MGM Advantage Life Limited

Company registration number:
08395855 (England and Wales)
Annual Report and Financial Statements
for the year ended 31 December 2019

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Directors, Officers and Advisers

Directors

Robert Craig Fazzini-Jones

Douglas Allan Brown

Non-Executive Directors

Sir William Proby CBE

John Robert Cusins

Nathan Moss

Chairman

Derek Nigel Donald Netherton

Company Secretary

Lisa Rodriguez

Registered office address

6th Floor

110 Cannon Street

London

EC4N 6EU

Company registration number

08395855 (England and Wales)

Statutory Auditor

Deloitte LLP

Bristol

Bankers

Barclays Bank PLC

BNY Mellon

Legal Advisers

Freshfields LLP

Hogan Lovells International LLP

Pinsent Masons LLP

Sherrards Solicitors LLP

Wallace LLP

Investment Managers

Canada Life Asset Management Limited

Strategic Report

The Directors consider that the content of this Strategic Report includes the detail that is required by regulations and is fair, balanced and understandable, as required by s.414(c) of the Companies Act 2006.

Principal activities

The principal activity of MGM Advantage Life Limited (the 'Company') is the provision of retirement income solutions in the United Kingdom including annuity and drawdown business and operating a trust-based SIPP. The Company is a wholly-owned subsidiary of MGM Advantage Holdings Limited (incorporated in the United Kingdom), which in turn is a wholly-owned subsidiary of The Canada Life Group (U.K.) Limited incorporated in the United Kingdom. The Company is ultimately owned by Power Corporation of Canada (incorporated in Canada).

The Company is regulated by the Financial Conduct Authority ('FCA') and authorised and regulated by the Prudential Regulation Authority ('PRA').

Business Review

During the financial year the Company successfully completed its preparation for a Part VII transfer of its entire long-term insurance business to Canada Life Limited, and, also launched further enhancements of The Retirement Account product 'TRA' incorporating a trust-based SIPP and also increasing the range of investment funds provided to customers.

Part VII Transfer of Insurance Business to Canada Life Limited

On 18 December 2019, and pursuant to Part VII of the Financial Services and Markets Act 2000, the High Court of Justice approved the transfer of the entire long-term insurance business of the Company to Canada Life Limited, and, this completed on 1 January 2020. The transfer comprised assets and liabilities in respect of Guaranteed Annuity, Flexible Investment Income Annuity lines of business, TRA personal pension plans and insurance policies written in connection with TRA trust-based SIPP business line. The transfer also included its wholly owned subsidiary MGM Advantage Trustee Limited, and associated insurance operational and business contracts, including reassurance arrangements.

The Company has IFRS equity of £284m as at end 2019 arising from capital injections and retained earnings. The valuation of the transferring business was done at fair value based on Solvency II regulations which require additional capital to be held. The consideration agreed with Canada Life Limited for the transferring business is £81.9m and the 2020 Company accounts will recognise a loss of £202.2m in respect of the difference between the 2019 year-end IFRS net asset value of the transferred business and the consideration received which reflects the fair market value of the transferred business. The unaudited Solvency II ratio of Eligible own funds to SCR will increase as a result of the transfer as there will be a material reduction in SII risk capital (SCR) to offset the reduction in SII Eligible own funds as a result of the IFRS loss. A summary of the transferring assets and liabilities and those subsequently retained by the Company is set out in note 18.

The consideration for the transfer was settled by a £75m Promissory Note, which was issued by Canada Life Limited to the Company, payable upon demand and bearing interest equivalent to similar short-dated obligations, and, the remainder of £6.9m to be settled in cash.

Product Development

On 7 May 2019, Canada Life SIPP Trustee Company Limited ('SIPP Trustee') was incorporated with £1 of issued ordinary share capital, 100% subscribed for by the Company for £1 consideration. The SIPP Trustee was subsequently renamed Canada Life SIPP Trustee Limited on 22 May 2019. During November 2019 the Company launched a TRA trust-based SIPP, which provides for regular pension savings and a comprehensive range of non-insurance OEIC investment funds in addition to insurance funds, annuity options and the product flexibility that existed for the TRA personal pension plan.

Strategic Report (cont.)

The SIPP Trustee is the legal owner of the SIPP assets, with the member customer as beneficiary. The Company, as SIPP operator, is responsible for the day to day administration and operation of the SIPP, and Canada Life Limited is the insurer responsible for making payments due to the SIPP Trustee in respect to insurance policies written in connection with the product. Substantially all TRA personal pension plan members elected to take advantage of the increased benefits arising from the trust-based SIPP and transferred their personal pension plan to the SIPP.

Financial risk management objectives and policies

The Company has an established Risk Management framework in place for the identification, assessment, management and monitoring of all risks.

A comprehensive explanation of the management of risk undertaken by the Company is set out in note 27 to these financial statements, and note 28 sets out the Company's financial resources held to meet those risks. Following the Part VII transfer of insurance business on 1 January 2020 risks previously associated with that business have been removed.

Brexit Risks

The UK left the European Union ('EU') on 31 January 2020 with a withdrawal deal. Following its departure the UK entered into a transition arrangement with the ambition to complete the withdrawal from the EU on 31 December 2020.

The Company's products are solely available to members or former members of UK based pension schemes and consequently the customer base is almost entirely UK resident. Similarly the Company's employees and suppliers are also principally UK based and therefore the main risk to the Company relates to potential economic impacts arising from Brexit.

At the time of writing, markets are pricing for an orderly Brexit withdrawal, however, given the Part VII transfer of insurance business there is not expected to be a material impact on the Company.

COVID-19 Risks

The ongoing coronavirus pandemic (COVID-19) is an emerging risk to which the Company is exposed. The Company is monitoring the situation closely and has made preparations to ensure that it will continue to operate effectively and ensure the safety and well-being of customers, Group employees and wider communities. Service continuity plans are in operation, with Group employees working remotely to maintain service to customers. The Company continues to review service standards and hold regular communication with outsource providers, and their response to the pandemic has been very robust and highly collaborative and they continue to provide full services to our customers.

After the Part VII transfer the Company has net assets of £81.9m consisting of cash and amounts owed from a fellow group company, Canada Life Limited, for the Part VII transfer which is payable on demand. The impact of COVID-19 on the post Part VII Balance sheet of the Company is not significant. After the Part VII transfer, on 1 January 2020, the Company's Minimum Capital Requirement ('MCR') solvency ratio was 498% (unaudited), with the Solvency Capital Requirement ('SCR') being lower than the MCR. The Company currently continues to operate within Solvency II regulatory capital guidelines and in excess of the MCR and SCR. Since the Part VII transfer the Company has applied to the PRA/FCA to change its regulatory permissions from an insurer to a MiFID investment firm, entirely regulated by the FCA which would have lower applicable solvency requirements. Therefore, the Company considers it has sufficient capital and liquidity to continue operating even if growth in the SIPP product is significantly slower than anticipated as a result of COVID-19.

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

Regulatory

The Company uses a Partial Internal Model (PIM) for determining solvency capital requirements. Following PRA approval of The Canada Life Group (U.K.) Limited PIM in December 2019, The Company is using the credit spread component of that PIM for year-end 2019 regulatory reporting with the associated The Canada Life Group (U.K.) Limited governance applying. The Transitional Measure on Technical Provisions was recalculated with effect from 31 December 2019 (as part of an industry-wide two-yearly requirement from the regulator).

Throughout the year the Company stringently managed its solvency position having regard to the risk exposures set out in note 27. As a consequence of adverse volatility of market conditions and credit risk rates arising mainly from Brexit uncertainty the issued ordinary share capital was increased by a total consideration of £84m during the year, provided by its immediate parent company MGM Advantage Holdings Limited.

Following the Part VII transfer of insurance business to Canada Life Limited on 1 January 2020, the Company has applied to the PRA/FCA to change its regulatory permissions from an insurer to a MiFID investment firm, entirely regulated by the FCA with lower applicable solvency requirements. Until the variation of permissions is approved the Company will remain subject only to the Solvency II capital regime. At 1 January 2020 the Company's solvency ratio on this basis was 498%.

Economic risks

Managing the duration and profile of assets against corresponding policyholder liabilities is a key risk of the Company as mismatches could adversely affect the surplus capital available. The Company is subject to credit exposure; a widening of credit spreads decreases the value of bonds held against policyholder liabilities, however, as the majority of the bond assets are held in a Matching Adjustment (MA) Portfolio there is a largely offsetting reduction to the value of policy liabilities. Where a bond default occurs there would be a loss of asset value with no offsetting reduction to liabilities. Also, where bond rating downgrades occur, the MA benefit to policy liabilities is reduced and so the value of the liabilities would increase resulting in a reduction to available capital together with an increase in required capital. Liabilities backed by assets in the MA portfolio are broadly cash flow matched and the liability and asset amounts move closely together in response to changes in risk free interest rates. The Company has a range of controls in place to manage economic risks and to take any remedial or mitigating action as necessary. Further information is provided in note 27. Following the transfer of insurance business, economic risks associated with that business no longer apply.

Non-Economic risks

The key non-economic risk is longevity. Assumptions are made as to future mortality experience. If future mortality experience turns out to be lighter than expected then the cost of policy benefits will be higher than the provisions made. This is significantly mitigated through the use of reinsurance. Since the start of 2016 the proportion of longevity risk reinsured on new annuity business has been 75%. For business written prior to 2016 the proportion reassured is 50%.

Other non-economic risks include expense risk and operational risk, however, the exposure to these is reduced through the outsourcing of Customer Services, Information Technology and the Project Change Function to Equiniti and of investment accounting and unit pricing administration services to Mobius Life Limited.

Since the transfer of insurance business on 1 January 2020, including the transfer of expense risk and operational risk, non-economic risks previously associated with that business no longer apply.

Pricing assumption risks

A number of assumptions are made based on past customer experience and available market data, including longevity, credit spreads, performance of equity release mortgages (ERMs), interest rates and expenses. The Company licenses an underwriting system from Hannover Re to assist with the pricing process, specifically in the determination of underwriting risk that the Company chooses to accept. If business is priced incorrectly it could adversely affect the balance sheet because the technical provisions required for this business could ultimately be higher than had been assumed in pricing. Also, the actual experience may not be the same as the pricing assumptions and this will impact the balance sheet as the business develops. Finally, the rates quoted are guaranteed for a period and there is a risk that economic conditions could move against the Company in that guarantee period.

Since the transfer of insurance business on1 January 2020, including the transfer of pricing assumption risks associated with that business, these risks no longer apply.

Product developments

In 2019 sales of TRA Retirement Pension Drawdown levels were down to £27.6m from £35.4m year on year as management continued to manage new business levels to ensure sufficient regulatory capital was held. During 2019 further advancements were made to the TRA product, with a trust-based SIPP launching in November 2019. TRA policyholders were contacted to obtain their consent to convert their TRA policy from the trust-based personal pension Plan structure to the new trust-based SIPP structure. The trust-based SIPP provides for regular pension savings and a comprehensive range of non-insurance OEIC investment funds in addition to insurance funds, annuity options and the product flexibility that existed for the TRA personal pension plan.

Future developments

The Part VII transfer of insurance business to Canada Life Limited on 1 January 2020 was a major change for the business which reduced the exposure to risks and future solvency capital requirements associated with that business.

The Company will be changing from an insurer to a FCA regulated MiFiD investment firm. Since 1 November 2019 The Company is a SIPP provider, and remains focused upon the development of its retirement income solutions as a MiFID firm through its TRA product, and association with Canada Life as the provider of insurance products within the SIPP.

Climate change

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, 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 and reinsurance liabilities, the value of the Company's equity release mortgages 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 equity release mortgage loan portfolio may harm the Company's financial strength and reduce 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, as noted under "Insurance Risk".

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.

Statement on directors' duty to promote the success of the company

The Board of Directors of the Company (the "Board") 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 Board is responsible for, amongst other things, setting the Company's strategy, approving its risk appetite and overseeing implementation of that strategy. This has due regard for all its stakeholders, including shareholders, regulators, customers, staff and business partners who contribute to the success of the company and the achievement of its strategy. The Board (which is the Company's Board) provides leadership of the Company within a framework of prudent and effective controls that enables risks to be assessed and managed. The Board also sets the Company's culture, values and standards and oversees the way in which culture is embedded by executive management. In particular, the Board recognises that a fundamental component of the Company's governance is the obligation to treat customers fairly. The Board approves the components of the risk management framework and sets the risk strategy for the Company in relation to the types and level of risk that the Company is prepared to assume.

The Company maintains a Capital Management policy which ensures it always has sufficient eligible Own Funds to cover the Solvency Capital Requirements ("SCR") and Minimum Capital Requirements ("MCR") at all times and with an appropriate buffer. Directors consider dividends with full regard for this in policy. This policy is monitored regularly by management and the relevant Boards, Board Committees and Shareholders, which during 2019 resulted in a total of £84m in further capital being obtained from its Shareholder.

