwise stated.

A. Basis of preparation

The financial statements have been prepared in accordance with the historical cost convention, modified to include certain items at fair value, and in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted by the directors are described below.

The Company financial statements have been prepared in accordance with the provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI2008/410) related to insurance companies and with FRS 102 and FRS 103.

The Company applies a modified Canadian Asset Liability Method ("CALM") as a basis to calculate its long term business provision. CALM is the prescribed valuation method for life insurers under Canadian regulation for submissions to the Office of the Superintendent of Financial Institutions (OSFI) and is described in the Consolidated Standards of Practice of the Canadian Institute of Actuaries. Further details of the approach and modifications are given in Accounting policy I 'Long-term business provision' below.

Basis of consolidation

The financial statements present information about the Company as an individual undertaking as it is exempt from the obligation to prepare consolidated financial statements under section 401 of the Companies Act 2006. The Company's results are included in the consolidated financial statements of The Canada Life Assurance Company, a company incorporated in Canada.

CANADA LIFE LIMITED

A. Basis of preparation (continued)

Going concern

The Strategic Report outlines the Company's activities, performance, principal risks, uncertainties and financial risk management objectives. Note 30 to the financial statements sets out the Company's policies and procedures for managing insurance and financial risk and Note 29 sets out the Company's available capital resources. The Company has taken into consideration the recent COVID-19 outbreak when undertaking its Going Concern assessment and further details are outlined in Note 33. As a predominantly UK focused business, the Company's operating model and strategy is not materially impacted by the UK's withdrawal from the EU. Sensitivity analysis to significant variables is presented in Notes 18, 29 and 30. Having regard to the Company's financial position, its expected performance in the future and having made appropriate 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 financial statements.

Cash flow statement

Advantage has been taken of the exemption under FRS 102, 1.12(b), Cash Flow Statements, not to present a cash flow statement, as the Company is 100% controlled within the Great-West Lifeco Inc group of companies. The consolidated financial statements which contain the cash flow statement in which the subsidiary undertakings are included are publicly available.

Transactions with related parties

Advantage has been taken under FRS 102 33.1A, Related Party Disclosures, not to disclose transactions between entities, 100% of whose voting rights are controlled within the Great-West Lifeco Inc group of companies.

Key Management Personnel

Advantage has been taken under FRS 102 33.7, not to disclose key management personnel compensation in total. The directors' emoluments are disclosed as per Companies Act 2006.

B. Contract classification

The Company issues insurance contracts and investment contracts.

Insurance contracts are defined as those containing significant insurance risk if, and only if, an insured event would cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Such contracts may also transfer financial risk. A contract that is classified as an insurance contract continues to be treated as such until all rights and obligations are extinguished or expire. Contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant.

Any contracts not considered to be insurance contracts are classified as investment contracts.

Unit-linked contracts written by the Company, where the liability under the contract is dependent on the value of the underlying financial assets, derivatives and/or investment property, are classified as investment contracts unless the contracts also contain features that transfer significant insurance risk.

The terms and conditions of these contracts, together with the principles and practices of financial management (PPFM), set out the basis for the determination of the amounts on which the additional discretionary benefits are based and within which the Company may exercise its discretion as to the quantum and timing of their payment to policy holders.

CANADA LIFE LIMITED

C. Insurance contracts

Premiums

Premiums are accounted for when due. Premiums are stated gross of commissions, taxes and premium levies.

Claims and benefits paid

Claims payable on maturity are recognised when the claim becomes due for payment and those payable on death are accounted for on notification. Surrenders are accounted for at the earlier of the payment date or when the policy ceases to be included within the long-term business provision or the provision for linked liabilities. Where claims are payable and the contract remains in force, the claim or instalment is accounted for when due for payment. Claims payable include the costs of settlement.

Funds at retirement under individual pension contracts left with the Company as opposed to being transferred to third party providers are classified as new business single premiums and for accounting purposes are included in both claims incurred and as single premiums within gross premiums written.

Policyholder liabilities under insurance contracts and with-profits contracts

See Accounting policies I 'Long-term business provision' and K 'Technical provisions for linked liabilities'.

Reinsurance

Long-term business is ceded to reinsurers under contracts to transfer part or all of one or more of the following risks: mortality, morbidity, investment, persistency and expenses.

Such contracts are accounted for as insurance contracts provided the risk transfer is significant. Some contracts which provide for the transfer of significant risk are also structured to provide financing. When, under such contracts, financing components are to be repaid in future accounting periods, the amount outstanding under the contract at the balance sheet date is classified as a liability to the reinsurer and included in 'deposits received from reinsurers'.

The amounts that will be recoverable from reinsurers are estimated based upon the gross provisions, having due regard to collectability. The recoverability of reinsurance recoveries is assessed having regard to market data on the financial strength of each of the reinsurance companies.

The reinsurers' share of claims incurred, in the income statement, reflects the amounts received or receivable from reinsurers in respect of those claims incurred during the period. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised in the income statement as 'Outwards reinsurance premiums' when due.

Reinsurance recoveries are accounted for in the same period as the related claim.

D. Investment contracts

Amounts received and paid out in respect of unit-linked investment contracts are accounted for using deposit accounting, under which amounts collected and paid out are taken directly to the balance sheet, as an adjustment to the liability to the policyholder and invested assets. Financial liabilities in respect of investment contracts are carried in the statement of financial position as 'Technical provisions for linked liabilities' (Accounting policy K 'Technical provisions for linked liabilities').

Fees receivable from investment contracts (included in 'Other technical income') and investment income and interest payable on contract balances are recognised in the income statement in the year they are assessed unless they relate to services to be provided in future years, in which case they are deferred and recognised as the service is provided.

CANADA LIFE LIMITED

D. Investment contracts (continued)

Incremental costs that are directly attributable to securing investment contracts, and are expected to be recoverable, are deferred and recognised in the balance sheet as deferred acquisition costs. Such deferred acquisition costs are amortised uniformly over the effective lifetime of the policy, which is generally defined as the policy term, subject to a maximum of twenty years.

E. Investment income

Investment return comprises all investment income (which includes the interest income for financial assets carried at amortised cost, using the effective interest method), realised investment gains and losses and movements in unrealised gains and losses. Investment returns on unit linked assets accrue to the unit-linked policyholder funds.

Dividends are included as investment income on the date that the shares are quoted ex-dividend and include the imputed tax credits. Interest, rent and expenses are accounted for on an accruals basis.

Realised gains and losses on investments

Realised gains and losses on investments carried at fair value are calculated as the difference between net sales proceeds and purchase price. In the case of investments included at amortised cost, realised gains and losses are calculated as the difference between sale proceeds and their latest carrying value.

Unrealised gains and losses on investments

Movements in unrealised gains and losses on investments represent the difference between the fair value at the balance sheet date and their purchase price or their fair value at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

F. Financial instruments

The Company has chosen to adopt sections 11 and 12 of FRS 102 in respect of financial instruments.

Financial assets

Basic financial assets, including trade and other receivables, cash and cash equivalents, loans and receivables, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction where the transaction is measured at present value of future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment.

Loans and receivables

Loans are financial assets with fixed or determinable payments that are not quoted in an active market. Loans are measured on initial recognition at the fair value of the consideration given plus incremental costs that are incurred on the acquisition of the investment. Subsequent to initial recognition, loans are measured at amortised cost using the effective interest rate method. The Company accounts for its mortgage portfolio on this basis.

The amortised cost is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. Any resulting impairment loss is recorded in the income statement.

CANADA LIFE LIMITED

F. Financial instruments (continued)

Other financial assets

Other financial assets, including investment in equity instruments, which are not subsidiaries, associates or Joint Ventures, are initially measured at fair value, which is normally the transaction price.

Such assets are subsequently carried at fair value and the changes in fair value are recognised in the Income Statement.

The Company classifies its other financial assets into the following categories:

- Shares and other variable yield securities and units in unit trusts – at fair value through profit and loss;
- Equity release mortgages – at fair value through profit and loss;
- Debts and other fixed income securities – at fair value through profit and loss; and
- Deposits with credit institutions – at fair value through profit and loss.

The fair value of other financial assets is calculated based on paragraph 11.27 of FRS 102:

- Level 1 - The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 - Inputs are unobservable for the asset or liability.

Purchases and sales of financial assets are recognised on the trade date, i.e. the date the Company commits to purchase or sell the asset. Purchases or sales of financial assets require delivery of assets within the time frame generally established by regulation or convention in the marketplace.

A financial asset is derecognised when the contractual right to receive cash flows expires or when the asset, together with substantially all the risks and rewards of ownership, has been transferred.

Financial liabilities

Basic financial liabilities, including trade and other payable, loans from fellow group companies are initially recognised at transaction price.

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

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 assets and settle the liabilities simultaneously. Income and expenses will not be offset in the income statement account unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

Unrealised investment gains and losses are calculated as the difference between the valuation at the balance sheet date and their valuation at the last balance sheet date or purchase price, if acquired during the year. Unrealised gains and losses include adjustments in respect of unrealised gains and losses recorded in prior years, which have been realised during the year and are reported as realised gains and losses in the current income statement. All gains and losses arising in relation to investment connected with the carrying on of the long-term insurance business are reflected initially in the technical account – long-term business. Investment gains and losses arising in relation to other investments (those investments directly attributable to shareholders) are taken to the non-technical account.

CANADA LIFE LIMITED

F. Financial instruments (continued)

Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value are recognised immediately in the income statement. Fair values are obtained from the respective derivative counterparty. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

G. Investments

Land and buildings

Land and building are measured at cost at initial recognition. The cost of purchased land and buildings comprises their purchase price and any directly attributable expenditure such as legal and brokerage fees, property transfer taxes and other transaction costs. Land and buildings are subsequently revalued every quarter at open market value, by qualified external valuers, in accordance with the guidance notes issued by the Royal Institution of Chartered Surveyors. All changes in market value are recorded as investment income in the income statement.

Investments in group undertakings

Investments in subsidiaries are held at carrying value which is defined as cost less accumulated impairment losses.

H. Finance leases

Amounts receivable under finance leases are recognised on the balance sheet as a debtor at the amount of the net investment in the lease; represented by the remaining minimum lease payments payable by the lessee, less cash payments received that are attributable to future gross earnings. Finance income is recognised in the technical account on a basis that reflects a constant periodic rate of return on the net cash investment in the lease. Over the lease term rentals will be apportioned between a reduction in the net investment in the lease and gross earnings.

I. Long-term business provision

Insurance contracts are measured in line with FRS 103. The valuation uses a gross premium method in respect of the Company's business. The approach is a modified Canadian Asset Liability Method (CALM), as noted in Accounting Policy A 'Basis of preparation' above.

The key modification to CALM is that the Asset Default Provision (ADP) for Bonds, Finance leases and other financing arrangements and Commercial mortgages has been strengthened to allow for long-term unexpected default losses.

The insurance contract liabilities are determined using assumptions approved by the Board of Directors. The insurance contract liabilities are based on a best estimate assessment of the future liabilities plus additional margins for adverse deviation.

The valuation basis adopted reflects the value of related assets as per sections F - Financial instruments, G - Investments and H - Finance leases above, and the yield derived therefrom, together with a prudent assessment of future rates of return on new monies receivable as income from existing business (premiums and investment income). Other assumptions reflect a best estimate assessment of future experience of mortality, morbidity and other relevant factors, together with additional prudent margins sufficient to ensure that there is no foreseeable risk that liabilities to policyholders in respect of long-term insurance contracts will not be met as they fall due.

CANADA LIFE LIMITED

I. Long-term business provision (continued)

The Company carries out an annual liability adequacy test on its insurance liabilities less related deferred acquisition costs and other related intangible assets to ensure that the carrying amount of its liabilities is sufficient in the light of estimated future cash flows. Where a shortfall is identified, an additional provision is made.

Although the process for the establishment of technical provisions follows generally accepted actuarial practice, the provisions that result from the process remain uncertain. As a consequence of this uncertainty, the eventual value of claims could vary from the amounts provided to cover such future claims. The Company seeks to provide appropriate levels of technical provisions taking known facts and experience into account but nevertheless such provisions remain uncertain.

J. Technical provisions for Unit-linked liabilities

Liabilities under unit-linked contracts are recognised as and when the units are created and are dependent on the value of the underlying financial assets, derivatives and/or investment property. Unit-linked contracts are carried in the balance sheet at an amount determined by the valuation of the related units on the valuation date.

K. Current taxation

The current tax expense is based on the taxable profits for the year, at rates that have been enacted at the balance sheet date after any adjustments in respect of prior years.

L. Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, but only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

The long-term business result shown in the non-technical account is grossed up by a notional amount representing the overall effective rate of tax attributable to shareholders' profits.

M. Foreign currencies

Transactions in foreign currencies are recorded at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange ruling at the balance sheet date. Non-monetary items at historical cost are translated using the exchange rate at the date of transaction, and non-monetary assets measured at fair value are translated using the exchange rate when the fair value was determined. All differences are taken to the income statement.

N. Operating leases

Rentals payable under operating leases are charged to the income statement as incurred over the lease term.

CANADA LIFE LIMITED

O. Dividends

Interim dividends are recognised when paid and final dividends are booked as a liability when they are approved by the Board of Directors passing a written resolution.

P. Assets under construction

Assets under construction are stated at cost less impairment losses. Cost comprises direct costs of construction, such as materials, labour, overheads and any other costs directly attributable to bringing the assets to a working condition for their intended use. Capitalisation of these costs ceases and the asset concerned is transferred to the appropriate category when substantially all the activities necessary to prepare the asset for its intended use are completed. No depreciation is provided on the assets under construction.

Q. Provisions

Provisions are recognised when the Company has a present obligation, either legal or constructive, resulting from a past event, and in management's judgment, it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the amount. The amount recognised for provisions is based on management's best estimate at the year-end date.

The Company recognises a provision for restructuring when a detailed formal plan for the restructuring has been established and the plan has raised a valid expectation in those affected that the restructuring will occur.

4. Critical accounting judgements and estimation uncertainty

A. Critical judgements in applying the accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the accounting policies and that have the most significant effect on the amounts recognised in financial statements.

Contract classification

An assessment is made as to the significance of insurance risk transferred to the Company when deciding whether to classify and account for a contract as an insurance or investment contract. The Company policy on this is disclosed in more detail in Note 3B.

Classification of financial instruments

The Company has chosen to adopt sections 11 (Basic Financial Instruments) and 12 (Other Financial Instruments) of FRS 102 in respect of financial instruments. A judgement is made when deciding how to appropriately classify and account for these instruments, including the application of the fair value option. The Company policy on this is disclosed in more detail in Note 3F.

B. Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

CANADA LIFE LIMITED

B. Key sources of estimation uncertainty (continued)

Impairment

The Company assesses at each balance sheet date whether there is objective evidence that any financial asset or subsidiary undertaking not carried at fair value is impaired. Such an asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the asset that can be reliably estimated.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have been incurred) discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement for the period. If an investment carried at amortised cost has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed through the income statement for the period.

The Company's policies for assessing impairment are disclosed in Notes 3F and 3G. The values are disclosed in Note 11.

Measurement of insurance contract liabilities

Insurance contract liabilities and reinsurance assets are based on appropriate valuation assumptions. The setting of assumptions considers past experience and requires significant judgement with particular emphasis paid to longevity, catastrophe, morbidity and credit risk assumptions where variances in the level of assumptions set can have a significant effect on the overall valuation.

The Company's policies for measuring insurance contract liabilities are disclosed in Notes 3C and 3I. The methodologies and assumptions used in calculating and measuring these liabilities are discussed in detail in Note 18.

Fair value of unquoted financial instruments

Where quoted bid values are not available, the fair value of financial instruments is determined from a model price based upon market observable data. The valuation techniques and inputs for these models involve judgement, specifically around the choice of a suitable index of external bonds and the application of a spread to reflect any additional risk inherent to the specific deal.

The Company's policies for measuring the fair value of these assets are disclosed in Note 3F. The valuation techniques employed by the Company are disclosed in Note 11.

CANADA LIFE LIMITED

5 Premium analysis

In the opinion of the Directors, the Company operates in one business segment only, long-term business.

5A Gross premiums written

	2019 £m	2018 £m
Life		
Non-participating contracts	116.7	75.5
Participating contracts	0.7	0.9
Unit-linked contracts	5.3	6.9
	<u>122.7</u>	<u>83.3</u>
Pension		
Non-participating contracts	1,216.6	2,100.5
Unit-linked contracts	0.1	0.2
	<u>1,216.7</u>	<u>2,100.7</u>
Permanent Health	<u>173.4</u>	<u>163.5</u>
Total direct insurance written premiums	<u>1,512.8</u>	<u>2,347.5</u>
Periodic premiums	558.0	539.0
Single premiums	<u>954.8</u>	<u>1,808.5</u>
Total gross direct insurance premiums	1,512.8	2,347.5
Reinsurance premiums	<u>(649.1)</u>	<u>(600.0)</u>
Net written premiums	<u>863.7</u>	<u>1,747.5</u>

Premiums include £0.2m (2018: £0.2m) of overseas contracts written in Hong Kong. Recurring single premiums are treated as single premiums.

Included in gross written premiums is £973.2m (2018: £1,828.3m) in respect of annuity and other individual business and £539.6m (2018: £519.2m) in respect of group contracts.

CANADA LIFE LIMITED

5 Premium analysis (continued)

5B New business premiums

	2019 Gross £m	2018 Gross £m
Life		
Individual and group		
Unit-linked	0.0	0.0
Non-participating	30.8	2.7
	<u>30.8</u>	<u>2.7</u>
Pension		
Individual and group		
Unit-linked	0.0	0.0
Non-participating	953.2	1,834.9
	<u>953.2</u>	<u>1,834.9</u>
Permanent Health		
Individual	0.0	0.1
Group	18.9	12.9
	<u>18.9</u>	<u>13.0</u>
Total new business premiums	<u><u>1,002.9</u></u>	<u><u>1,850.6</u></u>
Periodic premiums	55.7	55.0
Single premiums	947.2	1,795.6
New business premiums	<u><u>1,002.9</u></u>	<u><u>1,850.6</u></u>

All new business premiums represent direct business and are written in the United Kingdom. There is no inward reinsurance business. Incremental increases on existing policies are classified as new business premiums.

CANADA LIFE LIMITED

6 Net Investment return

	Technical account long-term business		Non-technical account	
	2019 £m	2018 £m	2019 £m	2018 £m
Income from land and buildings	93.9	97.5	-	-
Dividends received from subsidiaries	-	-	204.6	43.6
Income from financial instruments at fair value through profit and loss				
▪ Designated as such on initial recognition	579.8	599.6	21.4	24.7
Income from loans and receivables valued at amortised cost	100.8	93.6	1.6	1.2
Investment income	774.5	790.7	227.6	69.5
Unrealised (losses) from land and buildings	(69.8)	(23.3)	-	-
Unrealised gains/(losses) from financial instruments at fair value through profit and loss				
▪ Designated as such on initial recognition	381.3	(1,224.8)	15.8	(18.8)
Unrealised gains/(losses) on investments	311.5	(1,248.1)	15.8	(18.8)
Realised gains/(losses) from land and buildings	14.2	(13.2)	-	-
Realised gains from financial assets at fair value through profit and loss				
▪ Designated as such on initial recognition	792.9	365.1	3.9	(0.1)
Realised (losses)/gains from loans and receivables valued at amortised cost	(3.5)	41.1	-	-
Realised gains on investments	803.6	393.0	3.9	(0.1)
Reinsurers' share	(231.9)	(50.1)	-	-
Net Investment return	1,657.7	(114.5)	247.3	50.6

The note provides information on the gross investment income and the reinsurers' share in relation to investment income. The note has been presented to show the investment income, unrealised and realised gains/(losses) at a gross level with a separate line at the bottom of the note to deduct the reinsurers' share. In the current year the reinsurers' share of the investment return has been £231.9m (2018: £50.1m).

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7 Other technical income

	2019 £m	2018 £m
Fees from investment contracts	17.4	23.5
Movement in deferred income reserve	10.9	13.7
Other fee income	3.0	7.8
	<u>31.3</u>	<u>45.0</u>

8 Changes in technical provisions

Changes in long-term business provision

	2019 £m	2018 £m
Increase in insurance contract liabilities	305.7	340.4
Increase in investment contract liabilities	20.1	0.9
Increase in long-term business provision	<u>325.8</u>	<u>341.3</u>

Changes in technical provision for unit-linked liabilities

	2019 £m	2018 £m
Decrease in insurance contract liabilities	(300.1)	(83.5)
Increase/(Decrease) in investment contract liabilities	400.9	(209.1)
Increase/(Decrease) in technical provision for unit-linked liabilities net of reinsurance	<u>100.8</u>	<u>(292.6)</u>

9 Net operating expenses

	2019 £m	2018 £m
Acquisition costs	62.8	49.8
Changes in deferred acquisition costs	9.2	12.5
Other expenses	94.2	116.4
	<u>166.2</u>	<u>178.7</u>

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9 Net operating expenses (continued)

Net operating expenses include:

	2019 £m	2018 £m
Technical account		
Commission in respect of direct insurance	38.3	34.7
Fees payable to the Company's auditor and their associate for the audit of the Company's annual accounts	0.5	0.5
Fees payable to the Company's auditor and their associate for audit related assurance services to the Company	0.4	0.4
Fees payable to the Company's auditor and their associate for other services to the Company	0.1	0.1
	<u>1.0</u>	<u>1.0</u>

10 Taxation

(a) Long-term business

Tax charged in the long-term business technical account comprises:

	2019 £m	2018 £m
Current tax		
UK corporation tax	20.7	32.6
Overseas tax	-	0.2
Prior year adjustment	(1.0)	-
	<u>19.7</u>	<u>32.8</u>
Deferred tax		
Origination and reversal of timing differences	12.6	(27.2)
	<u>12.6</u>	<u>(27.2)</u>
Total tax charged in the long-term business technical account	<u>32.3</u>	<u>5.6</u>

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10 Taxation (continued)

(b) Tax on profit on ordinary activities

Tax charged in the non-technical account comprises:

	2019 £m	2018 £m
Current tax		
UK corporation tax	1.1	1.0
Tax charged attributable to balance on long-term business technical account	41.2	32.3
	<u>42.3</u>	<u>33.3</u>
Total current tax	<u>42.3</u>	<u>33.3</u>
Total tax charged in the non-technical account	<u>42.3</u>	<u>33.3</u>

The standard rate of tax applied to reported profit on ordinary activities is 19% (2018: 19%).

(c) Factors affecting current tax charge for the year

The tax assessed in the non-technical account is lower than the standard UK corporation tax rate, because of the following factors:

	2019 £m	2018 £m
Profit on ordinary activities before tax	<u>449.0</u>	<u>205.9</u>
Current tax charge at standard UK corporation tax rate of 19% (2018: 19%)	85.3	39.1
Effects of:		
Non-taxable dividend income	(38.9)	(8.3)
Other non-taxable income	6.0	5.0
Prior year adjustments	<u>(32.7)</u>	<u>(3.0)</u>
Current tax charge for the year (note 10(a))	<u>19.7</u>	<u>32.8</u>

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11 Investments

Financial Assets

Other financial investments

Financial assets designated at fair value through profit and loss

	2019 £m	2018 £m
Designated as such on initial recognition:		
• Shares and other variable yield securities and units in unit trusts – Listed	114.7	157.6
• Equity release mortgages	49.1	-
• Debts and other fixed income securities	15,606.5	15,815.2
• Deposits with credit institutions	735.5	488.9
	<u>16,505.8</u>	<u>16,461.7</u>
Loans and receivables:		
• Loans secured by mortgages	2,497.9	2,062.4
• Loans due from group companies	116.8	116.8
• Loans secured by policies of insurance	-	2.4
	<u>2,614.7</u>	<u>2,181.6</u>
Total other financial investments	<u><u>19,120.5</u></u>	<u><u>18,643.3</u></u>

For listed financial assets at fair value through profit and loss, fair value is by reference to quoted bid-values or where not available on a model price based upon market observable data. These model prices are derived by choosing a suitable index of external bonds and applying a spread to reflect any additional risk inherent to the specific deal.

For units in unit trusts and shares in open ended investment companies, fair value is by reference to published bid-values.

For equity release mortgages, there are no market observable prices; therefore, an internal valuation model is used discounting expected future cash flows. The cash flow analysis considers future expenses, discount rates, house price growth and volatility, assumed mortality and redemption experience and also a stochastic assessment of the negative equity guarantee embedded in the loan product.

Included in the investments portfolio are the following impaired investments:

	2019 £m	2018 £m
Mortgage loans	16.7	12.9
	<u>16.7</u>	<u>12.9</u>

The impaired mortgages had a gross value of £46.5m (2018: £24.6m) reduced by an impairment loss of £29.8m (2018: £11.7m). There are no other impaired assets in the current year (2018: £nil).

The table below shows financial assets carried at fair value through profit and loss by valuation method. The net derivative liabilities of £54.4m (2018: £77.3m) are disclosed below within level 2 analysis and gross amounts are disclosed in Note 30:

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11 Investments (continued)

	2019 £m	2018 £m
Quoted prices in active markets (level 1)	850.2	646.5
Valuation technique		
Market observable data (level 2)	15,552.2	15,738.0
Non-Market Observable (level 3)	49.1	-

Land and buildings

Land and buildings at current market value:

	Freehold	Leasehold	Total	Freehold	Leasehold	Total
	2019 £m	2019 £m	2019 £m	2018 £m	2018 £m	2018 £m
At 1 January	1,573.3	65.4	1,638.7	1,598.3	65.2	1,663.5
Transfer between categories	-	-	-	-	-	-
Additions	0.1	1.0	1.1	26.3	-	26.3
Disposals	-	-	-	(14.7)	-	(14.7)
Revaluation	(49.4)	(4.1)	(53.5)	(36.6)	0.2	(36.4)
At 31 December	<u>1,523.9</u>	<u>62.3</u>	<u>1,586.2</u>	<u>1,573.3</u>	<u>65.4</u>	<u>1,638.7</u>

Land and buildings at cost:

At 31 December	<u>1,367.1</u>	<u>82.5</u>	<u>1,449.6</u>	<u>1,367.0</u>	<u>81.6</u>	<u>1,448.6</u>
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All properties held by Canada Life Limited were valued as at 23 December 2019. The valuation of different parts of the portfolio was conducted by Cushman & Wakefield and BNP Paribas Real Estate Advisory, acting in the capacity of independent external valuers.

Investment properties were valued on the basis of open market value, being the estimated amount at which an investment property should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had acted knowledgeably, prudently and without compulsion.

The properties in owner occupation for the purposes of the Company's business were valued assuming vacant possession. All valuations were carried out in accordance with the RICS Valuation and Appraisal Standards.

Included in the figures shown for current market value is £9.0m (2018: £9.2m) in respect of buildings which are owned and occupied by the Company.

Investments in group undertakings and participating interests

	2019 £m	2018 £m
Shares in group undertakings	<u>1,453.3</u>	<u>1,453.3</u>

12 Other debtors

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	2019 £m	2018 £m
Due in less than one year		
UK corporation tax	-	5.4
Other debtors	17.3	12.9
Amounts due from group companies	91.1	55.5
	<u>108.4</u>	<u>73.8</u>
Due in more than one year		
Amounts receivable under finance leases	130.1	129.4
Total	<u>238.5</u>	<u>203.2</u>

The cost of assets held for the purpose of letting under finance leases is £130.1m (2018: £129.4m). The aggregate rentals receivable in the accounting period in respect of finance leases is £5.4m (2018: £3.1m).