The Company also undertakes an Own Risk and Solvency Assessment ("ORSA") exercise at least annually, or when the risk profile of the Company materially changes. The ORSA exercise incorporates the business planning process, which is typically considered over a three-year time horizon and includes projections of the amounts of eligible Own Funds, SCR and MCR. In 2019, the ORSA Report was produced on a combined basis with CLL in anticipation of the planned Part VII transfer.

The Company ensures that all people who effectively run the Company or have other key functions are fit to provide sound and prudent management through their professional qualifications, knowledge and experience and are proper by being of good repute and integrity. The Board has ultimate responsibility for the performance and strategy of the Company and it delegates authority within the organisation as it sees fit.

Strategic Report (cont.)

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.

During the year the directors approved the further development its product and market proposition with the launch of the TRA trust-based SIPP. This product launch was also communicated to existing TRA policyholders providing the opportunity to convert from the TRA trust-based personal pension plan to the SIPP, as set out within the product and market proposition section of this Strategic Report.

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.

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

During the year the directors also continued to engage with policyholders, regulators and independent advisors in respect to its proposed Part VII Scheme to transfer insurance business to Canada Life Limited. All affected policyholders received correspondence containing a detailed guide to the Scheme, an explanation of the sources from which they could obtain further information about the Scheme and communicating their right to make representations if they considered they might be adversely affected by the Scheme. Both the Company and Canada Life Limited also arranged for adverts to be published in certain national newspapers and for information to be made available on their respective websites. The directors concluded the security of the transferring policyholders' benefits would be enhanced by the Scheme, whilst recognising the regulatory constraints that would otherwise continue to limit the levels of new business that could be written by the Company if the Scheme did not proceed. The Scheme was completed on 1 January 2020.

Whilst the transfer represents a material IFRS loss of £202m for the Company, this was due to the consideration for the transfer being at a fair market value, determined using a Solvency II basis of valuation, under which the overall loss was £34m before tax.

Result for the year

The Company reported an IFRS loss before tax for the year ended 31 December 2019 of £2.0m (2018: £30.3m loss).

Key performance indicators ('KPIs')

The following financial KPIs are used by the Board to monitor performance of the Company.

	2019	2018
	£'m	£'m
Gross premiums written	90.2	107.3
TRA assets under management	105.9	66.0
Operating expenses	13.2	20.6
Loss before tax	(2.0)	(30.3)
Total equity	284.1	200.6
Unaudited Solvency II ratio of eligible own funds to SCR	123%	136%

Gross premiums written

Gross premiums written in 2019 continued to be impacted by the Solvency II regime as the Company constrained the new business written to ensure it maintained its capital strength, particularly given the economic uncertainty from Brexit.

TRA assets under management

Assets under management represent amounts invested by customers in TRA for which the Company earns ongoing fees. The increasing asset levels reflects the continuing investment in improving the TRA product, with the trust-based SIPP launching in November 2019.

Operating expenses

Operating costs arising in 2019 are predominantly for policyholder administration service fees, which were £10.5m compared to £16.0m in 2018. This was reflective of a reduced cost base within the Company's service company, MGM Advantage Services Limited, resulting in less compensation being required to cover the fellow subsidiary's costs.

Loss before tax

The IFRS loss before tax represents the level of profit or loss contributing to regulatory capital and potentially available for distribution to shareholders. The loss before tax is considered a measure of performance for the Company with the current year loss reflecting a reduction in the return expected on Equity Release Mortgage assets following a review of the assumptions relating to those assets.

Total equity

The total equity of the Company increased in the year despite the loss after tax, as £84m capital was received during the year from its parent company MGM Advantage Holdings Limited. The increase in capital was predominantly to support the impact of volatile markets, in part due to Brexit uncertainty, upon solvency requirements.

Unaudited Solvency II ratio of eligible own funds to SCR

The Company met its capital requirements under the Solvency II regime during 2019, with the capital received from MGM Advantage Holdings Limited during 2019 strengthening the position in the year. Refer to note 28 for further information on the capital resources of the Company.

Strategic Report (cont.)

Summary

2019 has seen the Company successfully prepare for the business to Part VII transfer into Canada Life Limited, which was completed on 1 January 2020. Whilst the result for the year is a loss, this was primarily due to a reduction in the return expected on Equity Release Mortgage assets following a review of the assumptions relating to those assets. The Company has benefited from lower expenses in 2019, whilst continued investment and development in TRA has seen the Company successfully launch its new trust-based SIPP.

This report was approved by the Board of Directors of MGM Advantage Life Limited and signed on its behalf by:

Robert Craig Fazzini-Jones
Executive Director
6th Floor
110 Cannon Street
London
EC4N 6EU
24 April 2020

Directors' Report

The Directors present their report on the affairs of the Company, together with the financial statements for the year ended 31 December 2019.

Incorporation

The Company was registered in England and Wales on 8 February 2013. The Company is a private limited liability company incorporated and domiciled in the United Kingdom. The Company commenced trading on 30 November 2013.

Results and dividends

The results for the year are set out in the Statement of Profit or Loss and Other Comprehensive Income on page 24. The Directors do not propose the payment of a dividend for the year ended 31 December 2019 (2018: £nil).

Directors

The Directors of the Company who served during the year and up to the date of signing were as follows:

Non-Executive Directors

Sir William Proby CBE
John Robert Cusins
Derek Nigel Donald Netherton
Nathan Moss

Executive Directors

Robert Craig Fazzini-Jones
Douglas Allan Brown

The Directors who served in the previous year were as follows:

Michael Edward Fairey (resigned 2 January 2018)
Brian Jonathan Magnus (resigned 2 January 2018)
John Simon Bertie Smith (resigned 2 January 2018)

Directors' indemnities

The Company's articles of association provide, subject to the provisions of UK legislation, an indemnity for Directors and officers of the Company in respect of liabilities they may incur in the discharge of their duties or in the exercise of their powers, including any liabilities relating to the defence of any proceedings brought against them which relate to anything done or omitted, or alleged to have been done or omitted by them in their capacity as officers or employees of the Company.

The Company has qualifying third party indemnity provisions for the benefit of its directors and the directors of associated companies; which were in place throughout the year and remain in force at the date of this report.

Political donations

There were no donations for political purposes (2018: £nil).

Directors' Report (cont.)

Going concern

Having regard to the Company's financial position, financial projections and its expected future performance, the Directors have a reasonable anticipation that the Company has adequate resources to continue in operational existence for the foreseeable future despite initial expected losses as the SIPP product grows. The Directors have considered the impact of the UK's exit from the EU and as a predominantly UK focused business the Company's operating model is not materially impacted by the UK's withdrawal from the EU.

The Company held capital in excess of its required capital on a Solvency II basis throughout 2019 and both as at 31 December 2019 and 1 January 2020 prior to the completion of the Part VII transfer of insurance business to Canada Life Limited and taking into account the run off of the Transitional Measures on Technical Provisions. The Directors have considered the impact of Covid-19 which may delay the anticipated growth in the SIPP product, however given the excess capital held there is sufficient surplus to cover a delay for the foreseeable future and at least for a period of 12 months from the approval of these financial statements. In view of this, the annual report and financial statements have been prepared on the going concern basis.

Information disclosed within the Strategic Report

In accordance with s414(c) of the Companies Act 2006, the Company has set out the following information within the Strategic Report on pages 3-10 which would otherwise be contained within the Directors' Report:

- Financial risk management objectives and policies;
- Stakeholder Relationships; and
- Future developments.

In addition, detailed information on the management of financial risk and use of financial instruments is set out within note 27 of the financial statements. In particular the Company's exposure to operational risk, insurance risk, market risk, liquidity risk and credit exposure risk is disclosed within that note.

Post balance sheet events

The effective date for the Part VII transfer of insurance business including an associated subsidiary undertaking and various associated contracts was 1 January 2020. A more detailed explanation is set out within the Strategic Report and note 18 provides detail of the assets and liabilities transferred on that date.

Since 31 December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. A more detailed explanation is set out within the Strategic Report and note 30 provides details of the impact on the Company.

The Company considers these events to be non-adjusting post balance sheet events under IAS 10.

Directors' Report (cont.)

Disclosure of information to auditors

Each of the persons who is a Director at the date of approval of this annual report confirms that, so far as the Director is aware:

- there is no relevant audit information of which the Company's auditors are unaware; and
- the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

Independent auditor

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.

Approved by the Board of Directors and signed on its behalf by:
Robert Craig Fazzini-Jones
Executive Director
6th Floor
110 Cannon Street
London, EC4N 6EU
24 April 2020

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Strategic Report and Directors' Report and the financial statements in accordance with applicable law and regulations.

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

Independent Auditor's Report

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of MGM Advantage Life Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of profit or loss and other comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the statement of cash flows; and
- the related notes 1 to 30 excluding the capital adequacy disclosures in Note 28 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 IFRSs as adopted by the European Union.

2. 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 Financial Reporting Council's (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 the non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

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

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • *Valuation of equity release mortgage assets;* • *Annuitant mortality assumptions used in the valuation of insurance contract liabilities; and* • *Complex modelling used in the valuation of insurance contract liabilities*
Materiality	The materiality that we used in the current year was £8,523k which was determined on the basis of 3% of shareholder's equity.
Scoping	Audit work to respond to the risk of material misstatement was performed directly by the audit team together with internal specialists including IT, tax, actuarial, real estate and financial instruments..
Significant changes in our approach	There have been no significant changes to our audit approach.

4. 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.

5. 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.

5.1. Valuation of equity release mortgage assets

Key audit matter description

The financial investments held by the company described in Note 13 *Financial Investments* include a portfolio of equity release mortgage assets ("ERMAs"). As at the 31 December 2019, ERMAs amounted to £497m (2018: £453m). As described in Note 1c *Accounting policies,* the company classifies all financial investments as fair value through the profit and loss as required by IAS 39 *Financial Instruments: Recognition and Measurement.* This valuation was not impacted by these instruments being part of an IFRS 5 disposal group as at 31 December 2019.

The fair value of the ERMAs is calculated by discounting future cash flows using a risk free rate plus a spread. The cash flow analysis considers a number of assumptions as detailed in Note 13 *Financial Investments* which include the valuation interest rate, house price inflation and house price volatility assumptions. In addition, there is a no-negative equity guarantee embedded in the loan product, which is stochastically modelled.

Through our risk assessment procedures considering the level of judgement, complexity and sensitivity of the assumptions to the fair value of the ERMAs, we pinpoint our key audit matter to the following assumptions:

- Valuation interest rate;
- House price inflation; and
- House price volatility.

A change in these assumptions can have a significant impact on the valuation of the ERMAs. A sensitivity analysis of the change in these assumptions on the fair valuation of the ERMAs portfolio is provided in note 13 *Financial Investments.*

Further to these assumptions used to value the ERMAs, there is complexity in the modelling used. Management uses a discounted cash flow model that uses multiple data inputs (such as property valuations and policyholder data) and assumptions as described. We have therefore identified the risk that the ERMA model is not functioning as intended as a key audit matter.

Due to the judgement involved in setting the assumptions and the complexity of the valuation model we have identity this key audit matter as an area of potential fraud.

How the scope of our audit responded to the key audit matter	In respect of the valuation of equity release mortgage assets: • We obtained an understanding of the relevant controls over the valuation process, including the company's review and approval of the key judgements and assumptions used to value the ERMAs; • We have assessed the fair value level 3 methodology used to value ERMAs against IAS 39 *Financial Instruments: Recognition and Measurement;* • Together with our actuarial specialists, we have reviewed management's basis papers and challenged the assumptions applied by comparison against those used by peers and in industry studies, and benchmarked these to industry data including Land Registry indices, and using our real estate specialists where appropriate. This included an assessment of uncertainty in the residential property market arising from Brexit which could impact on the assumptions selected by management; and • To validate the model used to value the ERMAs is functioning as intended, we have engaged with our actuarial specialists to recalculate the fair value of a sample of ERMA policies using our independent ERMA valuation model.
Key observations	Based on the work performed, we concluded that the valuation of equity release mortgage assets included in the investment portfolio of the company is appropriate.