13 Assets under construction

	2019 £m	2018 £m
Assets under construction	<u>6.5</u>	<u>-</u>

14 Assets held to cover linked liabilities

	2019		2018	
	Market Value £m	Historical Cost £m	Market Value £m	Historical Cost £m
Assets held to cover linked liabilities	<u>2,271.6</u>	<u>2,038.3</u>	<u>3,800.5</u>	<u>3,476.7</u>

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15 Technical provisions

Long-term business provision

	2019 £m	2018 £m
Insurance contract liabilities	19,194.9	18,889.2
Investment contract liabilities	0.5	15.2
Long-term business provision	<u>19,195.4</u>	<u>18,904.4</u>

Technical provision for linked liabilities

	2019 £m	2018 £m
Insurance contract liabilities	5.4	305.5
Investment contract liabilities	2,266.2	3,495.0
Technical provision for linked liabilities	<u>2,271.6</u>	<u>3,800.5</u>

16 Called up share capital

	2019 £m	2018 £m
Allotted, called up and fully paid		
Equity interest		
342.2m (2018: 342.2m) ordinary shares of £1 each	<u>342.2</u>	<u>342.2</u>

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17 Financial liabilities

In 2002 the Company entered into two subordinated loan agreements with other Canada Life group companies. One agreement, for a loan of £70m, is for a term of thirty years. The other agreement, for a loan of £40m, is for an undated term. In 2005, the Company borrowed £25m for a term of thirty years, under a new subordinated loan facility with a Canada Life group company, in connection with the acquisition of the Phoenix & London Assurance Limited annuity book.

In February 2006 the Company made an additional £65m drawdown under the subordinated loan facility established in 2005. This was part of a refinancing arrangement under which the Company paid a £65m 2006 interim dividend on 20 February 2006 to its parent undertaking The Canada Life Group (U.K.) Limited.

In May 2006 the Company borrowed an additional £130m under two new subordinated loan agreements with other Canada Life group companies, in connection with the reinsurance agreement with The Equitable Life Assurance Society. One agreement, for a loan of £50m, is for a term of thirty years. The other agreement, for a loan of £80m, is for an undated term.

Interest was payable in respect of the 2002 thirty year term loan at 2.25% per annum above London Inter-bank Offer Rate (LIBOR) for the first ten years, at which time the Company had the option to fully repay the loan. On 25 September 2012, no repayment was made and the ongoing liability was subject to interest at 2.90% per annum above LIBOR for the remaining term. The loan agreement was amended in February 2016 and the interest rate was updated to be in line with prevailing market rates. The loan is now subject to interest at 4.20% per annum above LIBOR for the remaining term. Any amount which falls due for payment under the terms of the agreement shall be suspended if, in the opinion of the Company's Chief Actuary (or such other person as the PRA shall approve), this would result in a breach of its required margin of solvency. The loan is immediately repayable in the event of any step being taken to wind up the Company. The lender may only petition for the winding up of the Company following the second anniversary of the default of the terms of the agreement by the Company. In a winding up no amount will be paid in respect of the subordinated debt until all policyholders and other creditors have been paid in full. Other than in these circumstances the lender cannot call for repayment of the loan within the term. Repayment of the subordinated debt is subject to no objection to such repayment being received from the Prudential Regulation Authority.

The terms of the 2002 undated subordinated debt are similar to the above. This loan was also amended in 2016 and is subject to interest at 4.20% per annum above LIBOR. In addition, repayment is subject to a minimum of five years' notice to the Prudential Regulation Authority.

The terms of the 2005 and February 2006 subordinated debts are similar to the above 2002 thirty year term loan with the exception of the applicable interest rates which are 0.8% and 1.05% per annum above LIBOR for the first ten years and subsequent years respectively.

The terms of the £50m May 2006 thirty year term subordinated debt are similar to the previous thirty year loans other than in respect of the interest rate, which is fixed at 5.65% per annum for the first ten years, and 5.9% in subsequent years.

The terms of the £80m May 2006 undated subordinated debt are similar to the 2006 thirty year term loan, with the exception that the Company can elect to defer payment of interest. Deferred interest may be paid by the Company in whole or part at any time, but would become payable on cancellation of the facility as a consequence of any steps having been taken to wind up the Company.

Total interest expense of £15.1m (2018: £14.6m) has been recognised in the non-technical account in respect of subordinated liabilities.

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17 Financial liabilities (continued)

The following table provides information about the maturity periods of the Company's subordinated liabilities as at 31 December 2019:

	< 1yr £m	1-5 yrs £m	5-15 yrs £m	15 yrs + £m	Total £m
Subordinated liabilities					
GBP LIBOR + 4.20% £70 million subordinated loan 2032 (a)	-	-	70.0	-	70.0
GBP LIBOR + 4.20% £40 million undated subordinated loan (a)	-	-	-	40.0	40.0
GBP LIBOR + 1.05% £25 million subordinated loan 2035 (b)	-	-	-	25.0	25.0
GBP LIBOR + 1.05% £65 million subordinated loan 2035 (b)	-	-	-	65.0	65.0
Fixed 5.90% £50 million subordinated loan 2036 (c)	-	-	-	50.0	50.0
Fixed 5.90% £80 million undated subordinated loan (c)	-	-	-	80.0	80.0
	-	-	70.0	260.0	330.0

The following table provides information about the maturity periods of the Company's subordinated liabilities as at 31 December 2018:

	< 1yr £m	1-5 yrs £m	5-15 yrs £m	15 yrs + £m	Total £m
Subordinated liabilities					
GBP LIBOR + 2.90% £70 million subordinated loan 2032 (a)	-	-	70.0	-	70.0
GBP LIBOR + 2.90% £40 million undated subordinated loan (a)	-	-	-	40.0	40.0
GBP LIBOR + 1.05% £25 million subordinated loan 2035 (b)	-	-	-	25.0	25.0
GBP LIBOR + 1.05% £65 million subordinated loan 2035 (b)	-	-	-	65.0	65.0
Fixed 5.65% £50 million subordinated loan 2036 (c)	-	-	-	50.0	50.0
Fixed 5.65% £80 million undated subordinated loan (c)	-	-	-	80.0	80.0
	-	-	70.0	260.0	330.0

(a) The interest rate changed to GBP LIBOR + 4.20% from GBP LIBOR + 2.90% during 2016 and GBP LIBOR + 2.90% from GBP LIBOR + 2.25% during 2012.

(b) The interest rate changed to GBP LIBOR + 1.05% from GBP LIBOR + 0.8% during 2015.

(c) The interest rate changed to 5.90% from 5.65% during 2016.

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18 Long-term business provision

The methodologies used to calculate the long-term business provision (LTBP) are as follows:

The Canadian Asset Liability Method (CALM) is used for the determination of policy liabilities for most lines of business. For non-participating business the actuarial liabilities are computed using a stable interest rate track which is based on the discount rate derived at the time the business was written. A Fair Value Adjustment, which is the difference between the market value and amortised value of the assets, is added to convert the actuarial liability valuation from a stable interest rate track to a market consistent valuation.

As noted in the introduction, on 1st November 2019, CLL UK transferred a heritage block to Scottish Friendly Assurance Society Limited via a Part VII Transfer under the UK Financial Services and Markets Act 2000. The transferred policies included unit-linked, individual life, individual health and with-profits policies. After the transfer, CLL UK has no participating policies. This note details relevant assumptions for the valuation of LTBP as at 31 December 2019 and so references to transferred business have been removed.

For non-linked business, the calculation of the long-term business provision is based on the discounted value of future benefits less future premiums and the value of future expenses of maintaining the policy.

For unit linked business, the provision is equal to the cancellation value of units (i.e. the value of the assets to which the contracts are linked) together with, where appropriate, a provision in respect of future expenses, mortality and other risks.

The principal assumptions used to calculate the long-term business provision at 31 December 2019 are as follows:

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18 Long-term business provision (continued)

Valuation interest rates¹ (net of tax) for material product groups:

Annuities in Payment (Non-linked)				
Product group	This valuation		Last valuation	
	Pre-2019 Business	2019 Business	Pre-2018 Business	2018 Business
Purchase Life Annuities (PLA)	3.26%	1.13%	3.25%	1.33%
CL Pensions Annuities (Non MA fund ²)	4.93%	2.61% (Non Linked) / 1.17% (Index Linked)	5.17%	2.95% (Non Linked) / 1.53% (Index Linked)
CL Pensions Annuities (MA fund ²)	4.85%	2.61% (Non Linked) / 1.17% (Index Linked)	4.84%	2.95% (Non Linked) / 1.53% (Index Linked)
Ex-PALAL Annuities (PALAL)	4.64%	n/a	4.56%	n/a
Ex-Equitable 2006 Annuities	4.89%	n/a	5.09%	n/a
Ex-Equitable 2015 GBP Annuities	3.25%	n/a	2.97%	n/a
Ex-Equitable 2015 EUR Annuities	1.55%	n/a	1.38%	n/a
Enhanced Annuities	3.96%	2.46% (Non Linked) / 1.14% (Index Linked)	4.50%	2.90% (Non Linked) / 1.54% (Index Linked)
Bulk Annuities	2.88%	2.46% (Non Linked) / Index Linked (2.42%)	2.66%	2.84% (Non Linked & Index Linked)
Death in Service (DIS)	4.60%	1.18% (Non Linked) / 1.03% (Index Linked)	4.58%	1.70% (Non Linked) / 1.55% (Index Linked)

Group Permanent Health Insurance (PHI) claims in payment ³						
Claim Type	This valuation			Last valuation		
	Existing claims (pre 2018)	Existing claims (2018)	New claims (2019)	Existing claims (pre 2017)	Existing claims (2017)	New claims (2018)
Non-linked	3.25%	3.25%	1.93%	4.05%	1.13%	2.38%
Index-linked	2.79%	2.79%	0.81%	3.59%	1.29%	2.38%

¹ Rates reported throughout this section are on a Canadian IFRS basis: amortised cost yields representing the average of the yields at the time the business was written less an amount in respect of asset defaults (ADP). A fair value adjustment is applied to convert actuarial liabilities to a market consistent basis. An adjustment is then made to the CIFRS actuarial liabilities to reflect the UK GAAP ADP basis

² Canada Life Pension Annuities have been split into Matching adjustment (MA) and Non-Matching adjustment (Non MA) funds for the purposes of the Solvency II valuation

³ Some classes of index-linked business are subject to a cap on the annual increases applied and are treated as non-linked for valuation purposes. The valuation interest rates for non-linked and index-linked business reflect this reallocation. In 2019 the methodology was changed with respect to interest rates such that claims are split into 2 cohorts – current year and all previous years.

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18 Long-term business provision (continued)

Non-Participating and Property linked policies		
Product group	This valuation	Last valuation
<i>Non-Participating policies</i>		
IPP	1.67%	1.67%
<i>Property linked policies</i>		
Lifetime Annuity Growth Account (AGA) annuities	Same as CL Pension Annuities (Non MA Fund)	5.83%
Ex-ELAS unit-linked annuities	3.25%	2.58%
Other insurance contracts	4.08%	4.08%

The interest rate assumptions in the valuation are amortised cost interest rates reflecting yields on assets at the time the business was written. They vary from year to year as they reflect the yields on assets backing the new business written each year.

Bond, finance lease and other financing arrangements and commercial mortgage asset default provisions (ADP) for expected default losses are derived using ADP factors. The ADP factors vary by the company's internal rating for each asset and by cash flow term. The factors allow for the risk of costs arising from default and downgrade, calibrated to a specified percentile conditional tail expectation of internal risk models. Bonds, finance leases and financing arrangements are calibrated to the 80th percentile whereas commercial mortgages are calibrated to the 70th percentile. They are applied as reductions to the asset cash flows to quantify the impact of defaults, the ADP for each asset being the present value of these asset default cash flows.

Bond ratings and mortgage ratings are determined by using CLL's internal rating models.

An additional allowance for long-term unexpected default losses on credit assets is made by applying an uplift to the ADP for bonds, finance leases and other financing arrangements and mortgages.

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18 Long-term business provision (continued)

Mortality assumptions (inclusive of prudent margins) for material blocks of business are set out below:

Product group	This valuation	Last valuation
IPP Term Assurances	Males: 90.0% of the Reinsurer's Rates plus an addition of (0.01 / expectation of life) at each age Females: 90.0% of the Reinsurer's Rates plus an addition of (0.01 / expectation of life) at each age	Males: 90.0% of the Reinsurer's Rates plus an addition of (0.01 / expectation of life) at each age Females: 90.0% of the Reinsurer's Rates plus an addition of (0.01 / expectation of life) at each age
Annuities in payment (PLA) ⁴	Males: 73.6% LML08 tapering from age 100 to 92% LML08 at age 120 with improvements basis (2) Females: 91.1% LFL08 tapering from age 100 to 92% LFL08 at age 120 with improvements basis (2)	Males: 73.6% LML08 tapering from age 100 to 92% LML08 at age 120 with improvements basis (1) Females: 91.1% LFL08 tapering from age 100 to 92% LFL08 at age 120 with improvements basis (1)
Annuities in payment (Canada Life Pensions Annuities & Fixed Term Income Plan) ⁵	Males: 90.3% CLM10 tapering from age 92 to 95% CLM10 at age 100 with improvements basis (2) Females: 93.1% CLF10 tapering from age 92 to 95% CLF10 at age 100 with improvements basis (2) Both with select adjustments S2 Both with postcode adjustments (where applicable) Both with lifestyle factors (where applicable)	Males: 89.3% CLM10 tapering from age 92 to 95% CLM10 at age 100 with improvements basis (1) Females: 93.1% CLF10 tapering from age 92 to 95% CLF10 at age 100 with improvements basis (1) Both with select adjustments S1 Both with postcode adjustments (where applicable) Both with lifestyle factors (where applicable)
Annuities in payment (Ex – PALAL) ⁵	Males: 97.9% CLM10 tapering from age 92 to 95% CLM10 at age 100 with improvements basis (2) Females: 93.1% CLF10 tapering from age 92 to 95% CLF10 at age 100 with improvements basis (2) No select adjustments apply	Males: 99.8% CLM10 tapering from age 92 to 95% CLM10 at age 100 with improvements basis (1) Females: 93.1% CLF10 tapering from age 92 to 95% CLF10 at age 100 with improvements basis (1) No select adjustments apply

⁴ A temporary reserve is additionally held to reflect some short term volatility which has been observed in the mortality improvement rates over recent years, in particular since 2011 onwards.

⁵ The underlying mortality tables for main blocks (i.e. excluding PLAs and DIS) use Canada Life's own graduated tables. The tables were graduated from data covering 2007 to 2013 including data from the two main blocks of annuitants in the UK (ex-PALAL and ex-ELAS).

CANADA LIFE LIMITED

18 Long-term business provision (continued)

Product group	This valuation	Last valuation
Annuities in payment (Ex-Equitable 2006 & Ex-Equitable 2015) ⁵	Males: 98.8% CLM10_L tapering from age 92 to 95% CLM10_L at age 100 with improvements basis (2) Females: 93.1% CLF10 tapering from age 92 to 95% CLF10 at age 100 with improvements basis (2) Both with select adjustments S2 (without year of entry factors)	Males: 97.9% CLM10_L tapering from age 92 to 95% CLM10_L at age 100 with improvements basis (1) Females: 93.1% CLF10 tapering from age 92 to 95% CLF10 at age 100 with improvements basis (1) Both with select adjustments S1 (without year of entry factors)
Annuities in payment (Bulk – Annuities) ⁵	Schemes reserved under Non Club Vita Basis Males: 95.0% S2PMA with improvements basis (2) Females: 95.0% S2PFA with improvements basis (2) No select adjustments apply Both with bulk adjustments B1 Schemes reserved under Club Vita Basis Males: 95.0% S3PMA with improvement basis (2) Females: 95.0% S3PFA with improvement basis (2) Some schemes use scheme specific base mortality factors derived from their own experience. No select adjustments apply Both with bulk adjustments B2	Schemes reserved under Non Club Vita Basis Males: 95.0% S2PMA with improvements basis (1) Females: 95.0% S2PFA with improvements basis (1) No select adjustments apply Both with bulk adjustments B1 Schemes reserved under Club Vita Basis Males: 95.0% S3PMA with improvement basis (2) Females: 95.0% S3PFA with improvement basis (2) Some schemes use scheme specific base mortality factors derived from their own experience. No select adjustments apply Both with bulk adjustments B2
Annuities in payment (DIS) ⁵	Males: 87.4% NLTEW0911_M tapering from age 92 to 92% NLTEW0911_M at age 120 with improvements basis (2) Females: 87.4% NLTEW0911_F tapering from age 92 to 92% NLTEW0911_F at age 120 with improvements basis (2) No select adjustments apply	Males: 87.4% NLTEW0911_M tapering from age 92 to 92% NLTEW0911_M at age 120 with improvements basis (1) Females: 87.4% NLTEW0911_F tapering from age 92 to 92% NLTEW0911_F at age 120 with improvements basis (1) No select adjustments apply
Annuities in payment (Enhanced) ⁵	Males: 85.6% PNMA00 with improvements basis (2) Females: 73.6% PNFA00 with improvements basis (2) Both with postcode adjustments (where applicable) Impairment factors apply ⁶ No select adjustments apply	Males: 85.6% PNMA00 with improvements basis (1) Females: 73.6% PNFA00 with improvements basis (1) Both with postcode adjustments (where applicable) Impairment factors apply ⁶ No select adjustments apply

⁶ Enhanced annuities use additional adjustments for specific medical conditions for impaired lives, applied on a case-by-case basis.

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18 Long-term business provision (continued)

Product group	This valuation	Last valuation
Property linked policies (Life SP - SIB)	Males: 81.0% AM92 2yr Sel Females: 132.75% AF92 2yr Sel	Males: 81.0% AM92 2yr Sel Females: 132.75% AF92 2yr Sel
Property linked policies (Life SP - Other, including FIB, and Select)	Males: 85.25% AM92 2yr Sel Females: 110.0% AF92 2yr Sel	Males: 85.25% AM92 2yr Sel Females: 110.0% AF92 2yr Sel

Improvements Basis (1)

Males:

CMI_2017_M, smoothing parameter $S_k = 7.75$

Initial Rates of Improvement = default rate

Long term rate of improvement =

2000-2018: 1.50% up to age 80 reducing to 0% at age 110

2019+: 1.5% up to age 80 reducing to 0% at age 110 plus the following additions, which are 150% of the prescribed Canadian Actuarial Standards Board (ASB) rates, in each year of projection:

Age	Addition
0-40	1.5% p.a.
41-60	Linearly reducing
61-90	0.75% p.a.
91-104	Linearly reducing
105-115	0.3% p.a.
116+	0%

Females:

CMI_2017_F, smoothing parameter $S_k = 7.75$

Initial Rates of Improvement = default rate

Long term rate of improvement =

2000-2018: 1.50% up to age 80 reducing to 0% at age 110

2019+: 1.5% up to age 80 reducing to 0% at age 110 plus the following additions, which are 150% of the prescribed Canadian Actuarial Standards Board (ASB) rates, in each year of projection:

Age	Addition
0-40	1.5% p.a.
41-60	Linearly reducing
61-90	0.75% p.a.
91-104	Linearly reducing
105-115	0.3% p.a.
116+	0%

CANADA LIFE LIMITED

18 Long-term business provision (continued)

Improvements Basis (2)

Males:

CMI_2018_M, smoothing parameter $S_k = 7.5$

An addition of 0.3% p.a., tapering to nil between ages 90 and 100, is applied to initial rates of improvement to adjust for the socioeconomic profile of CLL annuitants. This adjustment reduces over time in line with the age-period convergence assumption.

No cohort effects are fitted for those aged 40 and younger in 2018.

Long term rate of improvement =

2000-2019: 1.5% up to age 80 reducing to 0% at age 110

2020+: 1.5% up to age 80 reducing to 0% at age 110 plus the following additions, which are 150% of the prescribed Canadian Actuarial Standards Board (ASB) rates, in each year of projection:

Age	Addition
0-40	1.5% p.a.
41-60	Linearly reducing
61-90	0.75% p.a.
91-104	Linearly reducing
105-115	0.3% p.a.
116+	0%

A manual reserve adjustment has been introduced in respect of ages 95 and above to reduce the impact of the increase in size of negative improvements at these ages between CMI 2017 and CMI 2018.

Females:

CMI_2018_F, smoothing parameter $S_k = 7.5$

An addition of 0.3% p.a., tapering to nil between ages 90 and 100, is applied to initial rates of improvement to adjust for the socioeconomic profile of CLL annuitants. This adjustment reduces over time in line with the age-period convergence assumption.

No cohort effects are fitted for those aged 40 and younger in 2018.

Long term rate of improvement =

2000-2019: 1.5% up to age 80 reducing to 0% at age 110

2020+: 1.5% up to age 80 reducing to 0% at age 110 plus the following additions, which are 150% of the prescribed Canadian Actuarial Standards Board (ASB) rates, in each year of projection:

Age	Addition
0-40	1.5% p.a.
41-60	Linearly reducing
61-90	0.75% p.a.
91-104	Linearly reducing
105-115	0.3% p.a.
116+	0%

A manual reserve adjustment has been introduced in respect of ages 95 and above to reduce the impact of the increase in size of negative improvements at these ages between CMI 2017 and CMI 2018.

Details of the adjustments referred to in the table are as follows:

Adjustments S1:

30 year select factors apply for each year of entry from 1997 to 2018, which are combined with residual select factors for the first 10 years of the annuity. The following residual factors apply for both sexes for the first 10 years of the annuity (i.e. the mortality rate is multiplied by the factor below):

Year 1: 45%	Year 5: 72%	Year 9: 91%
Year 2: 58%	Year 6: 77%	Year 10: 95%
Year 3: 63%	Year 7: 81%	Year 11 onwards: 100%
Year 4: 67%	Year 8: 86%	

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18 Long-term business provision (continued)

Adjustments S2:

30 year select factors apply for each year of entry from 1997 to 2019, which are combined with residual select factors for the first 10 years of the annuity. The following residual factors apply for both sexes for the first 10 years of the annuity (i.e. the mortality rate is multiplied by the factor below):

Year 1: 45%	Year 5: 72%	Year 9: 91%
Year 2: 58%	Year 6: 77%	Year 10: 95%
Year 3: 63%	Year 7: 81%	Year 11 onwards: 100%
Year 4: 68%	Year 8: 86%	

Adjustments B1:

The following bulk factors apply at age 60 for both sexes (i.e. the mortality rate is multiplied by the factor below):

Bulk Class 1: 62%	Bulk Class 4: 98%	Bulk Class 7: 192%
Bulk Class 2: 74%	Bulk Class 5: 117%	
Bulk Class 3: 89%	Bulk Class 6: 139%	

The factors taper to 100% between ages:

75-95 for Bulk Classes 1-4
60-95 for Bulk Classes 5-7

Adjustments B2:

The mortality rates are calculated using factors that depend on postcode grouping, geographic region, annuity size band and pensioner retirement status, varying by age and sex. According to the mapping of an individual life to the above mentioned factors, corresponding adjustments will be selected to be applied to the base mortality assumption.

Morbidity:

Non-Profit Fund: product group	This valuation	Last valuation
Group income protection claims in payment (termination rates)	<p>Recoveries: 61.2% of CMIR12 in the first year 105.3% of CMIR12 in the second year 102.0% for the next three years 62.9% for the next five years 34.0% thereafter.</p> <p>Deaths: 207% of CMIR12 in the first year 235.8% of CMIR12 in the second year 123.3% for the next three years 65.5% for the next five years 27.2% thereafter.</p>	<p>Recoveries: 61.2% of CMIR12 in the first year 99.0% of CMIR12 in the second year 102.0% for the next three years 64.6% for the next five years 34.0% thereafter.</p> <p>Deaths: 243% of CMIR12 in the first year 243.0% of CMIR12 in the second year 123.3% for the next three years 59.5% for the next five years 25.5% thereafter.</p>

Persistency:

Policy Year	Average prudent lapse rate for the policy years				
	1-5	6-10	11-15	16-20	21+
IPP - Level term	8.6%	4.5%	4.0%	3.2%	2.4%

A margin of 20% is added to the best estimate lapse rate. The direction of the margin is determined at a product grouping level such that sufficient prudent reserves are held. For IPP the 4 product variants level term, decreasing term, level term plus and decreasing term plus are used for the product grouping.

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18 Long-term business provision (continued)

Expenses:

A margin of 10% is added to best estimate maintenance expenses.

The significant sensitivities are as follows:

- A decrease of 10% in our annuity mortality assumptions would increase net annuity reserves by approximately 2.3%, while a decrease of 0.1% in valuation rate of interest would increase net annuity reserves by about 1.1%.
- A decrease of 10% in our Group Income Protection (IP) termination and mortality assumptions would increase Group IP claims in payment net reserves by approximately 3.0%.

During 2006 the Company acquired an annuity block of The Equitable Life Assurance Society ("ELAS"). As part of this acquisition the Company entered into a reinsurance agreement where the Company ceded 15% of this acquired book to Canada Life International Re Limited ("CLIRe"), a fellow group undertaking, on a funds withheld basis. This arrangement changed in 2008. Two new arrangements were put in place and currently 25% of longevity risk is ceded to Royal Bank of Canada (RBC) under a reinsurance treaty, and 13.3% of the longevity risk is passed to J.P. Morgan Ventures Corporation ("JPM") under an analogous non-reinsurance financing arrangement. In addition, the treaty with CLIRe was extended so that 25% (instead of the 15% previously) of the remaining liabilities for this business was reassured with CLIRe.

In July 2011 the agreement with CLIRe was novated to Canada Life Assurance Company Barbados Branch ("CLACBB"), and effective 1 July 2012 the treaty with CLACBB was extended so that 40% (previously 25%) of the remaining liabilities for this business is reassured with CLACBB. During 2015 the treaty with CLACBB was further extended so that 90% of the remaining liabilities for this business is reassured, effective 1 January 2015. The total impact of the above arrangements on the end of 2019 balance sheet is to reduce gross technical provisions by £2,199.4m (2018: £2,358.8m).

During 2005 the Company acquired the annuity book of Phoenix & London Assurance Limited ("PALAL"). As part of this acquisition the Company entered into a reinsurance agreement where the Company ceded 40% of this acquired book to CLIRe, a fellow group undertaking, on a funds withheld basis. In July 2011 this agreement with CLIRe was novated to CLACBB. During 2015 the treaty with CLACBB was extended so that 90% of the remaining liabilities for this business is reassured, effective 1 January 2015. The impact of this treaty on the year end 2019 balance sheet is to reduce gross technical provisions by £886.1m (2018: £958.4m).

Reinsurance with CLIRe transferred, during 2018, to London Life and General Reinsurance dac ("LLGR"), which has since been renamed as Canada Life Re Ireland dac.

During 2008 the Company entered into a 50% quota share agreement with Hannover Rueckversicherung AG & Hannover Life Reassurance (UK) Ltd (following a business transfer, the entire agreement is now with Hannover Rueckversicherung AG) to reinsure its impaired life annuities. The impact of this treaty on the end of 2019 balance sheet is to reduce gross technical provisions by £222.9m (2018: £208.1m).