5.2. Annuitant mortality assumptions used in the valuation of insurance contract liabilities

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 by the company. The gross insurance contract liability balance as at 31 December 2019 amounted to £1.5bn (2018: £1.3bn) and is detailed in Note 1d *Accounting Policies* and Note 9 *Insurance and Investment Contract Liabilities* to the financial statements. This valuation was not impacted by these liabilities being part of an IFRS 5 disposal group as at 31 December 2019. Annuitant mortality assumptions require a high degree of judgement due to the number of factors which may influence mortality experience. We have therefore identified a potential 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 Continuous Mortality Investigation Tables ("CMI") that have been updated by the company in 2019 as detailed in Note 9a. These assumptions are calculated in line with actuarial methodology 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 annuitant mortality assumptions we performed the following procedures, involving our actuarial specialists: • We obtained an understanding of the relevant controls over the assumption setting process; • We tested the methodology used by management to derive the assumptions with reference to IFRS 4 , as well as applying our industry knowledge and experience; • 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 are used in the assumption setting process (such as for mortality improvements) we have assessed management's use of this information in the assumption setting process and

	its relevance; • Where appropriate, we have compared the assumptions selected by management to those used by peer companies; and • We have substantively tested (including via recalculation) a sample of in-year experience studies relating to mortality base assumptions, which included assessing the appropriateness of the experience study methodology for each sample selected, and assessing the resulting conclusions with respect to the derived assumptions.
Key observations	Based on the work performed and the evidence obtained, we consider the assumptions used for annuitant mortality to be appropriate.

5.3. Complex modelling used in the valuation of insurance contract liabilities

Key audit matter description	The actuarial model used in the annuity reserving calculation is inherently complex, given the number and nature of inputs (policyholder data, economic data, assumptions) and the methodology used. The insurance contract liabilities are modelled using projected future annuity payments, unit growth, costs of guarantee and maintenance costs, then discounting these cash flows, making allowance for expected future investment returns. This complex discounted cash flow model is carried out using actuarial modelling software. The total insurance contract liability balance as at 31 December 2019 amounted to £1.5bn (2018: £1.3bn) and is detailed in Note 1d *Accounting Policies* and Note 9 *Insurance and Investment Contract Liabilities* to the financial statements. This valuation was not impacted by these liabilities being part of an IFRS 5 disposal group as at 31 December 2019. Given this complexity in the model applied, we identified a key audit matter that the model may not be functioning as intended, which is a potential fraud risk.

How the scope of our audit responded to the key audit matter	In order to test whether the actuarial model used in valuing the annuity insurance contract liabilities is functioning as intended, we performed the following procedures, involving our actuarial specialists:
	
	• We obtained an understanding of the relevant controls in relation to modelling and in particular the model change process;
	• We recalculated, on a sample basis, the actuarial liabilities for the guaranteed enhanced annuities to test that the model used for actuarial reserving appropriately calculate the company's actuarial liabilities. This included the following:
	    o Testing accuracy and completeness of data (such as policyholder data) used in the reserving prcess;
	    o Verifying that the assumptions used in the model are appropriate;
	    o Testing the model set-up to ensure the model is accurately valuing significant features of policies sampled for independent recalculation in accordance with IFRS 4; and
	    o Independently valuing a sample of actuarial liabilities at a policy level, using our independent annuity valuation model.

Key observations	Based on the work performed and the evidence obtained, the complex modelling used in the valuation of insurance contract liabilities was appropriate.

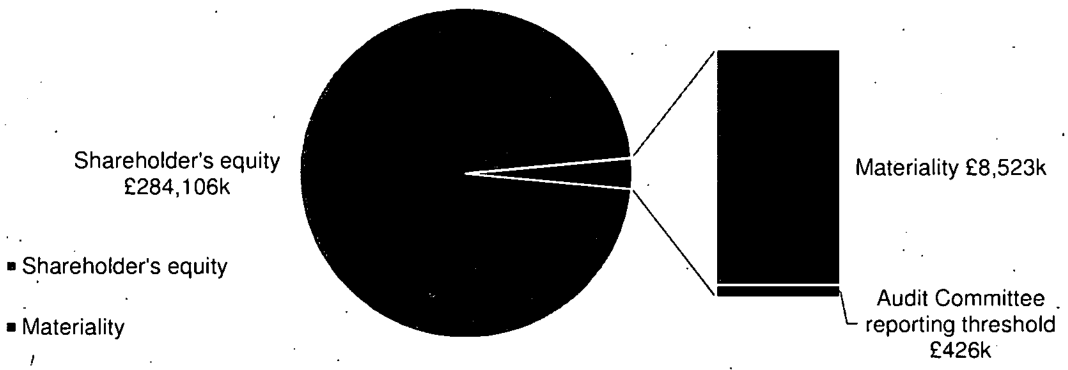
6. Our application of materiality

6.1. 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	£8,523k (2018: £5,515k)
Basis for determining materiality	3% of shareholder's equity (2018: 2.75%) The basis for determining materiality has increased from 2.75% to 3% of shareholder's equity as 2018 reflected a reduction in response to being a first year audit.
Rationale for the benchmark applied	We have used shareholder's equity as a benchmark for our materiality to reflect the fact that the company is a regulated insurer, therefore mainly focussing on capital management.



6.2. 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:

a. the consistency of key operations and personnel;
b. the quality of the control environment and our ability to rely on controls; and
c. level of prior period uncorrected misstatements.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £426k (2018: £276k), 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.

7. An overview of the scope of our audit

7.1. Scoping

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

8. 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.

9. 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.

10. 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 report.

11. 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.

11.1. 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;
- the company's own assessment of the risks that irregularities may occur either as a result of fraud or error that was approved by the board;

- 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, real estate and financial instruments 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 following areas: valuation of equity release mortgage assets, annuitant mortality assumptions used in the valuation of insurance contract liabilities and complex modelling used in the valuation of insurance contract liabilities. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

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 included the UK Companies Act 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. These included laws and regulations issued by the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority ('PRA'), including the company's regulatory solvency capital requirements.

Audit response to risks identified

As a result of performing the above, we identified valuation of equity release mortgage assets, annuitant mortality assumptions used in the valuation of insurance contract liabilities and complex modelling used in the valuation of insurance contract liabilities as key audit matters. 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 the FCA and the PRA;
- in addressing the risk of fraud through revenue recognition, assessed the relevant internal controls around the premium recognition process and traced payments to the bank statement to verify the accuracy of the amounts recorded in the general ledger; 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

12. 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.

13. Matters on which we are required to report by exception

13.1. 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.

13.2. 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.

14. Other matters

14.1. Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Board of Directors on 11 September 2018 to audit the financial statements for the year ending 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is two years, covering the years ending 31 December 2018 to 31 December 2019.

14.2. 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).

15. 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.

A J Holland

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

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

	Notes	Year ended 31 Dec 2019 £'000	Year ended 31 Dec 2018 Restated* £'000
Continuing Operations:			
Revenue	3	212	286
Net operating expenses	10	(3,039)	(3,526)
Loss before tax from continuing operations		(2,827)	(3,240)
Income tax credit	12	537	616
Loss after tax from continuing operations		**(2,290)**	**(2,624)**
Discontinued Operations:			
Gross premiums written		90,242	107,317
Outward reinsurance premiums		(17,744)	(13,965)
Net premiums written	4	72,498	93,352
Investment income	5	37,372	34,837
Net realised gain on investments	6	44,867	14,133
Net unrealised gain/(loss) on investments	7	108,723	(97,348)
Total income from discontinued operations		**263,460**	**44,974**
Claims paid		(100,362)	(94,988)
Reinsurers' share of claims paid		52,909	49,241
Net benefits and claims	8	(47,453)	(45,747)
Change in insurance contract liabilities		(147,293)	17,328
Change in value of investment contracts		(62,712)	23,019
Reinsurers' share of change in insurance contract liabilities		8,193	(46,239)
Net change in insurance contract liabilities	9	(201,812)	(5,892)
Net operating expenses	10	(10,196)	(17,084)
Investment expenses and charges	11	(3,196)	(3,360)
Total expenses		(13,392)	(20,444)
Total claims and expenses from discontinued operations		**(262,657)**	**(72,083)**

Statement of Profit or Loss and Other Comprehensive Income (cont.)

Profit/(Loss) before tax from discontinued operations		**803**	**(27,109)**
Income tax (charge)/credit from discontinued operations	12	(152)	5,145
Profit/(Loss) for the year from discontinued operations		**651**	**(21,964)**
Loss for the year		**(1,639)**	**(24,588)**
Total other comprehensive income for the year, net of tax		-	-
Comprehensive income for the year, net of tax attributable to shareholders		**(1,639)**	**(24,588)**

*See note 25.

Substantially all amounts derive from discontinued operations relating to the Part VII transfer of the insurance business to Canada Life Limited which completed on 1 January 2020.

The notes on pages 29 to 66 form an integral part of the financial statements.

Statement of Financial Position

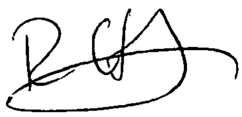
As at 31 December 2019

	Notes	As at 31 Dec 2019 £'000	As at 31 Dec 2018 Restated* £'000	As at 1 Jan 2018 Restated* £'000
Assets				
Financial investments	13	-	2,113,257	2,148,509
Investment in subsidiary	14	-	-	-
Reinsurance assets	9,15	-	464,301	510,540
Insurance and other receivables	16	-	2,698	5,002
Amounts due from related undertakings	17	-	9,583	2,715
Income tax receivable		-	-	926
Assets of operations classified as held for sale	18	2,920,559	-	-
Cash and cash equivalents	19	270	22,975	23,558
Total assets		**2,920,829**	**2,612,814**	**2,691,250**
Equity				
Issued ordinary share capital	20	41,620	41,620	41,620
Issued ordinary share premium	20	114,000	30,000	-
Perpetual debt	20	66,379	60,311	54,793
Distributable capital contribution reserve	20	24,000	24,000	24,000
Retained earnings	20	38,107	44,662	73,720
Total equity		**284,106**	**200,593**	**194,133**
Liabilities				
Non-linked insurance contract liabilities	9	-	1,333,164	1,342,170
Unit-linked insurance contract liabilities	9	-	56,815	65,137
Investment contract liabilities	9	10	468,612	493,826
Deposits received from reinsurers	21	-	547,699	586,540
Amounts due to related undertakings	17	-	352	2,267
Income tax payable	22	-	231	-
Insurance payables	23	-	1,535	3,246
Other payables	24	260	3,813	3,931
Liabilities of operations classified as held for sale	18	2,636,453	-	-
Total liabilities		**2,636,723**	**2,412,221**	**2,497,117**
Total equity and liabilities		**2,920,829**	**2,612,814**	**2,691,250**

* See note 25.

The notes on pages 29 to 66 form an integral part of the financial statements.

These financial statements were approved by the Board of Directors and authorised for issue on 24 April 2020 and were signed on their behalf by:



Robert Craig Fazzini-Jones, Executive Director
MGM Advantage Life Limited
Registered no. 08395855

Statement of Changes in Equity

For the year ended 31 December 2019

	Notes	Ordinary share capital	Ordinary share premium	Distributable capital contribution reserve	Retained earnings	Perpetual debt	Total shareholder's funds
		£'000	£'000	£'000	£'000	£'000	£'000
Balance as at 31 December 2017		**41,620**	**-**	**24,000**	**73,720**	**54,793**	**194,133**
Total comprehensive income for the year							
Loss for the year		-	-	-	(24,588)	-	(24,588)
		-	**-**	**-**	**(24,588)**	**-**	**(24,588)**
Transactions with owners of the Company							
Sale of share		-	30,000	-	-	-	30,000
Debt interest (distributed)/ capitalised		-	-	-	(5,511)	5,511	-
Amortisation of debt issuance costs		-	-	-	(7)	7	-
Income tax on equity items	12	-	-	-	1,048	-	1,048
		-	**30,000**	**-**	**(4,470)**	**5,518**	**31,048**
Balance as at 31 December 2018		**41,620**	**30,000**	**24,000**	**44,662**	**60,311**	**200,593**
Total comprehensive income for the year							
Loss for the year		-	-	-	(1,639)	-	(1,639)
		-	**-**	**-**	**(1,639)**	**-**	**(1,639)**
Transactions with owners of the Company							
Sale of shares		-	84,000	-	-	-	84,000
Debt interest (distributed)/ capitalised	20	-	-	-	(6,061)	6,061	-
Amortisation of debt issuance costs		-	-	-	(7)	7	-
Income tax on equity items	12	-	-	-	1,152	-	1,152
		-	**84,000**	**-**	**(4,916)**	**6,068**	**85,152**
Balance as at 31 December 2019		**41,620**	**114,000**	**24,000**	**38,107**	**66,379**	**284,106**

No dividends were declared or paid during the year.

The notes on pages 29 to 66 form an integral part of the financial statements.