During 2015 the Company reassured a £850m block of pension and general payout annuities from Equitable Life (effective 1 January 2015). The Company acquired this business from Equitable Life in February 2016 via a Part VII transfer. The block consists of Sterling and Euro denominated policies (Irish and German annuities) as well as three US dollar denominated policies. The Company has entered into a reinsurance agreement where the Company ceded 90% of the Sterling denominated pension and general payout annuities within this block to CLACBB on a funds withheld basis. The impact of this treaty on the end of 2019 balance sheet is to reduce gross technical provisions by £525.1m (2018: £541.4m).

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18 Long-term business provision (continued)

During 2016, the Company ceded 50% of the longevity risk from annuities originally sold by the Company before 2010 to CLACBB. 100% of the longevity risk from Group Death-in-service Annuities in force at 31 December 2015 was also ceded to CLACBB. The impact of these treaties on the end of 2019 balance sheet is to reduce gross technical provisions by £137.3m (2018: £153.9m).

During 2018, the Company ceded 90% of the longevity risk from bulk annuities sold by the Company since 2015 to Canada Life Annuity Reinsurance Ltd ("CLAR"). This arrangement was carried out as three transactions, with the first tranche effective in January 2018, the second in October 2018 and the third in October 2019. The impact of this reinsurance on the end of 2019 balance sheet is to increase gross technical provisions by £17.1m.

Additional reinsurance arrangements are in place for group income protection, group life and individual life. The cumulative impact of these treaties on the end of 2019 balance sheet is to reduce gross technical provisions by £129.1m (2018: £136.7m).

19 Deferred taxation

(i) The deferred tax liability, included within provisions for other risks and charges comprises:

	2019 £m	2018 £m
Unrealised gains on investments	21.9	9.0
Provisions and other timing differences	1.4	3.2
Deferred tax liability	<u>23.3</u>	<u>12.2</u>

(ii) Movements in the deferred tax balances are analysed as follows:

	2019 £m	2018 £m
At 1 January	12.2	39.4
Income statement	12.5	(27.2)
Deferred tax on with profits	(1.4)	-
At 31 December	<u>23.3</u>	<u>12.2</u>

The tax attributes which are recognised do not have an expiry date.

Deferred tax is recognised at a corporation tax rate of 17% for shareholder timing differences and 20% for policyholder timing differences. Subsequent to the balance sheet date, measures were introduced in Budget Resolutions to revert the 17% rate to 19% from 1 April 2020.

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20 Other creditors including taxation

	2019 £m	2018 £m
Due in less than one year		
UK corporation tax	30.9	-
Amounts owed to group companies	46.2	26.7
Other creditors	152.7	124.6
Total	<u>229.8</u>	<u>151.3</u>

For other creditors, the fair value approximates to the book value due to their short maturity.

21 Other provisions

In 2018, the Company recorded a restructuring provision in respect of activities aimed at achieving planned expense reductions and an organisational realignment. The expense reductions will be achieved through system exit costs, reduction in staff and other costs as a result of the planned integration of Retirement Advantage into the Company along with the sale of the heritage block of individual policies to Scottish Friendly.

	£m
At 1 January 2019	35.1
Amounts used	(12.6)
At 31 December 2019	<u>22.5</u>

22 Staff costs

The Company had no employees during the year (including directors) (2018: none).

With effect from 1 April 2005, all staff contracts of employment with the Company were transferred to CLFIS (U.K.) Limited ("CLFIS"), a fellow subsidiary of its parent undertaking CLG. The associated costs are recharged back to the Company, where appropriate.

23 Directors' emoluments

Certain directors of this Company have served during the year as directors of other companies within the Great-West Lifeco Inc. group of companies, and their remuneration has been paid by other group companies. These directors do not apportion their remuneration between their services as directors of the Company and their services as directors of entities within the group; as such no disclosure is made in relation to their emoluments.

Certain directors of this Company have their remuneration paid by CLFIS, a fellow subsidiary of CLG. It is not considered practicable to apportion the emoluments between their services as directors of the Company and their services as directors of other group undertakings. In respect of these directors the aggregate amount of emoluments and fees paid during the year was as follows:

	2019 £'000	2018 £'000
Fees	543	493
Emoluments	<u>1,014</u>	<u>1,054</u>
Highest paid director Emoluments	<u>1,014</u>	<u>1,054</u>

CANADA LIFE LIMITED

23 Directors' emoluments (continued)

During the year, CLFIS made contributions of £8k (2018: £7k) into the defined contribution pension scheme on behalf of the highest paid director. During the year, CLFIS made contributions on behalf of one (2018: one) director into the defined contribution pension scheme.

As at 31 December 2019, one (2018: one) of the Company's directors who was employed within the UK group of companies had share options. No director who was employed within the UK group of companies exercised share options during the year (2018: no director).

24 Finance leases receivable

Amounts receivable under Finance leases relate to Assets held for the purpose of letting:

	2019	
	Minimum lease payments £m	Present value of minimum lease payments £m
Within one year	5.5	5.4
Second to fifth years inclusive	23.5	20.7
More than five years	231.6	104.0
	260.6	130.1
Less: unearned finance lease income	(130.5)	
Total finance leases receivable	130.1	130.1

	2018	
	Minimum lease payments £m	Present value of minimum lease payments £m
Within one year	5.4	5.3
Second to fifth years inclusive	23.3	20.2
More than five years	244.1	104.5
	272.8	130.0
Less: unearned finance lease income	(142.8)	
Total finance leases receivable	130.0	130.0

CANADA LIFE LIMITED

25 Operating leases receivable

The future minimum lease payments receivable under non-cancellable operating leases as follows:

	2019 £m	2018 £m
No later than one year	89.0	94.9
Later than one year and not later than five years	296.2	324.4
Later than five years	495.3	543.5
	<u>880.5</u>	<u>962.8</u>

Operating lease receivable is related to rental income from the Company's property investment portfolio.

26 Related party transactions

No contracts of significance existed at any time during the year in which a director or key manager was materially interested or which requires disclosure as a related party transaction as defined under FRS 102 section 33 Related Party Disclosures. No other contracts of significance existed at any time during the year between the Company and other related parties that similarly require disclosure under FRS 102 section 33. Advantage has been taken under FRS 102.33.1A, Related Party Disclosures, not to disclose transactions between entities, 100% of whose voting rights are controlled within the Great-West Lifeco Inc group of companies.

27 Dividend paid

	2019 £m	2018 £m
Dividends paid in the year	246.6	133.6
	<u>246.6</u>	<u>133.6</u>

28 Capital Commitments

Authorised and contracted commitments not provided for in respect of investment properties, finance leases and other financial assets' developments, payable after 31 December 2019: £95.6m (2018: £141.1m). Of the amount due, £95.5m is expected to be provided for in the next 12 months (2018: £111.1m). Of the amount due, £7.9m is in respect of investment properties (2018: £0.1m).

CANADA LIFE LIMITED

29 Supplementary information in respect of Financial Reporting Standard 103 Insurance contracts (unaudited)

In March 2014, the FRC issued FRS 103 on Insurance contracts. In summary, FRS 103 largely permits entities to continue with existing accounting policies for insurance contracts.

The Company is regulated by the Prudential Regulation Authority ("PRA") and is subject to insurance solvency regulations which specify the minimum amount and type of capital that must be held in addition to the insurance liabilities.

The Solvency II regime has been effective from 1 January 2016 and establishes a new set of EU-wide capital requirements, risk management and disclosure standards. The Company is required to meet a Solvency Capital Requirement ("SCR") which is calibrated to seek to ensure a 99.5% confidence of the ability to meet obligations over a 12 month time horizon. Following regulatory approval in December 2019 the company uses a Partial Internal Model for the calculation of the Credit, Longevity and Catastrophe components of the SCR. All other components of the SCR are calculated using the Standard Formula.

The capital statement in respect of the Company's life and pensions business is set out below. This statement shows an analysis of available capital resources calculated on a Solvency II basis. It also shows the regulatory capital requirements and, in total, the overall surplus capital over regulatory requirements.

2019 Capital statement table

	MPF ⁷	LTBF ⁸	2019 Total business £m
	£m	£m	£m
Shareholders' funds	-	3,054	3,054
Other qualifying capital	-	3,054	3,054
Subordinated Debt	-	330	330
Adjustments onto regulatory basis	-	330	330
Adjustment to assets	-	498	498
Fair value of Subordinated Debt	-	121	121
Own Funds	-	4,003	4,003
Solvency Capital Requirement			2,551
UK Capital Resources Requirement			2,551
Overall surplus capital over regulatory requirements			1,452

⁷ Manulife with-profits fund

⁸ Long-term business provision

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29 Supplementary information in respect of Financial Reporting Standard 103 Insurance contracts (unaudited) (continued)

2018 Capital statement table

	MPF	LTBF	2018 Total business £m
	£m	£m	£m
Shareholders' funds	-	2,894	2,894
Other qualifying capital			
Subordinated Debt	-	330	330
Fund for future appropriations (FFA)	36	-	36
	36	330	366
Adjustments onto regulatory basis			
Adjustment to assets	-	889	889
Fund for Future Appropriations ⁹	(36)	-	(36)
Fair value of Subordinated Debt	-	33	33
Own Funds	-	4,146	4,146
Solvency Capital Requirement			2,608
UK Capital Resources Requirement			2,608
Overall surplus capital over regulatory requirements			1,538

⁹ FFA does not exist under Solvency II.

CANADA LIFE LIMITED

29 Supplementary information in respect of Financial Reporting Standard 103 Insurance contracts (unaudited) (continued)

Movement in the year

The overall surplus capital has decreased by £86m in the year comprising a £143m decrease in total available capital resources (Own Funds) and a £56m decrease in the required capital under Solvency II, i.e. the SCR.

	Total L&P Business £m
Own Funds 2018	4,146
<u>Capital movements</u>	
Expected surplus emerging over 2019	142
New business contribution	17
Investment gains/losses	(11)
Longevity Swap	25
Other Economic Impacts	52
Non-economic experience gains/losses	(25)
Assumption changes	83
Tax	(2)
Changes in Transitional Measure on Technical Provisions	(181)
Dividends paid	(247)
Other factors	4
Own Funds 2019	4,003

The Transitional Measure on Technical Provisions included under the Solvency II regime allows companies to smooth the transition from Solvency I to Solvency II over 16 years. The Transitional Measure on Technical Provisions can be recalculated every 24 months or more frequently if there is a material change in risk profile.

This was recalculated at 31 December 2019, two years after the previous recalculation at 31 December 2017.

The movements in Own Funds are detailed below:

- **Expected Surplus emerging over 2019:**
This relates to expected investment returns in excess of the valuation discount rate used in calculating the liabilities, and the expected release of risk margin as in-force business runs off.
- **New Business Contribution:**
New business contribution materially arises from the annuity bulk deals purchased over 2019

CANADA LIFE LIMITED

29 Supplementary information in respect of Financial Reporting Standard 103 Insurance contracts (unaudited) (continued)

Movement in the year (continued)

- **Investment gains:**
Own Funds have decreased as discount rates fell over 2019 due to the EIOPA risk free rate decreasing (movements vary by duration along the curve), and the matching and volatility adjustments decreasing by 22 and 12 bps respectively. This is partially offset by bond and mortgage experience which has increased the value of Own Funds from movements in spread and better than expected downgrades and defaults experience.
- **Implementation of Longevity Swap Arrangement:**
CLL has entered a third tranche of the longevity swap arrangement with Canada Life Annuity Reinsurance (CLAR) effective 1 October 2019. The swap increases Own Funds due to the reduced exposure to longevity risk, reducing risk margin.
- **Other Economic Impacts:**
This is mainly driven by movements in the Irish Life participation. During 2019 participations increased in value by £199m from non-currency related factors, of which £205m was paid to CLL through a dividend. In addition, currency movements on the Irish Life participation led to a decrease in Own Funds of £140m.
- **Non-economic experience gains/losses:**
This covers liability experience, the capping of mortgage ratings, partially offset by changes in operational risk capital and the impact of the transfer of the heritage block of policies to Scottish Friendly via a Part VII transfer.
- **Assumption Changes:**
Following the annual basis change review process, a number of assumption changes were made. The increase in Own Funds arises predominantly from updates to longevity assumptions, update to inflation modelling (use of economic scenario generated inflation curves within valuation model) and update to expense assumptions to reflect recent experience.
- **Tax:**
The actuarial liabilities include certain provisions for shareholder tax. The movement in these provisions and tax paid over the year reduced Own Funds by £3m.
- **Changes in Transitional Measure on Technical Provisions:**
The Transitional Measure on Technical Provisions linearly runs off each year, with the intention of smoothly running off over 16 years. During 2019, the Biennial Recalculation of the TMTP also took place. The reduction in own funds over 2019 is due to a combination of these items.
- **Dividends:**
Total dividends of £247m were paid during 2019 to Canada Life Group (U.K.) Limited.
- **Other:**
There were several other items which had offsetting impacts to Own Funds; the most significant being the impact of moving to using the Partial Internal Model (PIM) for calculating capital.

CANADA LIFE LIMITED

29 Supplementary information in respect of Financial Reporting Standard 103 Insurance contracts (unaudited) (continued)

Basis of calculating available capital resources in life and pensions business

The available capital (Own Funds) of the UK business has been determined in accordance with Solvency II regulations and amounts to £4,003m (2018: £4,146m).

The Own Funds include £330m face value of subordinated debt (2018: £330.0m) which had a market value of £451m at 31 December 2019 (2018: £363.1m).

It is the Company's policy to ensure that it is adequately capitalised to support its life business and exceed Solvency II regulatory capital requirements.

Basis of calculating the Solvency II regulatory capital requirement in life and pensions business

Each life assurance Company must retain sufficient capital to meet the Solvency II regulatory capital requirements under the Solvency II regulations. The company uses its approved Partial Internal Model for the calculation of the Credit, Longevity and Catastrophe components of the SCR. All other components of the SCR are calculated using the Standard Formula. The SCR is deducted from Own Funds to give the overall surplus capital over regulatory requirements.

Constraints over available capital resources

The Matching Adjustment fund under Solvency II is ring fenced but there is flexibility, subject to certain rules, to withdraw assets in excess of the liabilities if certain criteria are met. Otherwise there are no constraints on the utilisation of assets between funds to meet the solvency requirements.

Sensitivity analysis

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

The most significant sensitivities arise from the following risks:

- Longevity risk – this is the potential loss or volatility of earnings or capital arising from an adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of mortality rates, where a decrease in the mortality rate leads to an increase in the value of insurance liabilities;
- Market risk – the risk of loss arising from changes in the values of, or income from, assets, or interest or exchange rates. A risk of loss also arises from changes in the volatility of asset prices, interest rates or exchange rates.
- Credit risk – this is the potential loss or volatility of earnings or capital arising from the inability or unwillingness of a counterparty to meet its on-balance sheet and off-balance sheet contractual obligations. Financial losses are attributed to:
 - the default of that security in its financing obligations;
 - the downgrade of a security's creditworthiness; and
 - a change in the yield premium required by the market in respect of credit risk on risky assets.

CANADA LIFE LIMITED

29 Supplementary information in respect of Financial Reporting Standard 103 Insurance contracts (unaudited) (continued)

- Expense risk – this is the potential loss or volatility of earnings or capital arising from variability of expenses incurred with fee for service business or in servicing and maintaining insurance, savings, or reinsurance contracts (e.g. the variability in expense liability cash flows due to the variation of the in-force policies, excess claims, lapses and surrenders, asset management, new business decrease or other circumstances that could have an impact on unit expenses);
- Operational risk – this is the potential loss or volatility of earnings or capital arising from potential problems due to inadequate or failed internal processes, people and systems or from external events;
- Persistency risk – this is the potential loss or volatility of earnings or capital arising from adverse change in the value of insurance liabilities, resulting from changes in the level or volatility of the rates of policy lapses, terminations, renewals and/or surrenders. For lapse supported products, a decrease in the lapse rate leads to an increase in the value of the insurance liabilities. For lapse sensitive products, an increase in the lapse rate leads to an increase in the value of the insurance liabilities;
- Mortality risk – this is the potential loss or volatility of earnings or capital arising from an adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of mortality rates, where an increase in the mortality rate leads to an increase in the value of insurance liabilities;
- Morbidity risk – this the potential loss or volatility of earnings or capital arising from an adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of disability, health, dental, critical illness and other sickness rates, where an increase in the incidence rate or a decrease in the disability recovery rate leads to an increase in the value of insurance liabilities; and
- Catastrophe risk – two sources of catastrophe risk arise through mortality and morbidity risk:
 - Mortality catastrophe risk is the potential loss or volatility of earnings or capital arising from adverse change in the value of insurance liabilities, resulting from the significant uncertainty of pricing and provisioning assumptions related to extreme or irregular mortality events; and
 - Morbidity catastrophe risk is the potential loss or volatility of earnings or capital arising from adverse change in the value of insurance liabilities, resulting from the significant uncertainty of pricing and provisioning assumptions related to extreme or irregular morbidity events.

The timing of any impact on capital would depend on the interaction of past experience and assumptions about future experience. In general, if experience had deteriorated or was expected to deteriorate and management actions were not expected to reduce the future impact then assumptions relating to future experience used in determining the appropriate levels of technical provisions would be changed to reflect it. In this way, liabilities would be increased to anticipate the future impact on the capital position. Examples of possible management actions include changes to discretionary surrender terms.

CANADA LIFE LIMITED

29 Supplementary information in respect of Financial Reporting Standard 103 Insurance contracts (unaudited) (continued)

Options and guarantees

Options and guarantees are features of life assurance and pensions' contracts that confer potentially valuable benefits to policyholders.

Some annuity payments are linked to inflation though subject to a maximum cap and minimum floor, which are taken into account to project the liability cash flows used in the valuation. The caps and floors are a common feature for inflation linked benefits for the bulk annuity business.

Assumptions

The assumptions that have the greatest effect on the measurement of liabilities, including options and guarantees are:

- economic assumptions;
- mortality;
- morbidity; and
- expenses.

Economic assumptions

For the purposes of the determination of liabilities, economic assumptions are based on the prevailing market rates and current asset mix of each fund and include a margin for prudence.

Mortality

These assumptions are calculated in line with standard actuarial methodology, on the basis of past experience adjusted for a best estimate of how the various factors affecting the parameters may worsen in future – for example mortality improvements for annuity business.

Morbidity

These assumptions are calculated in line with standard actuarial methodology, on the basis of past experience.

Expenses

Expenses are based on past experienced levels allowing for inflation and other foreseeable significant adverse changes in future years.

CANADA LIFE LIMITED

30 Risk management objectives and policies for mitigating risks

The risk management objective is to manage risks in accordance with the Company's risk appetite, risk strategy and business strategy. The Company's risk management policies and the processes for identifying risks include identification and control of financial, insurance and other risks. The key components are:

- **Market risk** – the potential loss of earnings or capital arising from the changes in market rates or values.
- **Credit risk** – the potential loss of earnings or capital arising from the inability or unwillingness of a counterparty to meet its on- and off-balance sheet contractual obligations. Financial losses are attributed to:
 - the default of that security in its financing obligations;
 - the downgrade of a security's credit worthiness; and
 - a change in the yield premium required by the market in respect of credit risk on risky assets.
- **Insurance risk** – the potential loss of earnings or capital arising from the risk associated with contractual promises and obligations made under insurance contracts.

The Company also monitors other categories of risk which are:

- **Liquidity risk** – the potential loss or volatility of earnings or capital arising from a company's inability to generate the necessary funds to meet its on- and off-balance sheet obligations as they fall due.
- **Operational risk** – the potential loss of earnings or capital, as well as poor treatment of customers and company reputation implications, arising from inadequate or failed internal processes, people and systems or from external events.
- **Conduct risk** - the risk of unfair outcomes for customers as a result of inadequate or failed processes or inappropriate behaviours, offerings or interactions by the Company, its employees or its Agents.

For each of the risks above, the Company determines its risk appetite and sets its investment and underwriting policies accordingly. Risk policy is documented in each of the above areas, including the actions to mitigate those risks. A summary of how each risk is mitigated is provided below with quantitative information on the exposure to that risk, where appropriate.

Risk owners are assigned to manage these risks and there are key process controls to identify, assess, report, monitor and mitigate these risks.

Market risk

The most important components of market risk are:

- interest rate risk;
- property and equity risk; and
- currency risk.

The Company is exposed to market risk through its financial assets and financial liabilities.

CANADA LIFE LIMITED

30 Risk management objectives and policies for mitigating risks (continued)

The Company is also exposed to market risk through the reinsurance assets and policyholder liabilities. In particular, the key risk is that adverse market movements impact the proceeds from financial assets which are not sufficient to fund the obligations arising from policies as they fall due.

The Company manages these positions through its asset liability management (ALM) approach that has been developed to ensure that the assets are sufficient to meet the liabilities arising from insurance contracts under a wide range of financial conditions. A separate portfolio of assets is maintained for each distinct category of liabilities. The assets chosen are of a similar nature to those liabilities, such that the impact of any change in the value of the assets will be reduced by a change in the value of the liability.

Earnings are exposed to market risk to the extent that the income from policyholder funds is based on the value of assets held within unit-linked funds and also to the extent that shareholder assets have been invested.

Given the uncertainties on the impact and nature of Brexit, it is difficult to predict the exact impact on the UK economy and the Company. The Company is most sensitive to property value and interest rate movements, both of which could be adversely impacted as a result of certain Brexit scenarios. Sensitivities to market risk are shown in section (iv) below. Stress tests are carried out taking into account changes to a number of key economic factors. These tests demonstrate that the Company has a robust process for managing the market risks it faces. Although the ongoing political uncertainty means that the economic impact of Brexit remains unclear, management believes that the Company is positioned to withstand the economic impact that may follow Brexit. Solvency ratios calculated for regulatory purposes show that the company retains adequate capital to meet PRA requirements.

(i) Interest rate risk

Interest rate risk is the potential loss or volatility of earnings or capital arising from the effect of the volatility and uncertainty of future interest rates on asset cash flows relative to liability cash flows and on surplus assets. This also includes changes in the amount and timing of cash flows related to asset and liability optionality including interest rate guarantees and book value surrender benefits in the liabilities. Furthermore, by considering the impact on liabilities as well as assets, this covers the impact of any ALM mismatching.

Fair value interest rate risk

This is the specific risk where the value of a financial instrument will fluctuate because of changes in market interest rates.

Interest rate risk arises primarily from investments in fixed interest securities. In addition, to the extent that claims inflation is based on interest rates, liabilities to policyholders are exposed to interest rate risk.

Interest rate risk is managed by cash flow matching the investment portfolio and the policyholder liabilities. Assets of the appropriate duration are bought and sold to maintain this match which is regularly monitored.

The value of the Company's assets that are exposed to fair value interest rate risk is £12,340.0m (2018: £12,397.9m). There is an offsetting liability impact of interest rate changes. The sensitivities to changes in interest rates are shown below (see (iv) Sensitivity to market risk).

CANADA LIFE LIMITED

30 Risk management objectives and policies for mitigating risks (continued)

Cash flow interest rate risk

This is the specific risk where the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's investments in variable interest rate bonds are exposed to cash flow interest rate risk.

The value of the Company's maximum assets that are exposed to cash flow interest rate risk is £4,062.4m (2018: £3,986.6m). There is an offsetting liability impact of interest rate changes. Sensitivities to changes in interest rates are shown below (see (iv) Sensitivity to market risk).

(ii) Property and equity risk

Property risk is considered as part of the wider category of Equity Risk, as such this is defined as:

The potential loss or volatility of earnings or capital arising from an adverse change in of the values of assets, liabilities, financial instruments and fee revenue to changes in the level or the volatility of market prices of common shares or residential and commercial property, when those shares are considered to be held for the purposes of backing specified liabilities.

Exposure arises from the Company's investment in properties, mortgages and finance leases that back the annuity portfolio. The key areas where this risk could result in a loss are as follows:

- default on property tenancy agreements and mortgage repayments resulting in the reduction of the income stream; and
- adverse movements in property values.

The Company manages this risk by holding additional capital to protect itself from a significant fall in property values, close monitoring of its property exposures and careful selection of properties and limiting exposure to properties in aggregate and by geography, industry and type of property. Exposures are regularly monitored, reported and managed to ensure compliance with the Company's investment policy.

Equity risk can also arise through the potential loss or volatility of earnings or capital arising from the equity exposure as it relates to fee income (unit-linked) business and therefore is a by-product of one of the Company's core business activities.

For unit-linked policies, the policyholder bears the majority of the investment risk. Any change in asset values is closely matched by a change in the liability although fee income which is expressed as a percentage of fund value is also affected. Shareholder funds also invest in equities and are subject to risk from fluctuation in their value.

CANADA LIFE LIMITED

30 Risk management objectives and policies for mitigating risks (continued)

(iii) Currency risk

Currency risk is the potential loss or volatility of earnings or capital arising from adverse changes in the value of assets, liabilities and financial instruments to changes in the level or in the volatility of currency exchange rates.

Currency risk arises principally from the Company's investment in Irish Life, a Company that conducts the majority of its operations in Euros. A devaluation of the Euro against Sterling that is considered to be permanent could trigger an impairment of the carrying value of these investments.

The Company has a currency hedge in place for commercial reasons and in February 2018, extended the term of the hedge; this will mitigate the impact of adverse currency fluctuations. Movements in the market value of these contracts are taken through the income statement in the period they arise.

The risk arising from the Company's investments in foreign currency denominated securities of £357.1m (2018: £392.0m) is mitigated using foreign currency swaps. The nominal value of the foreign currency denominated securities is £282.5m (2018: £338.0m). The net derivative assets and liabilities relating to currency risk are disclosed as other debtors of £16.0m (2018: £5.7m) and other creditors of £70.4m (2018: £107.4m).

For unit-linked contracts, currency risk is borne by the policyholder. As noted above, the Company is subject to currency risk only to the extent that income from policyholder funds is based on the value of the foreign-denominated financial assets held in those funds, and also to the extent that shareholder assets have been invested.

(iv) Sensitivity to market risk

Results of sensitivity testing on the long-term business fund and shareholder funds on an FRS 102 basis to market risk are set out below:

Sensitivity factors

- **Interest rates** – the impact of an increase or decrease of 100 basis points in market interest rates (nominal yield) as at the balance sheet date
- **Equity / property market values** – the impact of a 10% decrease in equity / property market values as at the balance sheet date

Sensitivities as at 31 December 2019:

	Interest rates + 100bps	Interest rates – 100bps	Equity / Property - 10%
Profit before tax (£m)	(22)	41	(17)
Profit after tax / Equity (£m)	(18)	33	(14)

Sensitivities as at 31 December 2018:

	Interest rates + 100bps	Interest rates – 100bps	Equity / Property - 10%
Profit before tax (£m)	27	(30)	(22)
Profit after tax / Equity (£m)	22	(24)	(18)

CANADA LIFE LIMITED

30 Risk management objectives and policies for mitigating risks (continued)

Credit risk

Credit risk is the risk of potential loss or volatility of earnings or capital arising from the inability or unwillingness of a counterparty to meet its on-balance sheet and off-balance sheet contractual obligations. Financial losses are attributed to:

- the default of that security in its financing obligations;
- the downgrade of a security's credit worthiness; and
- a change in the yield premium required by the market in respect of credit risk on risky assets.