Statement of Cash Flows

For the year ended 31 December 2019

	Note	Year ended 31 Dec 2019 £'000	Year ended 31 Dec 2018 £'000
Cash flows from operating activities			
Payment to policyholders		(139,042)	(130,971)
Receipts from policyholders		153,876	172,727
Payments to reinsurers		(4,285)	(4,252)
Indirect flexible income annuity claims paid		(36,588)	(34,181)
Indirect flexible income annuity premiums received		1,432	932
Payments to suppliers and employees		(2,120)	(1,496)
Expenses reimbursed		-	5
Payments to intermediaries/reversals		(262)	(361)
Expense to settle derivative positions		-	(1,056)
Purchase of fair value through profit and loss financial investments		(744,506)	(535,403)
Proceeds from disposal of fair value through profit and loss financial investments		658,021	471,416
Investment income charges rebated		241	296
Dividend income received		1,064	523
Interest income received		50,066	50,954
Corporation tax (paid)/received		(215)	925
Net services fees and recharges		(13,017)	(23,761)
Net cash outflow from operating activities		**(75,335)**	**(33,703)**
Cash flows from investing activities			
Proceeds from disposal of asset held for sale		-	3,120
Net cash inflow from investing activities		**-**	**3,120**
Cash flows from financing activities			
Issue of share capital and share premium		84,000	30,000
Lease payments		(455)	-
Interest paid		(19)	-
Net cash inflow from financing activities		**83,526**	**30,000**
Net increase/(decrease) in cash and cash equivalents		8,191	(583)
Cash and cash equivalents classified as held for sale		(30,896)	-
Cash and cash equivalents at beginning of year		22,975	23,558
Cash and cash equivalents at end of year	19	**270**	**22,975**

The notes on pages 29 to 66 form an integral part of the financial statements.

Notes to the Financial Statements

1. Accounting policies

a) General

MGM Advantage Life Limited (the 'Company") is a private company limited by shares and was incorporated in the United Kingdom on 8 February 2013. The Company is a limited liability company domiciled in England and Wales. The Company commenced trading on 30 November 2013.

b) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union, and those parts of the Companies Act 2006 as applicable to companies reporting under IFRS.

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 4(a) IFRS 10. The Company's results are included in the consolidated financial statements of The Canada Life Assurance Company, a company incorporated in Canada. These financial statements present information about the Company as an individual undertaking and not about its Group.

Having regard to the Company's financial position, financial projections and its expected future performance, the Directors have a reasonable anticipation that the Company has adequate resources to continue in operational existence for the foreseeable future despite initial expected losses as the SIPP product grows. The Directors have considered the impact of the UK's exit from the EU and as a predominantly UK focused business the Company's operating model is not materially impacted by the UK's withdrawal from the EU.

The Company held capital in excess of its required capital on a Solvency II basis throughout 2019 and both as at 31 December 2019 and 1 January 2020 prior to the completion of the Part VII transfer of insurance business to Canada Life Limited and taking into account the run off of the Transitional Measures on Technical Provisions. The Directors have considered the impact of Covid-19 which may delay the anticipated growth in the SIPP product, however given the excess capital held there is sufficient surplus to cover a delay for the foreseeable future and at least for a period of 12 months from the approval of these financial statements. In view of this, the annual report and financial statements have been prepared on a going concern basis under the historical cost convention, except for financial instruments that are measured at revalued amounts or fair values as permitted or required by IFRS. These policies have been reported consistently for all periods presented in these financial statements. Historical cost, where applicable, is generally based on the fair value of the consideration given in exchange for goods and services.

Critical judgements and estimates made in the process of applying the Company's accounting policies

The preparation of the Company's financial statements requires management to make judgements, apart from those involving estimations that can significantly affect the amounts recognised in the financial statements.

The principal areas of judgement comprise the following:

- **Insurance contract liabilities and reinsurance assets**

  The valuation process reflects management's best estimate of cash flows but includes a margin to allow for the level of risk and uncertainty inherent in the business. As at 31 December 2019, management maintained the

1. Accounting policies (cont.)

margin held at £21.5m (2018: £21.5m), reflecting the amount of inherent risk and uncertainty associated with the key assumptions discussed in this note and notes 1(d), 9 and 13. The risk margin reflects the unpredictability and potential variability in those assumptions intrinsic to long-term insurance contract liabilities. Management assesses the risk margin against an approximate confidence level above the best estimate assumptions which enables a comparison of the strength of the insurance contract liabilities to previous years and a demonstration of compliance with IFRS 4. Within the reinsurance asset is an offsetting contingent reinsurance premiums payable to Hannover Re, which has been accrued at the rate judged by management to be the rate applicable to the Company as at the year-end.

- **Fair values of financial instruments**
  Financial instruments that are quoted in active markets are based on bid prices for the assets held. A suitable alternative price could be selected somewhere between bid and offer price, however, bid price is considered appropriate as it also affects the valuation of policyholder liabilities (by having an influence on the computation of gross redemption yields and hence the discount rate derived from this) and gives a slightly more prudent result than otherwise would be the case. The method of determining which fair value level a financial instrument is categorised as is provided in note 13.

- **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 1f.

The principal areas of estimations and assumptions comprise the following:

- **Insurance contract liabilities and reinsurance assets**
  Insurance contract liabilities and reinsurance assets are based on appropriate valuation assumptions. The setting of assumptions considers past experience and requires significant judgment, particular emphasis is paid to mortality, expense and credit risk assumptions where variances in the level of assumptions set can have a significant effect on the overall valuation. Further details of the sensitivity of insurance contract liabilities to change in assumptions is provided in note 9.

  Mortality assumptions include an allowance for longevity trends and due to the future uncertainty of the impact of medical advances and equally threats from infectious diseases, such assumptions can have a significant effect on future experience versus amounts valued in these financial statements. In selecting a discount rate an explicit allowance for credit risk is made based on bond defaults, hence a deduction from actual yields on debt securities is made. The assumptions over defaults are an area that requires significant judgement. Determining expense allowances and how product costs are spread over the life of a long term contract is a judgemental exercise. The methodologies and assumptions used in calculating and measuring these liabilities are discussed in note 9.

- **Equity release mortgage assets**
  Equity release mortgage assets are measured at fair value level 3 by discounting the future cash flows using a risk free rate plus spread. 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 no-negative equity guarantee embedded in the loan product. A change in these assumptions can have a significant impact on their valuation. The spread is set such that the initial fair value equates to the observable loan balance. Further details of the valuation method and sensitivity of equity release values to change in assumptions is provided in note 13.

1. Accounting policies (cont.)

c) Financial investments

Upon initial recognition, all financial investments are classified as financial assets at fair value through profit or loss.

Financial investments at fair value through profit or loss

Financial investments are classified at fair value through profit or loss upon initial recognition under the fair value option except for derivatives which are classified at fair value through profit or loss as required by IAS 39 – 'Financial Instruments: Recognition and Measurement'.

The Company designates all financial investments under fair value through profit and loss as this categorisation significantly reduces recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

The Company manages these investments and makes purchase and sale decisions based on their fair value in accordance with the Company's investment strategy. Purchases and sales of financial investments are accounted for at trade date, which is the date that the Company commits to purchase or sell investments, at their fair value. Upon initial recognition, attributable transaction costs are recognised in profit or loss as incurred. Financial investments are measured at fair value and changes therein are recognised in profit or loss. The fair values of investments are based on quoted bid prices, or based on modelled prices (using observable market inputs) where quoted bid-prices are not available.

Financial investments at fair value through profit or loss include: derivatives; listed investments; units in authorised unit trusts; Open Ended Investment Companies (OEICs); equity release mortgage assets and other investments. The Company's derivative financial instruments are not designated formally as hedges and therefore hedge accounting does not apply. Instead they are considered to be economic hedges and as such, fair value gains and losses on the derivatives are included in unrealised gains and losses on investments as are any gains or losses on the investments which they hedge.

Equity release mortgage assets have been classified as fair value through profit or loss. They are measured by discounting the future cash flows using a risk free rate plus spread. The cash flow analysis considers future expenses, assumed mortality experience and also the no-negative equity guarantee embedded in the loan product.

De-recognition of financial investments

Investments are derecognised when the contractual rights to receive cash flows from the investments expire, or where the investments have been transferred, together with substantially all the risks and rewards of ownership.

A financial investment is derecognised when:

- the Company's right to receive cash flows from the asset has expired;
- the Company has transferred its right to receive cash flows from an asset to a third party;
- the Company has transferred substantially all of the risks and rewards of ownership to a third party; or
- the Company has transferred control of the asset to a third party.

Investment contract liabilities

Amounts received in respect of investment contracts are accounted for using deposit accounting, under which amounts collected are credited directly to the Statement of Financial Position, as an adjustment to the liability to the policyholder. These contracts are accounted for as financial liabilities, whose value is contractually linked to the fair values of financial assets with the Company's unitised investment funds. The value of the investment contract liabilities is determined by using current unit prices, multiplied by the number of units attributable to the contract holders at the reported date. Their value is never less than the amount payable on withdrawal.

1. Accounting policies (cont.)

Interest or changes to the unit prices credited to the investment contract account balances are charged as expenses in the Statement of Profit or Loss and Other Comprehensive Income, through changes in liabilities arising from the investment contracts. Deposits and withdrawals are not accounted for through the Statement of Profit or Loss and Other Comprehensive Income but are instead accounted for in the Statement of Financial Position as adjustments to the liability arising from investment contracts.

d) Valuation of insurance contract liabilities and investment contract liabilities

The method used in determining insurance contract liabilities involves projecting future annuity payments and maintenance costs and then discounting these cash flows, making allowance for expected future investment returns. The valuation process reflects management's best estimate of cash flows but includes a margin to allow for the level of risk and uncertainty inherent in the business.

At the end of each reporting year the Company assesses whether its recognised insurance liabilities are adequate, using current estimates of future cash flows for its insurance contract liabilities. If that assessment shows that the carrying amount of its insurance contract liabilities is not adequate in the light of the estimated future cash flows, the deficiency is recognised in profit or loss. The basis for the valuation of insurance contracts acquired in business combinations and portfolio transfers is identical to that for existing insurance contracts. Insurance contracts transferred in are backed by existing asset portfolios and by assets received in the form of reinsurance premiums.

Investment contract liabilities are stated at the fair value of the single priced OEIC financial investments and cash reserves attributable to relevant policyholders.

e) Valuation of financial assets and derivative financial investments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for when measurements that have some similarities to fair value but are not fair value, such as value in use per IAS 36 – 'Impairment of Assets'. In the absence of an active market, fair value is estimated using valuation techniques that include the use of discounted cash flow models and/or mathematical models, the inputs to which are taken from observable market data.

For discounted cash flow valuation, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. Note 13 contains more details on the assumptions used.

Derivatives are measured at fair value with changes in value recognised in profit or loss. Derivatives are derecognised when the contractual rights to receive cash flows from the derivatives expire or when the instruments have been transferred, together with substantially all the risks and rewards of ownership.

f) Classification of insurance and investment contracts

The Company's insurance contracts are classified for accounting purposes as either non-linked or unit-linked insurance contracts. These are all non-participating contracts. All of the insurance contracts issued by the Company are post-retirement pension policies that fund retirement income and can remain in force for an extended period of time. The majority are annuity policies that insure events associated with longevity. Insurance contracts are defined as those

1. Accounting policies (cont.)

containing significant insurance risk, if and only if, an insured event would cause an insurer to pay significant additional benefits to the policyholder than otherwise would be the case.

The Company's insurance contracts accept the transfer of uncertainty from policyholders by providing a whole of life annuity to them that adds value through the management of risk.

The Company's investment contracts are the Retirement Pension Drawdown ("RPD") and with-profit flexible income annuity (FIA) business reinsured with Scottish Friendly Assurance. RPD forms one component of The Retirement Account ("TRA") product, with the other component being the Retirement Guaranteed Annuity ("RGA"). The RPD component is composed of either directly held unit-linked OEIC investments and or cash that can be readily drawn upon by the policyholder and the product component has no significant element of transferrable insurance risk and therefore is accounted for as a financial instrument. Amounts received in respect of investment contracts are accounted for using deposit accounting, under which amounts collected are credited directly to the Statement of Financial Position, as an adjustment to the liability to the policyholder.

g) Revenue

Revenue consists of SIPP account fees and is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts, VAT and other sales related taxes. Account fees are recognised on an accruals basis as the service is provided.

h) Net earned premiums

Premiums are recognised in the accounting year in which an insurance contract is commenced, gross of any advisor fees payable. Premiums which have been received and for which no contract is yet in-force are classified as a liability within insurance payables. Premiums exclude any taxes or duties based on premiums. Policyholders typically pay Independent Financial Advisor (IFA) fees by paying a gross premium to the Company, from which the Company deducts the relevant advisory fee and pays this onward to the IFA. These fees are recorded within net operating expenses in profit or loss.

Other charges are priced into the premium that policyholders need to pay to secure a specific annuity contract and rate and are reflected in profit or loss by differences between premiums paid to the Company and the associated reserve set up for the liability to the policyholder. The reserve set up is accounted for as a change in value of insurance contract liabilities. The relevant insurance contract liability or reserve includes an allowance for future maintenance expenses. Acquisition expenses are not deferred in relation to insurance contracts and are instead expensed immediately within net operating expenses in profit or loss.

Reinsurance premiums and recoveries are accounted for in the accounting year in accordance with the contractual terms of the reinsurance treaties, as per note 1k.

i) Net investment income, realised and unrealised gains on investments

Investment income

Investment income includes distributions on collective investment schemes, interest on fixed income securities, equity release mortgage interest paid and interest on cash deposits. Distributions on collective investment schemes are recognised when the securities are quoted ex-dividend. Interest on debt securities, bank deposits, and other interest is recognised on an accruals basis.

Investment income includes a deduction for interest payable to Hannover Re, as a result of carrying a deposit back liability in favour of the reinsurer. The Company credits Hannover Re with investment income on its deposited reserves. The interest payable is effectively funded by financial investments that the Company holds. As a result the interest payable to Hannover Re is accounted for as deduction to investment income rather than as an operating expense.

1. Accounting policies (cont.)

Realised gains on investments

Realised gains and losses include gains and losses on financial assets and liabilities. Realised gains and losses are calculated as the difference between net sales proceeds and original cost and are recognised on the sale of the asset.

Unrealised gains on investments

Unrealised gains on investments are calculated as the difference between their fair value in the statement of financial position and the original cost or subsequent revaluation. Unrealised gains or losses in the statement of profit or loss and other comprehensive income also include adjustments for unrealised gains or losses recognised in previous periods which reversed on the sale of the financial asset and offset the recognition of realised gains and losses in the current period. Unrealised gains on equity release mortgage assets includes the interest accrued on these mortgages given they are subject to the No-Negative Equity Guarantee.

Unrealised gains include accumulated positive or negative capital adjustments that are representative of amounts (payable)/receivable (to)/from Hannover Re in relation to the deposit back liability under the terms of the treaty. Capital adjustments are based on changes in the valuation rate of interest between the end and start of a quarterly accounting period and number of reinsured policies in force. The relevant accumulated capital adjustments reflect the 'coverage' of financial investments held over the deposit back liability in favour of the reinsurer and are therefore recorded as a return of investment unrealised gain or loss, rather than as an operating expense. These gains or losses will only become realised when the deposit back liability is settled.

j) Benefits and claims

Gross benefits and claims on insurance contracts include the cost of all claims arising during the year. Annuity payments are recognised when they fall due for payment.

k) Reinsurance

The Company both cedes and accepts insurance risk in the normal course of business. Reinsurance premiums payable are recognised when the underlying contract premiums become receivable or the underlying contract becomes effective.

The reinsurance asset in the Statement of Financial Position is accounted for net of a liability that is the present value of contingent reinsurance premiums payable to Hannover Re because the fees payable are risk bearing and relevant to obtaining the reinsurance cover. The liability is calculated as the discounted present value of future premiums. Reinsurance premiums are payable to Hannover Re based on a fixed schedule of quarterly payments. The Company is required, under the agreement, to pay the premiums when its realistically assessed capital is in excess of its realistic capital requirement under the old Solvency I regime (i.e. Individual Capital Assessment (ICA) plus Individual Capital Guidance (ICG)), excluding any allowance for additional risk appetite.

The credit quality of the reinsurance asset is assessed by regular review over Hannover Re's credit standing, although the Company holds a deposit back liability in favour of the reinsurer that exceeds the value of the reinsurance asset and therefore the risk of counterparty default is covered by this arrangement. The reinsurance asset is measured on a realistic basis, whereas the deposit back liability is measured on a prudent regulatory basis. The gap between the asset and liability value is representative of a prudential margin to cover mortality risk.

Reinsurance recoveries related to claims paid are recognised as a deduction to claims paid and are recognised when the underlying contract claims become payable. The revaluation of the reinsurance asset in the statement of financial position recognises the movement in the recoverable amount related to policyholder liability reserves, the valuation movement of this asset is recorded in profit or loss as the Reinsurers' share of change in insurance contract liabilities. Reinsurance assets represent the balances recoverable from reinsurance companies, net of future reinsurance premiums, in accordance with the terms of the reinsurance contract. The amount recoverable is measured consistently with the amounts associated with the terms of the reinsurance contract.

1. Accounting policies (cont.)

Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due. Interest payable on the deposit back liability is calculated at the end of the previous quarter (for existing business) or at the policy start date using the previous quarter assumptions (for new business). Interest is payable at the previous quarter's reassurance interest rate for the period during the quarter the policy was in force. If Hannover default on their obligations as reinsurer, the deposit back liability is available to the extent necessary to cover the Company's obligations to policyholders or otherwise when the last policyholder or when their spouse dies it will be extinguished.

l) Net operating expenses

Operating expenses, which include administrative expenses, are recognised on an accruals basis as incurred.

m) Investment expenses and charges

Investment expenses and charges are recognised on an accruals basis as incurred and include investment management expenses and equity release premium fees.

n) Income tax expense

Current income tax

Current income tax is based on taxable profits or losses for the year, after any adjustments made in respect of prior years. Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and laws used to compute current income tax amounts are those that are enacted by the statement of financial position date.

Deferred income tax

Deferred income tax is calculated using the statement of financial position liability method, which focuses on temporary differences. Temporary differences are differences between the tax bases of assets and liabilities and their carrying amounts in the statement of financial position. The tax rates and laws used to compute deferred tax assets and liabilities are those that are enacted or substantively enacted by the statement of financial position date. Deferred tax assets are recognised when it is probable that future taxable profit will be available to utilise the temporary differences. Deferred tax liabilities are recognised for all temporary taxable differences. The Company has right of legal offset of its deferred tax assets and liabilities and therefore these are presented net in the statement of financial position.

o) Foreign currencies

The financial statements of the Company are presented in sterling, the currency of the primary economic environment in which it operates (its functional currency). In preparing the financial statements, transactions in currencies other than the Company's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each statement of financial position date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

p) Insurance and other receivables

Insurance, trade and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost less any impairment. A provision for impairment of a receivable is established where there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivable. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

1. Accounting policies (cont.)

q) Investment in subsidiaries

Shares in subsidiary undertakings are stated at cost less any provision for diminution in value.

r) Assets and liabilities held for sale

Disposal groups are classified as held for sale when their carrying value is expected to be recovered principally through a sale transaction and a sale is considered highly probable. The Company applies the measurement requirements of IFRS 5 "Non-current assets held for sale and discontinued operations" to non-financial assets within the disposal group. The overall disposal group is stated at the lower of the carrying amount and fair value less costs to sell. Non-current assets or disposal groups that represent a separate major line of business, are also classified as discontinued operations. Where the measurement requirements of IFRS 5 do not apply to other assets and liabilities in the disposal group, the measurement criteria of the relevant other standards are applied.

s) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank, cash in hand as well as short-term deposits with a maturity of three months or less and have known redemption values which are held to manage short-term operational cash requirements on origination. This defines the cash and cash equivalents used in the statement of cash flows. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the Company's statement of cash flows. The Company has a right of offset between cash balances and overdrafts, and presents a net position as at the year end.

t) Share capital

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. As per the Company's articles of association, in the event of a winding-up order or other return of capital, deferred shares entitle holders of those shares only to payment of the amounts paid up for those shares after repayment to Ordinary Shareholders. Furthermore, deferred shares do not confer entitlement to any participation in the profits or assets of the Company nor the right to attend or vote in a general meeting of the Company.

u) Perpetual debt

Perpetual debt is initially recognised at fair value, less applicable issue costs and is classified as equity based on the substance of the perpetual loan agreement. Accrued interest that is unsettled is capitalised on an annual basis.

v) Other payables

Other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

w) Right-of-use assets and lease liabilities

The Company adopted IFRS 16 (Leases) from 1 January 2019. On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases, and, applied IFRS 16 only to contracts that were previously identified as leases under IAS 17 applying a fully retrospective approach. The Company did not recognise operating leases of low-value, or those for which the lease term ends within 12 months of the balance sheet date. 2018 comparative information has been restated on this basis, and, without the benefit of hindsight.

On transition lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company incremental borrowing rate. Right-of-use assets are measured at the amount equal to the lease liability. The Company depreciates the right-of-use assets on a straight line method from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist.

2. Adoption of new and revised standards

New and revised Standards that have not been adopted by the Company

At the date of authorisation of these financial statements, the following Standards and Interpretations have not been applied in these financial statements but were in issue, but not yet effective:

- **IFRS 17 – Insurance Contracts (effective 1 January 2023, not yet endorsed)**
  IFRS 17 replaces IFRS 4 and establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The International Accounting Standards Board originally proposed that this would be effective from 2021, however, in March 2020 agreed to delay the effective date by two years to periods beginning on or after 1 January 2023. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. The Company does not expect this standard to have a material impact given the Part VII transfer of the insurance business on 1 January 2020.

- **IFRS 3 - Business Combinations (effective 1 January 2020, endorsed)**
  In October 2018, the IASB issued amendments to IFRS 3, Business Combinations. The amendments provide additional guidance as to whether a company acquired a business or a group of assets. Adoption of IFRS 3 would not have had an impact on the Company's financial statements, as the Company did not make any acquisitions in scope of IFRS 3 in the year.

- **IAS 1 – Presentation of Financial Statements and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors (effective 1 January 2020, endorsed)**
  In October 2018, the IASB issued amendments to IAS 1, Presentation of Financial Statements and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors. The amendments are to clarify the definition of 'material' and to align the definition used in the Conceptual Framework and the standards themselves. An assessment of the amendments to IAS 1 and IAS 8, principally over the definition of material, is not expected to have a significant impact to the Company's financial statements.

- **IAS 39 – Financial Instruments: Recognition and Measurement (effective 1 January 2020, endorsed)**
  The amendments in Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) clarify that entities would continue to apply certain hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform. IAS 39 does not have an impact on the Company's financial statements as no hedging instruments are held.

New and revised Standards that adoption has been deferred by the Company

- **IFRS 9 - Financial Instruments (effective 1 January 2018)**
  IFRS 9 will replace IAS39 Financial instruments: Recognition and Measurement. Under IFRS 9 all financial assets will be measured at either amortised cost or fair value, with the basis of classification depending on the business model and the contractual cash flow characteristics of the financial assets. Applying IFRS 9 with IFRS 4 'Insurance Contracts', introduces two approaches: an overlay approach (giving companies that issue insurance contracts the option to recognise in Other Comprehensive Income, rather than the Income Statement, any volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued); or, a deferral approach (giving companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2023). The Company is taking the deferral approach and has measured those liabilities which are within the scope of IFRS 4 and these are greater than the 90% threshold of total liabilities as at 31 December 2015 required to take the deferral option. The option to defer this standard remains despite the Part VII transfer happening on 1 January 2020, however, the result of this transfer means the impact of IFRS 9 is not expected to be material.

2. Adoption of new and revised standards (cont.)

New and revised Standards that have been adopted by the Company

In the current year, the following new and revised Standards and Interpretations have been adopted:

- **IFRS 16 – Leases**

  IFRS 16 replaced IAS 17 Leases. IFRS 16 applies a control model to the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer. IFRS 16 removes the distinction between operating and finance leases, with assets and liabilities recognised in respect of all leases. The Company has one lease for office space in London.

- **IAS 28 – Investments in Associates and Joint Ventures**

  In October 2017, the IASB issued amendments to IAS 28, Investments in Associates and Joint Ventures. The amendments clarify that a company is to account for long-term interests in an associate or joint venture using IFRS 9, Financial Instruments when the equity method is not applied. Adoption of these amendments did not have an impact on the Company's financial statements as no associates or joint ventures are held.

- **IAS 19 – Employee Benefits**

  In February 2018, the IASB issued amendments to IAS 19, Employee Benefits. The amendments clarify that updated actuarial assumptions are to be used in accounting for when a plan amendment, curtailment or settlement occurs. Adoption of these amendments did not have an impact on the Company's financial statements as no employee benefit schemes in scope of IAS 19 are held.

- **IFRS 3 - Business Combinations and IFRS 11 – Joint Arrangements**

  The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business. Adoption of these amendments did not have an impact on the Company's financial statements as no joint operations are held.

- **IAS 12 – Income Taxes**

  The amendments clarify that the requirements in the former paragraph 52B (to recognise the income tax consequences of dividends where the transactions or events that generated distributable profits are recognised) apply to all income tax consequences of dividends by moving the paragraph away from paragraph 52A that only deals with situations where there are different tax rates for distributed and undistributed profits. Adoption of these amendments did not have an impact on the Company's financial statements as no dividends were paid by the Company.

- **IAS 23 – Borrowing Costs**

  The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings. Adoption of these amendments did not have an impact on the Company's financial statements as no borrowing is in place that specifically relates to assets held for sale.

- **IFRIC 23 - Uncertainty over Income Tax Treatments**

  IFRIC 23 addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. Adoption of this standard did not have an impact on the Company's financial statements as there were no uncertainties over income tax.