Key areas where the Company is exposed to credit risk are:

- exposure to corporate bonds and privately placed bonds (as well as finance leases and other financing arrangements);
- exposure to mortgages;
- exposure to financial derivatives; and
- exposure to the reinsurers' share of insurance liabilities.

The Company's investment policy sets limits on the Company's exposure (which are linked to credit rating) to a single counterparty and geographical and industry segments. These exposures are monitored and reported regularly to senior management in order to ensure compliance with the Company's exposure limits. Regular reviews of counterparties are performed in order to identify the most appropriate opportunities for managing the Company's credit exposures more efficiently.

Reinsurance is used to manage insurance risk. The Company cedes insurance risk to reinsurance counterparties in order to mitigate insurance risk. Reinsurance counterparty risk represents the potential loss or volatility of earnings or capital arising from a reinsurance counterparty failing to maintain its contractual obligations in relation to payments under the reinsurance contract. The creditworthiness of reinsurers is considered when treaties are entered into and monitored on an ongoing basis.

The following table provides information regarding the carrying value of financial assets and the ageing of financial assets:

As at 31 December 2019:

Balance sheet category	(£m)					Impaired assets	Gross carrying value	Less impairment	Net carrying value
	Not past due	0-3 mths	3-6 mths	6-12 mths	12 mths +				
Other financial investments									
Financial assets designated at fair value through profit and loss	16,505.9	-	-	-	-	-	16,505.9	-	16,505.9
Loans and receivables	2,597.9	-	-	-	-	46.5	2,644.4	(29.8)	2,614.6
Assets held to cover linked liabilities	2,271.6	-	-	-	-	-	2,271.6	-	2,271.6
Debtors arising from direct insurance operations	19.4	39.5	9.4	4.0	1.2	-	73.5	-	73.5
Other debtors	238.5	-	-	-	-	-	238.5	-	238.5
Assets Under Construction	6.5	-	-	-	-	-	6.5	-	6.5
Accrued interest and rent	179.1	0.3	0.2	0.1	-	-	179.7	-	179.7

CANADA LIFE LIMITED

30 Risk management objectives and policies for mitigating risks (continued)

Credit risk (continued)

As at 31 December 2018:

Balance sheet category	(£m)					Impaired assets	Gross carrying value	Less impairment	Net carrying value
	Not past due	0-3 mths	Past due 3-6 mths	6-12 mths	12 mths +				
Other financial investments									
Financial assets designated at fair value through profit and loss	16,461.8	-	-	-	-	-	16,461.8	-	16,461.8
Loans and receivables	2,168.7	-	-	-	-	24.6	2,193.3	(11.7)	2,181.6
Assets held to cover linked liabilities	3,800.5	-	-	-	-	-	3,800.5	-	3,800.5
Debtors arising from direct insurance operations	14.0	37.3	5.3	2.4	0.3	-	59.3	-	59.3
Other debtors	203.2	-	-	-	-	-	203.2	-	203.2
Accrued interest and rent	192.2	0.5	-	0.4	0.1	-	193.2	-	193.2

The impaired assets are as follows:

	2019 £m	2018 £m
Mortgage loans	16.7	12.9
	<u>16.7</u>	<u>12.9</u>

The following table gives an indication of the level of creditworthiness of those categories of assets which are most exposed to credit risk. The ratings used are derived from the ratings published by three external ratings agencies (Standard and Poor's, Moody's Investors Service and Fitch Ratings) where we rate the instrument no higher than the highest published rating.

Mortgage Loans are excluded from the table below as these are not rated by the external agencies. Instead the company uses an internal credit rating model to determine a credit score for each Mortgage Loan and considers a material proportion of the portfolio to be investment grade.

Assets held within unit-linked funds have been excluded from the table below as the credit risk on these assets is borne by the policyholders rather than the shareholders.

As at 31 December 2019

	AAA £m	AA £m	A £m	BBB £m	BB £m	B £m	Total £m
Corporate Bonds	647.4	3,937.2	4,599.4	2,664.2	75.0	13.1	11,936.3
Gilts	-	3,670.2	-	-	-	-	3,670.2
Total Gross Assets	647.4	7,607.4	4,599.4	2,664.2	75.0	13.1	15,606.5
Less: Reinsured portion	(149.3)	(1,299.1)	(684.4)	(632.9)	(24.7)	-	(2,790.4)
Total as at 31 December 2019	498.1	6,308.3	3,915.0	2,031.3	50.3	13.1	12,816.1
Net of Reinsurance:							
%age	4%	49%	31%	16%	0%	0%	100%

CANADA LIFE LIMITED

30 Risk management objectives and policies for mitigating risks (continued)

Credit risk (continued)

As at 31 December 2018

	AAA	AA	A	BBB	BB	B	Total
	£m	£m	£m	£m	£m	£m	£m
Corporate Bonds	630.6	3,114.5	4,550.4	2,585.1	180.0	42.3	11,102.9
Gilts	41.3	4,671.0	-	-	-	-	4,712.3
Total Gross Assets	671.9	7,785.5	4,550.4	2,585.1	180.0	42.3	15,815.2
Less: Reinsured portion	(168.5)	(1,346.8)	(929.2)	(551.6)	(66.4)	(19.3)	(3,081.8)
Total as at 31 December 2018	503.4	6,438.7	3,621.2	2,033.5	113.6	23.0	12,733.4
Net of Reinsurance							
%age	4%	51%	28%	16%	1%	0%	100%

There are no impaired bonds or bonds rated less than B in the portfolio (2018: £nil). Collateral is held in the form of cash or marketable securities.

In respect of the longevity insurance contracts that the Company has entered into:

- The value of deposited cash collateral with the Counterparty was £90.1m (2018: £69.3m)
- The value of deposited marketable securities (UK Gilts) was £121.2m (2018: £95.4m)
- The value of deposited marketable securities (corporate bonds) was £138.5m (2018: £144.6m)

The UK gilts are held in a segregated client account at Royal Bank of Canada with the Counterparty approving the quality of the collateral and any movements into or out of the custody account.

The corporate bonds have been transferred to the Counterparty and are held in three segregated client custody accounts at RBC over which we have a charge.

All of the over-the-counter ("OTC") derivative contracts that have been entered into are fully collateralised as per the Credit Support Annex, and with each Counterparty there is an agreed Minimum Transfer Amount.

The net cash collateral value was £61.9m (2018: £80.9m). The value of deposited cash collateral with Counterparties was £61.9m (2018: £80.9m). The value of cash received from a Counterparty held at RBC within the nominated custody account was £nil (2018: £nil).

Insurance risk

Insurance risk and other policy cash flow risk consists of the following three main areas:

Insurance risks:

- mortality risk - The potential loss or volatility of earnings or capital arising from an adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of mortality rates.
- morbidity risk - The potential loss or volatility of earnings or capital arising from an adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of disability, health, dental, critical illness and other sickness rates, where an increase in the incidence rate or a decrease in the disability recovery rate leads to an increase in the value of insurance liabilities.
- catastrophe risk - The potential loss or volatility of earnings or capital arising from adverse change in the value of insurance liabilities, resulting from the significant uncertainty of pricing and provisioning assumptions related to extreme or irregular mortality or morbidity events.

CANADA LIFE LIMITED

30 Risk management objectives and policies for mitigating risks (continued)

Insurance risk (continued)

Other policy cash flow risk:

- lapse risk – the potential loss or volatility of earnings or capital arising from adverse change in the value of insurance liabilities, resulting from changes in the level or volatility of the rates of policy lapses, terminations, renewals and/or surrenders. For lapse supported products, a decrease in the lapse rate leads to an increase in the value of the insurance liabilities. For lapse sensitive products, an increase in the lapse rate leads to an increase in the value of the insurance liabilities; and
- expense risk – the potential loss or volatility of earnings or capital arising from variability of expenses incurred with fee for service business or in servicing and maintaining insurance, savings, or reinsurance contracts (e.g. the variability in expense liability cash flows due to the variation of the in-force policies, excess claims, lapses and surrenders, asset management, new business decrease or other circumstances that could have an impact on unit expenses).

The Company actively pursues mortality risk and morbidity risk in those areas where it considers it has a competitive advantage in managing these risks to generate shareholder value without compromising the interests of policyholders and the need to treat customers fairly. Persistency risk and expense risk are taken on as a consequence of meeting strategic objectives, and where it is deemed financially beneficial for the organisation to do so.

Underpinning the management of insurance risk is:

- adherence to an approved underwriting policy that takes into account the level of risk the Company is prepared to accept;
- controls around the development of products and their pricing; and
- regular analysis of actual mortality, morbidity and lapse experience which feeds into the development of products and policies.

Risks in excess of agreed underwriting limits may be accepted if they can be reinsured at a reasonable rate.

(i) Mortality and morbidity risk

Payout annuities

Payout or lifetime annuities are contracts that, in return for a lump sum, pay a regular amount (usually monthly or annually and sometimes increasing at a fixed or index-linked rate), until the death of the policyholder. As a result, if annuitants live longer than expected on average, profits will reduce. In many cases the annuity is guaranteed payable for a fixed term (usually five years) even in the event of death. Many policies are written on joint lives so that when the first life dies the benefit continues, sometimes at a reduced level. These features tend to reduce the volatility of results to random fluctuations in experience but not the impact of a general increase in longevity.

CANADA LIFE LIMITED

30 Risk management objectives and policies for mitigating risks (continued)

Insurance risk (continued)

Life assurance

Most of the Company's insurance policies other than annuities include life assurance, mainly through Group protection policies. When pricing policies, an assumption is made as to the likelihood of death and this assumption is reviewed as part of the annual valuation of policies. To the extent that actual mortality experience is worse than that anticipated in pricing and subsequently in the insurance liability valuation a loss will be made. The risk is greater for those policies such as Group Life and term assurance where the maturity or surrender benefit is small (or zero) in relation to the death benefit. Other policies which have a savings element, such as endowment assurance have significant liabilities relating to the maturity benefit, particularly as the policy approaches maturity.

Income protection

Income protection policies pay a regular level of benefit if the policyholder is unable to work due to incapacity for more than a specified period. The two main risks involved are an increase in the frequency of claims (the inception rate) and an increase in the average length of the claim (a reduction in recovery rate). Most income protection policies are regular premium with the premium and cover fixed at inception. Some Company policies allow premiums to be reviewed but the premium rates are usually guaranteed for two or more years.

Critical illness

The Company has written a number of critical illness policies that pay out in the event of a group scheme member suffering a defined critical illness. As for life assurance, the amount payable on these events can be significantly higher than the amount payable (if any) if the policy is surrendered.

(ii) Persistency risk

Persistency experience varies over time as well as from one type of contract to another. Factors that will cause lapse and surrender rates to vary over time include changes in investment performance of the assets underlying the contract where appropriate changes that make alternative products more attractive, customer perceptions of the insurance industry in general and the Company in particular, and the general economic environment.

(iii) Expense risk

Expense risk is the potential loss or volatility of earnings or capital due to variability of expenses incurred in servicing and maintaining insurance, savings, or reinsurance contracts because of variability in the number of in force policies or the mix by product type. Similarly, expense risk can arise due to variability in fees charged for services e.g. the fee income received for the management of unit-linked products which are dependent upon the fund value, for the same reasons.

CANADA LIFE LIMITED

30 Risk management objectives and policies for mitigating risks (continued)

Liquidity risk

Liquidity risk is the potential loss or volatility of earnings or capital arising from a company's inability to generate the necessary funds to meet its on- and off-balance sheet obligations as they fall due.

For policyholder funds liquidity risk could potentially arise from:

- a short-term mis-match between assets and liabilities;
- having to realise assets to meet liabilities when asset values are depressed; and
- an unexpectedly high level of claims or surrenders.

The Company's exposure to liquidity risk is limited due to more than adequate holdings in liquid assets and to an extent through the nature of its liabilities.

The Company manages these positions through its asset liability management (ALM) approach that has been developed to ensure that the assets match the liabilities arising from insurance contracts under a wide range of financial conditions. It also has implemented a liquidity policy.

As at 31 December 2019

	< 1yr £m	1-5 yrs £m	5-15 yrs £m	15 yrs + £m	Total £m
Technical provision for linked liabilities	2,271.6	-	-	-	2,271.6
Derivative financial liabilities	4.1	12.7	24.4	29.2	70.4
	<u>2,275.7</u>	<u>12.7</u>	<u>24.4</u>	<u>29.2</u>	<u>2,342.0</u>

As at 31 December 2018

	< 1yr £m	1-5 yrs £m	5-15 yrs £m	15 yrs + £m	Total £m
Technical provision for linked liabilities	3,800.5	-	-	-	3,800.5
Derivative financial liabilities	20.7	30.7	27.1	28.9	107.4
	<u>3,821.2</u>	<u>30.7</u>	<u>27.1</u>	<u>28.9</u>	<u>3,907.9</u>

The following table shows a maturity analysis of the financial assets:

As at 31 December 2019

	< 1yr £m	1-5 yrs £m	5-15 yrs £m	15 yrs + £m	Total £m
Other financial investments	1,893.4	2,995.5	5,998.5	8,233.1	19,120.5
Assets held to cover linked liabilities	2,271.6	-	-	-	2,271.6
Derivative financial assets	-	13.2	-	2.8	16.0
	<u>4,165.0</u>	<u>3,008.7</u>	<u>5,998.5</u>	<u>8,235.9</u>	<u>21,408.1</u>

CANADA LIFE LIMITED

30 Risk management objectives and policies for mitigating risks (continued)

Liquidity risk (continued)

As at 31 December 2018

	< 1yr £m	1-5 yrs £m	5-15 yrs £m	15 yrs + £m	Total £m
Other financial investments	2,147.3	3,031.0	5,538.5	7,926.5	18,643.3
Assets held to cover linked liabilities	3,800.5	-	-	-	3,800.5
Derivative financial assets	6.2	13.4	7.9	2.7	30.2
	<u>5,954.0</u>	<u>3,044.4</u>	<u>5,546.4</u>	<u>7,929.2</u>	<u>22,474.0</u>

A maturity analysis of subordinated liabilities is presented in Note 17.