3. Revenue

	Year ended 31 Dec 2019 £'000	Year ended 31 Dec 2018 £'000
Account fee income	212	286
Total	**212**	**286**

4. Premiums

Gross premiums written are analysed as follows:

	Year ended 31 Dec 2019 £'000	Year ended 31 Dec 2018 Restated* £'000
Insurance Contracts:		
Enhanced Annuity premiums (EA)	-	6,399
Retirement Guaranteed Annuity premiums (RGA)	90,242	100,918
Gross premiums written from discontinued operations	**90,242**	**107,317**
Outward reinsurance premiums	(17,744)	(13,965)
Net premiums written from discontinued operations	**72,498**	**93,352**

*See note 25

Gross premiums written are entirely composed of new business premiums. The Company's external customers are individual policyholders. MGM Advantage Life Limited is not dependent on any individual customer.

Outward reinsurance premiums represent premium amounts ceded to Hannover Re for reinsuring 50% of the mortality risk associated with the EA and RGA Products only written before 31 December 2015. Premiums written after 31 December 2015 are 75% reinsured through a longevity swap agreement with Hannover Re. The reinsurance premiums paid in the accounting period reflect new business sales of EA and RGA.

All premiums written relate to non-participating contracts. All EA and RGA premiums are classified as non-linked insurance contracts whilst with-profit flexible income annuity (FIA) premiums are classified as unit-linked insurance contracts other than those reinsured with Scottish Friendly Assurance which are classified as investment contracts. FIA is closed to new business and the Company ceased the sale of standalone enhanced annuities in February 2018.

Premiums on products classified as investment contracts are deposit accounted and as such are excluded from gross written premiums.

5. Investment income

	Year ended 31 Dec 2019 £'000	Year ended 31 Dec 2018 Restated* £'000
Shares, unit trusts and OEICs	1,249	1,236
Debt securities and other fixed income securities	42,508	42,844
Interest payable on reinsurance deposit	(18,194)	(20,121)
Equity release mortgage assets	10,710	10,430
Other investment income	1,099	448
Total from discontinued operations	**37,372**	**34,837**

*see note 25.

6. Net realised gain on investments

	Year ended 31 Dec 2019 £'000	Year ended 31 Dec 2018 £'000
Debt securities and other fixed income securities	700	963
Shares, unit trusts and OEICs	38,247	8,426
Derivatives	-	(500)
Equity release mortgage assets	5,920	5,244
Total from discontinued operations	**44,867**	**14,133**

7. Net unrealised gain/(loss) on investments

	Year ended 31 Dec 2019 £'000	Year ended 31 Dec 2018 £'000
Debt securities and other fixed income securities	72,868	(64,035)
Reinsurance deposit revaluations	(46,034)	19,607
Shares, unit trusts and OEICs	30,939	(34,388)
Equity release mortgage assets	50,950	(18,532)
Total from discontinued operations	**108,723**	**(97,348)**

8. Net benefits and claims

	Year ended 31 Dec 2019 £'000	Year ended 31 Dec 2018 Restated* £'000
Claims paid in relation to:		
Non-linked insurance contracts	(96,209)	(90,853)
Unit-linked insurance contracts	(4,153)	(4,135)
Total claims paid	**(100,362)**	**(94,988)**
Reinsurer's share of claims	52,909	49,241
Net from discontinued operations	**(47,453)**	**(45,747)**

* See note 25

Retirement Pension Drawdown (RPD) withdrawals, being a component of the TRA product, and withdrawals for FIA business reinsured from Scottish Friendly Assurance are classified as investment contracts and deposit accounted and as such are excluded from net benefits and claims.

Upon completion of the Part VII scheme for the transfer of long-term insurance business on 1 January 2020, all the above business transferred to Canada Life Limited on that date.

9. Insurance and investment contract liabilities

	Year ended 31 Dec 2019 £'000	Year ended 31 Dec 2018 Restated* £'000
Gross change in insurance contract liabilities:		
(Increase)/decrease in non-linked insurance contract liabilities	(144,679)	9,006
(Increase)/decrease in unit-linked insurance contract liabilities	(2,614)	8,322
	(147,293)	**17,328**
Gross change in investment contract liabilities:		
(Increase)/decrease in investment contract liabilities	(62,712)	23,019
Change in contract liabilities ceded to reinsurers:		
Increase/(decrease) in ceded insurance contract liabilities	8,193	(46,239)
Net from discontinued operations	**(201,812)**	**(5,892)**

*see note 25.

The annuity liabilities decreased due to an increase in the discount rate caused by an increase in the risk-adjusted yield of the backing assets and run-off of existing business but this was partially offset by the new business written during the year. The amount ceded to the reinsurer is representative of the treaty that the Company has with Hannover Re for EA and RGA business only and has decreased due to an increase in the discount rate, run-off of existing business and new business written during the year.

9. Insurance and investment contract liabilities (cont.)

a) Principal assumptions for non-linked insurance contract liabilities

	Year ended 31 Dec 2019	Year ended 31 Dec 2018
Rates of interest used to discount liabilities:	3.17%	4.03%
Mortality:	Base: 70%/ 60%/60%/60%/ 60%/60% of PNXA00 for HLRPOS1/2/3/4/ 5/6	Base: 70%/ 60%/60%/60%/ 60%/60% of PNXA00 for HLRPOS1/2/3/4/ 5/6
	Improvements: 100% of CMI 2018 with a long term rate of 1.5%/1.5% for M/F and a smoothness factor of 7.5	Improvements: 100% of CMI 2017 with a long term rate of 1.5%/1.5% for M/F and a smoothness factor of 7.75
Expense:	£26.76 per policy inflating at RPI + 1% p.a.	£25.93 per policy inflating at RPI + 1% p.a.

b) Movements

Movements in the carrying amount of insurance and investment contract liabilities and reinsurance assets were as follows:

	Non-linked £'000	Unit linked £'000	Investment contracts £'000	Reinsurance ceded £'000	Net £'000
At 31 December 2018 Restated*	(1,333,164)	(56,815)	(468,612)	464,301	(1,394,290)
Unwind of discount rate/investment experience	(38,552)	(6,767)	-	10,137	(35,219)
Annuity outgo	93,569	4,153	-	(51,003)	46,719
New business	(76,399)	-	-	(3,357)	(79,756)
Assumption changes - change in discount rate	(113,501)	-	-	34,542	(78,959)
Assumption changes - non economic	(10,488)	-	-	2,303	(8,185)
New business premiums deposit accounted	-	-	(38,131)		(38,131)
Change in investment value	-	-	(62,712)		(62,712)
Claims deposit accounted	-	-	45,016		45,016
Fees, charges and other extractions	692	-	1,822	15,608	18,122
Classified as held for sale	1,477,843	59,429	522,607	(472,494)	1,587,385
At 31 December 2019	**-**	**-**	**(10)**	**-**	**(10)**

*see note 25.

9. Insurance and investment contract liabilities (cont.)

	Non-linked	Unit linked	Investment contracts	Reinsurance ceded	Net
	£'000	£'000	£'000	£'000	£'000
		Restated*	Restated*		Restated*
At 31 December 2017	(1,342,170)	(65,137)	(493,826)	510,540	(1,390,593)
Unwind of discount rate/investment experience	(46,147)	4,187	-	16,339	(25,621)
Annuity outgo	90,853	4,135	-	(49,241)	45,747
New business	(86,689)	-	-	(7,135)	(93,824)
Assumption changes – change in discount rate	58,360	-	-	(16,233)	42,127
Assumption changes – non economic	(8,016)	-	-	(2,503)	(10,519)
New business premiums deposit accounted	-	-	(36,317)	-	(36,317)
Change in investment value	-	-	23,019	-	23,019
Claims deposit accounted	-	-	35,956	-	35,956
Fees, charges and other extractions	645	-	2,556	12,534	15,735
At 31 December 2018	**(1,333,164)**	**(56,815)**	**(468,612)**	**464,301**	**(1,394,290)**

*see note 25.

c) Sensitivity analysis

Life insurance results are inherently uncertain due to actual experience differing from model assumptions. The sensitivity analysis performed below illustrates the impact that changes in key assumptions would have on profit before tax. The impact below is in reference to the change in insurance contract liabilities, but does not include the impact of the valuation of equity release assets.

	Increase/(decrease) in profit before tax		Increase/(decrease) in Equity	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
	£'000	£'000	£'000	£'000
Sensitivity variable:				
5% increase in annuitant mortality rates	8,392	7,248	6,797	5,871
50bps increase in discount rates	81,332	69,022	65,879	55,907
10% increase in expenses and 100bps increase to expense inflation	(4,954)	(4,340)	(4,013)	(3,516)

Notes

The underlying assumptions on which the sensitivity analysis has been performed are the same as those used to calculate insurance contract liabilities and reinsurance assets. These impacts reflect changes in insurance contract liabilities and reinsurance assets. The reinsurance impact is only on annuitant mortality, for which the majority of business is reinsured for 50%. The impact on equity allows for the expected impact on the tax charge. The tax rate assumed for 2020 is 19% which is unchanged from 2019.

10. Net operating expenses

	Year ended 31 Dec 2019 £'000	Year ended 31 Dec 2018 £'000
Included within net operating expenses are:		
Policyholder administration service fees	(3,039)	(3,526)
Total from continuing operations	**(3,039)**	**(3,526)**
Advisor fees and commission	(262)	(365)
Policyholder administration service fees	(7,515)	(12,503)
Project costs	(233)	(1,742)
Management service fees	(1,280)	(2,080)
Legal and professional fees	(317)	(237)
Depreciation of right-of-use asset (note 26)	(316)	-
Interest expense (note 26)	(19)	-
Other fees	(254)	(157)
Total from discontinued operations	**(10,196)**	**(17,084)**

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

All contracts of employment with the Company are held with a fellow group company MGM Advantage Services Limited. The associated costs are recharged to the Company within the service fees.

Auditor Remuneration

The statutory audit of the financial statements fee of the Company was £152,600 excluding VAT (2018: £148,696 excluding VAT) and incurred £6,500 relating to additional work performed on the previous years audit (2018: £nil). Fees for other assurance services were £nil excluding VAT (2018: £nil excluding VAT). Fees for audit related assurance services were £30,900 (2018: £30,000 excluding VAT). In addition the Company also incurred the audit fee on behalf of its subsidiary Canada Life SIPP Trustee Limited of £5,000 excluding VAT (2018: £nil).

11. Investment expenses and charges

	Year ended 31 Dec 2019 £'000	Year ended 31 Dec 2018 £'000
Investment management expenses	(1,670)	(1,738)
Equity release fees	(1,526)	(1,622)
Total from discontinued operations	**(3,196)**	**(3,360)**

Equity release fees are payable to Stonehaven UK Ltd, a related undertaking wholly owned by MGM Advantage Holdings Limited, for the origination of equity release mortgages.

12. Income tax credit

	Year ended 31 Dec 2019 £'000	Year ended 31 Dec 2018 £'000
a) Current year tax credit reported in profit or loss:		
Income tax credit attributable to continuing operations	537	616
Income tax (charge)/credit on attributable to discontinued operations	(152)	5,145
Income tax credit	**385**	**5,761**
b) Tax reported in other comprehensive income:		
Income tax – UK corporation tax credit	-	-
Income tax credit	-	-
Total tax credit in the statement of profit or loss and other comprehensive income	**385**	**5,761**
c) Tax reported directly in equity:		
Income tax – UK corporation tax credit	1,153	1,048
Income tax – UK corporation tax adjustments in respect of prior year	(1)	-
Income tax credit	**1,152**	**1,048**
d) Factors affecting the tax charge for the year: The tax assessed for the year is the same as the standard rate of corporation tax in the UK of 19% (2018: 19%)		
Loss on ordinary activities before tax	(2,827)	(3,240)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2018: 19%)	537	616
Income tax credit attributable to continuing operations	537	616
Income tax (charge)/credit attributable to discontinued operations	(152)	5,145
Income tax credit	**385**	**5,761**

The Budget statement introduced the measure to maintain the main rate of corporation tax rate at 19% for the financial year beginning 1 April 2020. Accordingly, there will be no change to the Company's future corporation tax rate. As a result of the Budget statement announcement, there was no significant impact to the Company's income tax receivable.

13. Financial investments

	31 Dec 2019 £'000	31 Dec 2018 £'000
Debt instruments	1,136,233	987,268
OEIC and unit trust investments	771,777	673,402
Equity release mortgage assets	497,488	452,587
Classified as held for sale	(2,405,498)	-
Total	**-**	**2,113,257**

13. Financial investments (cont.)

Financial Instruments

All financial investments are classified at fair value through profit and loss. In accordance with IFRS 13 – 'Fair Value measurement', financial instruments at fair value have been classified into three categories:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and
- Level 3: Inputs for the assets or liabilities that are not based on observable market data (that is, unobservable inputs).

An analysis of all items of the Statement of Financial Position before allocating to assets and liabilities held for sale is set out in the table below. Items are measured on either a recurring fair value basis, whereby the fair value measurement hierarchy is given, or they are measured in accordance with IFRS 4 – 'Insurance contracts' or at 'Other' measurement bases as disclosed within Note 1.

	Fair value measurement			**Insurance contracts**		
As at 31 December 2019	**Level 1**	**Level 2**	**Level 3**	**IFRS 4**	**Other**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Financial investments						
Debt Instruments	-	1,136,233	-	-	-	1,136,233
OEIC and unit trust investments	771,777	-	-	-	-	771,777
Equity release mortgage assets	-	-	497,488	-	-	497,488
	771,777	**1,136,233**	**497,488**	**-**	**-**	**2,405,498**
Other assets						
Right of use assets	-	-	-	-	1,486	1,486
Reinsurance assets	-	-	-	472,494	-	472,494
Insurance and other receivables	-	-	-	-	1,986	1,986
Amounts due from related undertakings	-	-	-	-	8,199	8,199
Cash and cash equivalents	-	-	-	-	31,166	31,166
	-	**-**	**-**	**472,494**	**42,837**	**515,331**
Total assets	**771,777**	**1,136,233**	**497,488**	**472,494**	**42,837**	**2,920,829**

The Company's policy is to assess pricing sources and other data feeds at the end of each reporting period.

13. Financial investments (cont.)

	Fair value measurement			Insurance contracts		
As at 31 December 2019	**Level 1**	**Level 2**	**Level 3**	**IFRS 4**	**Other**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Liabilities						
Non-linked insurance contract liabilities	-	-	-	1,477,843	-	1,477,843
Unit-linked insurance contract liabilities	-	-	-	59,429	-	59,429
Investment contract liabilities	522,617	-	-	-	-	522,617
Deposits received from reinsurers	-	-	-	571,803	-	571,803
Amounts due to related undertakings	-	-	-	-	313	313
Lease liabilities					1,344	1,344
Other payables	-	-	-	-	3,374	3,374
Total liabilities	**522,617**	**-**	**-**	**2,109,075**	**5,031**	**2,636,723**

	Fair value measurement			Insurance contracts		
As at 31 December 2018	**Level 1**	**Level 2**	**Level 3**	**IFRS 4**	**Other**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Financial investments						
Debt Instruments	-	987,268	-	-	-	987,268
OEIC and unit trust investments	673,402	-	-	-	-	673,402
Equity release mortgage assets	-	-	452,587	-	-	452,587
	673,402	**987,268**	**452,587**	**-**	**-**	**2,113,257**
Other assets						
Reinsurance assets	-	-	-	464,301	-	464,301
Insurance and other receivables	-	-	-	-	2,698	2,698
Amounts due from related undertakings	-	-	-	-	9,583	9,583
Cash and cash equivalents	-	-	-	-	22,975	22,975
	-	**-**	**-**	**464,301**	**35,256**	**499,557**
Total assets	**673,402**	**987,268**	**452,587**	**464,301**	**35,256**	**2,612,814**

13. Financial investments (cont.)

As at 31 December 2018 Restated*	Fair value measurement Level 1 £'000	Level 2 £'000	Level 3 £'000	Insurance contracts IFRS 4 £'000	Other £'000	Total £'000
Liabilities						
Non-linked insurance contract *liabilities*	-	-	-	1,333,164	-	1,333,164
Unit-linked insurance contract liabilities	-	-	-	56,815	-	56,815
Investment contract liabilities	468,612	-	-	-	-	468,612
Deposits received from reinsurers	-	-	-	547,699	-	547,699
Amounts due to related undertakings	-	-	-	-	352	352
Insurance payables	-	-	-	-	1,535	1,535
Other payables	-	-	-	-	3,813	3,813
Total liabilities	**65,594**	**-**	**-**	**2,340,336**	**5,931**	**2,412,221**

*see note 25.

The Company's policy is to assess pricing sources and other data feeds at the end of each reporting period. There were no transfers between Levels 1, 2 and 3 during the year to 31 December 2019. The table below reconciles the opening and closing amounts of Level 3 financial assets measured at fair value.

Over-the-counter (OTC) derivative transactions and collateral support obligations are respectively, conducted and met, under standardised ISDA (International Swaps and Derivatives Association, Inc. Master agreements and Credit Support Annexes (CSAs)). All exchange traded derivative (ETDs) transactions and margin processes are conducted in accordance with the rules and regulations governing the relevant exchange on which the derivatives are traded. All derivative positions were closed during 2018.

Reconciliation of movements in level 3 financial instruments measured at fair value:

	Equity release mortgage assets £'000
As at 31 December 2018	452,587
New loans advanced	31,350
Premium fee deducted from new loans advanced	(1,526)
Loans redeemed	(41,793)
Revaluation gain reported in the Statement of Profit or Loss and Other Comprehensive Income	56,870
As at 31 December 2019	**497,488**

13. Financial investments (cont.)

Total gains and losses included in the Statement of Profit or Loss and Other Comprehensive Income that relate to Level 3 classes of assets that were held during the reporting period:

For the year ended 31 December 2019

	Equity release mortgage assets
	£'000
Investment income	10,710
Unrealised loss	50,950
Realised gains	5,920
Total for the year ended 31 December 2019	**67,580**

Equity release mortgage asset valuation inputs

As there is no deep and liquid market in equity release assets it is necessary to value these assets using a model approach. To the extent that observable inputs are not available a number of unobservable inputs are used. The unobservable inputs, used in the measurement of equity release assets are:

- Rates of mortality and the risk of customers going into long term care
- Rates of voluntary loan redemption
- Rates of interest cessation (i.e. switching from interest paying to interest roll-up);
- Expenses;
- Property dilapidation
- House price inflation (relative to retail price inflation)
- House price volatility

The above assumptions are set after analysing historic experience and allowing for expected future trends. The mortality assumptions are based on appropriate standard industry tables, with allowance for future improvements based on the CMI (Continuous Mortality Investigations) 2018 model. Voluntary redemption and interest cessation assumptions take account of the Company's recent experience analyses.

Observable inputs used in the measurement of the equity release assets are:

- Future retail price inflation
- Risk free rates
- The initial loan balances

The latest value of the properties have been estimated by applying the change in the quarterly Regional Halifax house price index applicable to that property (depending on the location of the property) from the original value assigned to the property at policy inception date to the current valuation date. In addition, the property values also reflect any revaluations of the original property subsequently done when the policyholder requests for any further additional loans or transfers the loan to a new property following a change of home.

The return on equity release assets is adjusted to allow for the risk that proceeds from selling the property upon an involuntary redemption (i.e. redemption on death or entry in to Long Term Care of the policyholder) are insufficient to cover the policyholder's outstanding loan balance at the time of redemption. This risk exists as the ERM contracts contain a No-Negative Equity Guarantee ("NNEG"), which means that the policyholder or their estate would not be liable for such a shortfall and MGMA would incur a foregone expectation on the ERM contract.

13. Financial investments (cont.)

MGMA calculates this NNEG cost stochastically using Monte Carlo simulation of possible future property values. The inputs required (i.e. current house prices, future house price growth, house price volatility and sale/dilapidation cost) are calibrated to available market data.

The value of the equity release assets is determined by producing projected expected cashflows and then discounting these at the risk free rate, at the valuation date, plus an additional spread. The additional spreads are set so that the initial modelled value of the loan is equal to the initial loan balance.

The fair value of equity release is also inherently uncertain as actual experience could differ from the assumptions made within the mark-to-model valuation. The fair value of Equity release mortgage assets at 31 December 2019 was £499m (2018: £453m).

The impacts of sensitivities on key drivers of the equity release assets fair value are shown below.

At 31 December 2019

	Changes in assumptions	Increase in fair value £'000	Decrease in fair value £'000
Discount rate	-/+50bps	34,485	(30,805)
Expenses	-/+10%	360	(149)
Mortality rate	-/+5%	1,115	(896)
Interest cessation rate	+/-50%	1,127	(1,090)
Redemption rate	-/+50%	7,216	(6,080)
Property prices	+/-5%	2,748	(2,940)
Property price volatility	-/+2%	7,317	(7,794)

As at 31 December 2018

	Changes in assumptions	Increase in fair value £'000	Decrease in fair value £'000
Discount rate	-/+50bps	31,713	(29,067)
Expenses	-/+10%	273	(273)
Mortality rate	-/+5%	281	(282)
Interest cessation rate	+/-50%	696	(849)
Redemption rate	-/+50%	2,125	(1,828)
Property prices	+/-5%	2,186	(2,518)
Property price volatility	-/+2%	6,246	(6,923)

The sensitivity analysis has been carried out using the same actuarial model used to calculate the base fair value. The analysis has been derived by changing each variable in isolation, with other assumptions remaining constant. In reality, such an event is unlikely due to correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear and the larger or smaller impacts cannot be interpolated or extrapolated from these results without recognition of the inherent non-linearity.

Other limitations in the above sensitivity analysis include the use of hypothetical market movements to demonstrate potential risk that only represents the Company's view of reasonably possible near-term market changes that cannot be predicted with any certainty, and the assumption that there is a parallel shift in interest rates at all durations.

14. Investment in subsidiary

	31 Dec 2019 £'000	31 Dec 2018 £'000
Investment in Canada Life SIPP Trustee Limited Ordinary Shares	-	-
Investment in MGM Advantage Life Trustee Limited Ordinary Shares	-	-
Classified as held for sale	-	-
Total	**-**	**-**

On 7 May 2019 Canada Life SIPP Trustee Company Limited was incorporated as a 100% owned subsidiary of the Company with share capital of £1, subsequently changing its name to Canada Life SIPP Trustee Limited on 22 May 2019. It operates as bare trustee for the Company's SIPP product and its registered address is Canada Life Place, High Street, Potters Bar, EN6 5BA.

MGM Advantage Life Trustee Limited, a 100% owned subsidiary, operates as a bare trustee for the Company's Partial Internal Model and extension of its Matching Adjustment Portfolio to incorporate Equity Release Mortgage assets. The registered address of MGM Advantage Life Trustee Limited is 110 Cannon Street, London, EC4N 6EU. MGM Advantage Life Trustee Limited was included within the Part VII transfer of business to Canada Life Limited on 1 January 2020.

15. Reinsurance assets

	31 Dec 2019 £'000	31 Dec 2018 £'000
Reinsurers' share of long-term insurance contract liabilities	472,494	464,301
Classified as held for sale	(472,494)	-
Total	**-**	**464,301**

Included within the reinsurance asset is a liability for contingent reinsurance premium fees payable to Hannover Re at 31 December 2019 is £23.5m (2018: £35.4m).

16. Insurance and other receivables

	31 Dec 2019 £'000	31 Dec 2018 £'000
Due from investment brokers	487	624
Other receivables	1,499	2,074
Classified as held for sale	(1,986)	-
Total	**-**	**2,698**

17. Related party transactions

Immediate parent undertaking

The Company's immediate parent undertaking is MGM Advantage Holdings Limited, a company that is domiciled and incorporated in the United Kingdom. All of the Company's ordinary share capital (net of reserve value) and perpetual debt is held by MGM Advantage Holdings Limited.

Ultimate parent undertaking

Since 2 January 2018 The Company's ultimate parent undertaking is Power Corporation of Canada a company that is domiciled and incorporated in Canada. Before 2 January 2018 the Company's ultimate parent undertaking was ICE Acquisitions S.à r.l. a company that is domiciled and incorporated in Luxembourg.

Year end balances and transactions with related parties

In the financial year, transactions with related parties include all transactions with MGM Advantage Holdings Limited and its subsidiary undertakings, MGM Advantage Services Limited; Stonehaven UK Ltd; Canada Life SIPP Trustee Limited and MGM Advantage Life Trustee Limited (the MGMA Group). Since 2 January 2018 transactions with related parties also include The Canada Life Group (U.K.) Limited, Canada Life Asset Management Limited, and CLFIS (U.K.) Limited.