Operational risk

Operational risk is the potential loss of earnings or capital, as well as poor treatment of customers and company reputation implications, arising from potential problems due to inadequate or failed internal processes, people and systems, or from external events. Examples include the following:

- breakdown of the policy administration system resulting in the inability to service policyholder claims and requests over a period of time;
- sudden changes in regulation resulting in additional compliance costs; and
- undetected fraudulent claims.

Operational risk assessments are conducted within each business line as a starting point. The assessment aims to identify all material operational risk scenarios that, if they were to crystallise, would lead to a material reduction in the level of capital resources or adversely impact the operations or reputation of the Company.

The Company's Risk team works with the business to provide challenge and oversight to each of these assessments. Action plans for unacceptable levels of risk and/or the remediation of control weaknesses are put in place and managed through to closure.

These assessments are taken into account when quantifying the impact of operational risk scenarios when calculating the capital required in respect of operational risk.

CANADA LIFE LIMITED

30 Risk management objectives and policies for mitigating risks (continued)

Conduct risk

The Company recognises the importance of fair outcomes for customers and takes a balanced and sustainable approach to conducting business, thereby enabling it to deliver on its promises to customers no matter how far into the future.

Conduct risk is the risk of unfair outcomes for customers as a result of inadequate or failed processes or inappropriate behaviours, offerings or interactions by the Company, its employees or its Agents. The Company has defined the following sources of Conduct risk:

- **Product Design and Ongoing Governance**

This risk that processes, behaviours, offerings or interactions by CLL, its employees or its Agents threaten customers' fair treatment in relation to, but not limited to, the failure to consider customer vulnerability, identify appropriate target markets, designing products that do not meet customer needs, use of inappropriate distribution channels, poor or opaque product design including excessive fees and charges, inadequate product management and ineffective ongoing review of product performance

- **Disclosure and Product Sales**

This risk that processes, behaviours, offerings or interactions by CLL, its employees or its Agents threaten customers' fair treatment in relation to, but not limited to, product manufacturer issues (such as unclear marketing or product literature and failure to provide product distributors with sufficient information on the benefits, features and target market of the product) or product distributor issues where CLL or its agents are acting as product distributor such as inappropriate sales or advice including negligent or malicious intent, failure to consider potential customer vulnerabilities, failure to clearly explain product features, risks and terms, fees, commission and charges and failure to assess suitability of the product.

- **Post-Sales Service**

This risk that processes, behaviours, offerings or interactions by CLL, its employees or its Agents threaten customers' fair treatment in relation to, but not limited to, failure to consider potential customer vulnerabilities, poor customer communications and interactions, inadequate complaint resolution and claims handling processes, and unreasonable barriers to customers seeking to switch products or end their relationship with CLL.

Conduct Risk may directly or indirectly have a potential impact on the customer. Customer detriment does not actually have to occur for a Conduct risk to exist, it may be that there is potential for customer detriment to occur. Conduct risk is assessed by business lines in line with the risk framework. The Company's Risk and Compliance teams work with the business to provide challenge and oversight of these assessments and action plans are put in place for unacceptable levels of risk and/ or remediation of control weaknesses, and are managed through to closure.

CANADA LIFE LIMITED

31 Parent company and controlling party

As at the balance sheet date the immediate parent company is The Canada Life Group (U.K.) Limited a company incorporated in the UK. The controlling party and ultimate parent company, which is also the parent company of the largest group of companies for which consolidated financial statements are drawn up and of which the Company is a member, Power Corporation of Canada, is incorporated in Canada. The parent company of the smallest group for which consolidated financial statements are drawn up and of which the Company is a member, The Canada Life Assurance Company, is incorporated in Canada. Copies of the group financial statements for both The Canada Life Assurance Company (330 University Avenue, Toronto, Ontario, Canada, M5G 1R8) and Power Corporation of Canada (751 Victoria Square Montréal, Québec, Canada, H2Y 2J3) can be obtained from the Company's registered office.

32 Group undertakings

At the balance sheet date, the Company directly or indirectly held investments in the issued ordinary share capital of the following undertakings.

Company	Registered office address	Country of incorporation	Principal activity	Holding %
Albany Life Assurance Company Limited	Canada Life Place, Potters Bar, Hertfordshire, EN6 5BA	United Kingdom	Dormant	100%
Canada Life (U.K.) Limited	Canada Life Place, Potters Bar, Hertfordshire, EN6 5BA	United Kingdom	Holding company	100%
Canada Life Fund Managers (U.K.) Limited	Canada Life Place, Potters Bar, Hertfordshire, EN6 5BA	United Kingdom	Fund management	100%
Canada Life Group Services (U.K.) Limited	Canada Life Place, Potters Bar, Hertfordshire, EN6 5BA	United Kingdom	Ancillary services	100%
Canada Life Holdings (U.K.) Limited	Canada Life Place, Potters Bar, Hertfordshire, EN6 5BA	United Kingdom	Dormant	100%
Canada Life Irish Operations Limited	Canada Life Place, Potters Bar, Hertfordshire, EN6 5BA	United Kingdom	Dormant	100%
Canada Life Management (U.K.) Limited	Canada Life Place, Potters Bar, Hertfordshire, EN6 5BA	United Kingdom	Dormant	100%
Canada Life Services (U.K.) Limited	Canada Life Place, Potters Bar, Hertfordshire, EN6 5BA	United Kingdom	Dormant	100%
Cornmarket Insurance Services Limited	1st Floor, Boucher Plaza, 4-6 Boucher Road, Belfast, BT12 6HR	United Kingdom	Insurance brokerage	100%
Synergy Sunrise (Wellington Row) Limited	Canada Life Place, Potters Bar, Hertfordshire, EN6 5BA	United Kingdom	Property Management	100%

CANADA LIFE LIMITED

32 Group undertakings (continued)

Canada Life Ireland Holdings Limited	Irish Life Centre, Abbey Street Lower, Dublin 1	Ireland	Ancillary services	100%
Cornmarket Group Financial Services Limited	Liberties House, Christchurch Square, Dublin 8, D08FP21	Ireland	Insurance brokerage holding company	100%
Cornmarket Retail Trading Limited	Liberties House, Christchurch Square, Dublin 8, D08FP21	Ireland	Insurance brokerage	100%
GD (2,3 & 4) Basement Company Limited	1st Floor, 1 Exchange Place, IFSC, Dublin 1, Ireland, D01R8W8	Ireland	Property Management	100%
Glohealth Financial Services Limited	Irish Life Centre, Lower Abbey Street, Dublin 1	Ireland	Health Insurance agency Services	100%
Irish Life Associate Holdings Unlimited Company	Irish Life Centre, Lower Abbey Street, Dublin 1	Ireland	Investment holding company	100%
Irish Life Assurance Public Limited Company	Irish Life Centre, Lower Abbey Street, Dublin 1	Ireland	Life assurance	100%
ILGAPT Limited	Irish Life Centre, Lower Abbey Street, Dublin 1	Ireland	Wealth Management Consulting Services	100%
ILGWM Limited	Irish Life Centre, Lower Abbey Street, Dublin 1	Ireland	Wealth Management Holding company	100%
Irish Life Financial Services Limited	Irish Life Centre, Lower Abbey Street, Dublin 1	Ireland	Insurance intermediary, investment business, mortgage intermediary, life assurance service provider	100%
Irish Life Group Limited	Irish Life Centre, Lower Abbey Street, Dublin 1	Ireland	Holding company	100%
Irish Life Group Services Limited	Irish Life Centre, Lower Abbey Street, Dublin 1	Ireland	Administrative service provider	100%
Irish Life Health Designated Activity Company	Irish Life Centre, Lower Abbey Street, Dublin 1	Ireland	Health Insurance	100%

CANADA LIFE LIMITED

32 Group undertakings (continued)

Irish Life Irish Holdings Unlimited Company	Irish Life Centre, Lower Abbey Street, Dublin 1	Ireland	Holding company	100%
Irish Life Trustee Services Limited	Irish Life Centre, Lower Abbey Street, Dublin 1	Ireland	Management Services	100%
Irish Progressive Services International Limited	Block C, Irish Life Centre, Lower Abbey Street, Dublin 1	Ireland	Life assurance service provider	100%
Stephen Court Limited	Irish Life Centre, Lower Abbey Street, Dublin 1	Ireland	Property Management	100%
Vestone Limited	Liberties House, Christchurch Square, Dublin 8, D08FP21	Ireland	Insurance brokerage holding company	100%
Ilona Financial Group Inc.	c/o Corporation Service Company, 251 Little Falls Drive, Wilmington, DE 19808	USA	Management Services	100%
Radial Park Management Limited	The Brampton, Newcastle-Under-Lyme, Staffordshire, ST5 0QW	United Kingdom	Dormant	76%
1939 ILIV Consulting Limited	Irish Life Centre, Lower Abbey Street, Dublin 1	Ireland	Holding company	75%
Invesco Limited	2 Sandyford Business Centre, Burtonhall Road, Sandyford, Dublin 18, D18XK37	Ireland	Wealth Management and Pensions Consulting Services	75%
Invesco Trustees Designated Activity Company	2 Sandyford Business Centre, Burtonhall Road, Sandyford, Dublin 18, D18XK37	Ireland	Pension Trustee for Revenue Approved Pension Schemes	75%
ILP Pension Trustees Designated Activity Company	2 Sandyford Business Centre, Burtonhall Road, Sandyford, Dublin 18, D18XK37	Ireland	Corporate Trustee for Revenue Approved Pension Schemes	75%
City Life Limited	Unit 2 Nore House Bessboro Road Blackrock Cork	Ireland	Insurance brokerage	75%

CANADA LIFE LIMITED

32 Group undertakings (continued)

City Gate Park Administration Limited	1104 City Gate, Mahon Co.Cork	Ireland	Property Management	67%
SJRQ Riverside IV Management Limited	Fourth Floor, 76 Lower Baggot Street, Dublin 2	Ireland	Property Management	51%
Dakline Company Limited by Guarantee	c/o Savills commercial (Ireland) Limited, 33 Molesworth Street, Dublin 2	Ireland	Property Management	50%
Hollins Clough Management Company Limited	Mossley Tax Shop, 2 Lees Road, Mossley, Ashton-Under-Lyne, Lancashire, OL5 0PF	United Kingdom	Property Management	50%
EIS Financial Services Limited	6 Clairmont Gardens, Glasgow, G3 7LW	United Kingdom	Activities of insurance agents and brokers	25%
Choralli Limited	c/o Sky Property Management Limited, 53 Bracken Road, Sandyford, D18N23	Ireland	Property Management	20%
Padamul Limited	c/o Aramark Property, 5th Floor St Stephens Green House, Earlsfort Terrace, Dublin 2	Ireland	Property Management	6%

The investments in subsidiary undertakings are as follows:

		2019 £m	2018 £m
Carrying value:	At 1 January	1,453.3	1,453.3
	Additions	-	-
	At 31 December	<u>1,453.3</u>	<u>1,453.3</u>
Valuation adjustment:	Movement during year	-	-
	At 31 December	-	-
Carrying value:	At 31 December	<u>1,453.3</u>	<u>1,453.3</u>

CANADA LIFE LIMITED

33 Events after the end of the reporting period

On 18 December 2019 regulatory and court approval was received to transfer the insurance business of MGM Advantage Life Limited, a wholly-owned subsidiary of CLG acquired on 2 January 2018, across to the Company. The Part VII transfer occurred with effect from 1 January 2020 and consisted of approximately 28,000 policies.

This resulted in the transfer of approximately £2.9bn of total assets and approximately £2.8bn of total liabilities across both the unit linked and non-linked segments of the Canadian IFRS Statement of Financial Position.

The ongoing coronavirus pandemic (COVID-19) is an emerging risk to which the Company is exposed. The directors consider the emergence of COVID-19 as a pandemic, and the associated economic impact and government measures in response, as a non-adjusting post balance sheet event.

The Company is monitoring the situation closely, including carrying out stress and scenario testing, which includes both pandemic and economic shock scenarios, and has made preparations to ensure that it will continue to operate effectively while ensuring the safety and well-being of customers, employees and wider communities. Continuity plans are in operation with employees working remotely to maintain service levels to customers.

The outbreak is having an impact on global economies and markets to which the Company and its policyholders are exposed and, should this impact be sustained or lead to adverse impacts on claims or sales, it will continue to impact on the Company's performance. These impacts depend on future developments which are highly uncertain. The Company's governance structures and processes support continuous monitoring of the Company's solvency position based on up to date market information.

The Company's solvency ratio at the financial year end was 157% (unaudited; 2018: 159%) which is £1.5bn over the Solvency Capital Requirement. The Company continues to operate within Solvency II regulatory capital guidelines and in excess of the Solvency Capital Requirement. While the impact of COVID-19 on market related interest and investment movement has put additional stress on our solvency cover, management estimates that on 31 March 2020, the unaudited solvency ratio of the Company remains above operating tolerance levels set by the Board.

COVID-19 has impacted the Company's financial position primarily as a result of market related interest and investment movements. The estimated net assets of the Company as at 31 March 2020 were £3.1bn (unaudited) which is unchanged from 31 December 2019. This includes the impact of the MGMA Part VII transfer that resulted in a net asset increase of £0.1bn on 1 January 2020.