The following income/(payment) transactions were made with other Group companies:

	Year ended 31 Dec 2019 £'000	Year ended 31 Dec 2018 £'000
MGM Advantage Holdings Limited:		
Management service fees	(1,280)	(2,080)
Issue of share capital and share premium	84,000	30,000
Group relief tax recoverable	(145)	800
Perpetual debt interest	(6,061)	(5,511)
	76,514	**23,209**
MGM Advantage Services Limited:		
Service fees for policy administration	(10,303)	(15,758)
Recharged expenses	(494)	(1,742)
Group relief tax payable	-	228
	(10,797)	**(17,272)**
Stonehaven UK Ltd:		
Equity release investment expenses and administration fees	(1,527)	(1,622)
Group relief tax recoverable	398	485
	(1,129)	**(1,137)**
MGM Advantage Life Trustee Limited :		
Trustee fees	(272)	(273)
The Canada Life Group (U.K.) Limited:		
Group relief tax recoverable	(5,543)	5,543
Canada Life Limited:		
Group relief tax recoverable	6,813	-
Canada Life Asset Management Limited:		
Investment expenses	(1,193)	(686)
CLFIS (U.K.) Limited:		
Investment expenses	(161)	(191)
Total	**64,232**	**9,193**

17. Related party transactions (cont.)

The following related party balances were due from/(to) related party undertakings and outstanding at 31 December:

	2019	2018
	£'000	**£'000**
Stonehaven UK Ltd:		
Equity release redemption receipts	(152)	2,290
Group relief tax recoverable	883	485
	731	**2,775**
MGM Advantage Holdings Limited:		
Group relief tax recoverable	655	800
MGM Advantage Life Trustee Limited:		
Trustee fees payable	(40)	(137)
MGM Advantage Services Limited:		
Service fees and recharges (payable)/prepaid	(165)	478
The Canada Life Group (U.K.) Limited:		
Group relief tax recoverable	-	5,543
Canada Life Limited:		
Group relief tax recoverable	6,811	-
Canada Life Asset Management Limited:		
Investment expenses	(106)	(172)
CLFIS (U.K.) Limited:		
Investment expenses	-	(56)
Classified as held for sale	(7,886)	-
Total	**-**	**9,231**

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

Directors' remuneration

During 2019 and 2018 the directors of the Company had their remuneration paid by CLFIS (U.K.) Limited and MGM Advantage Services Limited, fellow subsidiaries of The Canada Life Group (U.K.) Limited. It is not considered practicable to apportion their emoluments between their services as directors of the Company and their services as directors of other group undertakings;

The total remuneration of the Company's Directors' are contained within the financial statements of MGM Advantage Services Limited.

18. Part VII transfer of long term insurance business to Canada Life Limited

As set out within the Strategic Report, pursuant to Part VII of the Financial Services and Markets Act 2000, the entire long-term business of the Company was transferred to Canada Life Limited on 1 January 2020 for a consideration of £81.9m. In addition, all operational and business contracts between the Company, related companies and various third parties, and relating to the transferred business, including reinsurance, were also transferred to Canada Life Limited.

The table below summarises the Statement of Financial Position of the Company at 31 December 2019, and sets out the assets and liabilities of the Company which were subject to the Part VII transfer and valued on a held for sale basis.

	Notes	Held for Sale 31 Dec 2019 £'000
Financial Investments	13	2,405,498
Investment in subsidiary	14	-
Right-of-use asset	26	1,486
Reinsurance assets	15	472,494
Insurance and other receivables	16	1,986
Amounts due from related undertakings	17	8,199
Cash and cash equivalents	19	30,896
Total assets classified as held for sale		**2,920,559**
Non-linked insurance contract liabilities	9	1,477,843
Unit linked insurance contract liabilities	9	59,429
Investment contract liabilities	9	522,607
Deposits received from reinsurers	21	571,803
Amounts due to related undertakings	17	313
Lease liabilities	26	1,344
Other payables	24	3,114
Total liabilities classified as held for sale		**2,636,453**

Cash flow information of discontinued operations:

	31 Dec 2019 £'000	31 Dec 2018 £'000
Net cash flows from operating activities	(72,508)	(30,463)
Net cash flows from investing activities	-	3,120
Net cash flows from financing activities	83,526	30,000

The net assets classified as held for sale of £284.1m were settled with a consideration of £81.9m giving a loss on disposal of held for sale assets and liabilities of £202.2m, which will be included in the 31 December 2020 financial results. This loss primarily relates to the consideration paid representing the fair market value of the business transferred, determined on a Solvency II basis of valuation, resulting in a difference between the valuation of insurance contract liabilities and associated reinsurance assets and liabilities which, in accordance with IFRS 5, were required to be valued on an IFRS 4 consistent basis of valuation. The valuation of all other assets and liabilities on a held for sale basis was consistent with the applicable IFRS accounting standard, and, there were no impairments arising.

19. Cash and cash equivalents

	31 Dec 2019 £'000	31 Dec 2018 £'000
Cash at bank	31,166	22,975
Classified as held for sale	(30,896)	-
Total	**270**	**22,975**

20. Equity

	31 Dec 2019 £'000	31 Dec 2018 £'000
Allotted, issued and fully paid ordinary shares	**56,620**	**56,620**
Ordinary shares (nominal value of £1)	41,620	41,620
Ordinary share premium[1]	114,000	30,000
Ordinary shares converted from deferred shares (nominal value of £1)	15,000	15,000
Other reserves[2]	(15,000)	(15,000)
Distributable capital contribution reserve[3]	24,000	24,000
Retained earnings[4]	38,107	44,662
Perpetual debt[5]	66,379	60,311
Total	**284,106**	**200,593**

The Ordinary shares are not restricted in respect of receiving distributions paid by the Company and are entitled to one vote per share held. On a return of assets on a winding up or disposal, or reduction of capital or otherwise (other than on a redemption or purchase of Shares) any assets of the company are available for distribution to the ordinary shareholders according to the number of shares held.

[1]During 2019 MGM Advantage Holdings Limited purchased six additional ordinary shares of £1 each in the Company for a cash consideration of £84m.

[2]The other reserve is in respect of the deferred shares that were converted to Ordinary shares on 5 December 2014 (designated as 'Ordinary shares converted from deferred shares' above). This reserve reduces the value of the converted Ordinary shares to £1, as they have negligible value within the Group.

[3] The distributable capital contribution reserve represents capital amounts paid by its immediate parent company, MGM Advantage Holdings Limited. This, retained earnings and perpetual debt are only distributable if sufficient regulatory capital is held.

[4] The retained earnings of the Company are the accumulated transfers of comprehensive income and debt interest from each accounting period, net of tax.

[5] The perpetual debt is held by its immediate parent company, MGM Advantage Holdings Limited. The debt accrues interest at 10% per annum with annual compounding on unsettled interest amounts. The interest can be either repaid or is annually capitalised into the value of the debt.

21. Deposits received from reinsurers

In respect of the EA and RGA products written by the Company before 31 December 2015, premiums receivable are ceded to Hannover Re in return for the transfer of 50% of the mortality risk associated with the product. The reinsurance premiums payable are deposited back to the Company to provide counterparty risk mitigation. Premiums written after 31 December 2015 are reinsured through a 75% longevity swap agreement with Hannover Re.

	31 Dec 2019 £'000	31 Dec 2018 £'000
Collateral deposits for:		
Enhanced annuity	571,803	547,699
Classified as held for sale	(571,803)	-
Total	**-**	**547,699**

22. Income tax payable

	31 Dec 2019 £'000	31 Dec 2018 £'000
At 1 January	(231)	926
Adjustment to prior year tax	-	(5)
Net UK corporation tax payments/(refunds)	231	(914)
UK corporation tax credit as recorded in the statement of profit or loss and other comprehensive income (see note 12)	384	5,766
Income tax on equity items	1,152	1,048
Unfranked investment income tax paid	(25)	(10)
Intra-group tax loss surrenders	(1,511)	(7,042)
Total	**-**	**(231)**

23. Insurance payables

	31 Dec 2019 £'000	31 Dec 2018 £'000
Premiums pending allocation; due to policyholders	-	1,535
Total	**-**	**1,535**

24. Other payables

	31 Dec 2019 £'000	31 Dec 2018 £'000
Reinsurance amounts payable to Hannover Re	1,530	855
Investments purchased for subsequent settlement	418	1,316
Other taxation	1,031	944
Other payables	115	460
Accruals	280	238
Classified as held for sale	(3,114)	-
Total	**260**	**3,813**

25. Restatement of insurance contract to investment contract

The 2018 financial statements have been restated to reflect that the insurance risk arising on FIA business reinsured inwards for Scottish Friendly Assurance is insignificant. As at 31 December 2018 £402,658k (2017: £456,225k) was included as unit-linked insurance contract liabilities, however, given the insignificant insurance risk the reinsured business has been reclassified to investment contract liabilities and deposit accounted accordingly.

As a result of this change in classification the amounts recognised in 2018 for inward reinsurance premiums of £932k, reinsurance claims paid of £(34,181k), and change in insurance contract liabilities of £53,567k have all been deposit accounted. The result of this reclassification is recognise a change in value of investment contracts of £(20,318)k with no net impact on the loss before tax.

26. Right-of-use assets and lease liabilities

Right-of-use assets

	31 Dec 2019 £'000	31 Dec 2018 £'000
Recognition after lease renegotiation	1,802	-
Depreciation expense for the year	(316)	-
Classified as held for sale	(1,486)	-
Total	-	-

Lease liabilities

	31 Dec 2019 £'000	31 Dec 2018 £'000
Recognition after lease renegotiation	1,802	-
Lease payments	(477)	-
Interest expense	19	-
Classified as held for sale	(1,344)	-
Total	-	-

Lease payments relate to a lease for use of office property and equipment. The lease for office property was originally taken as a 10 year period from 17 November 2014, with an option to terminate after 5 years, subject to 6 months advance notice being provided to the landlord. In 2019 the lease was renegotiated to insert a new break clause in at 16 November 2021 with a rent free period between 17 November 2021 and 16 April 2022. In 2018 it was expected that the option would be taken to terminate the lease in 2019, however, during 2019 it became clear it was not viable to exit the lease at that point and the right-of-use asset and lease liability were recognised at that point for the full remaining lease incorporating the rent free period. The lease was included in the Part VII transfer of assets and liabilities to Canada Life Limited.

27. Risk management and controls

The Company issues contracts that accept insurance risk in return for a premium, which is invested in a range of assets. The Company is exposed principally to market (including credit spread risk), insurance (primarily longevity risk) and liquidity risks through its financial assets, financial liabilities and policyholder liabilities, including those that it reinsures. The various risks and their corresponding mitigation actions are set out below.

The Company's Risk Management Framework comprises a range of elements which collectively ensure the risks to which the Company is exposed are effectively identified, assessed, managed and monitored within the constraints set by the Board.

The Company applies a risk taxonomy aimed at ensuring that all risks that could affect the organisation are considered. These include the following: market risk, credit risk, insurance risk, counterparty risk, liquidity risk, expense risk, operational risk, reputational risk, strategic risk and conduct risk.

The Company's Risk Governance Framework utilises a three-lines of defence risk governance model whereby:

- Responsibility for the management of risk is embedded within the operating business i.e. the first line;
- The second line is made up of the Risk Function and the Compliance Function with formal Risk Committees providing oversight and challenge of risk management processes; and
- Internal Audit and the Audit Committee provide independent assurance of these processes to the Board.

The risk management process of the Company is supported by a 'Risk Register' and 'Risk Events Process'. The Risk Register documents all risks, an assessment of their materiality, the owner responsible for the management of the risk and the controls in place. A Risk Event is an operational occurrence arising as a result of inadequate or failed internal processes, personnel, systems or external events. They can encompass a variety of issues from minor technology outages through to issues relating to Treating Customers Fairly (TCF) or matters that end up resulting in actual losses to the business. Risk Events are reported and managed by the business but monitored by both Risk and Compliance to ensure that actions are taken to mitigate the event and that controls have been reviewed and updated to reduce the chances of reoccurrence. Details on the volume of events and any significant events are reported through the internal governance process to ensure that senior management and Board have the appropriate level of awareness of Risk Events.

Insurance risk

Insurance risk covers longevity, mortality, morbidity and customer behaviour risk. The principal insurance risk is longevity risk arising from contracts providing guaranteed lifetime benefits sold by the Company, i.e. the annuity business. Insurance risks are managed by the application of the Risk Management Framework. A number of standards are maintained to support effective risk management though the identification, documentation and communication of the Company's insurance risk strategy. The Company has a documented risk strategy expressing risk preferences and defined financial limits for exposure to insurance risk for core product lines.

The Company governs exposure to insurance risk through its Risk, Compliance and Investment Committee (RCIC) which recommends appropriate exposure limits to the Board for approval. Risk identification takes place across a product's lifecycle. Inherent risks are identified as part of product design and pricing prior to product launch. Subsequent to product launch, risk identification for insurance risk is made through the monitoring of experience to aid the identification of other risk drivers or factors which help predict potential outcomes for longevity, customer behaviour and mortality risks. The underwriting criteria is aligned with the Company's risk appetite, with additional review for high risk cases.

27. Risk management and controls (cont.)

The Company's core measure of exposure to insurance risk is capital at risk. Capital at risk is calculated in terms of the potential adverse deviation of actual experience to a best estimate of liabilities arising from each product line of business. The best estimate of liabilities are informed by actuarial investigations into mortality, morbidity and customer behaviour with analysis of deviations from assumptions underpinning the pricing and existing reserves of products. This is supplemented with information from the Company's reinsurers.

Risk monitoring and reporting processes are also in place to ensure that those responsible for the management of insurance risk have the information required to fulfil their responsibilities. This includes monthly management information on actual versus expected experience, pricing analysis (such as new business levels, mix of business and margins on new business) and annual tasks of assessing the capital requirements.

The Company has reinsurance arrangements in place with Hannover Re to mitigate the longevity risks that are outside tolerance. The current reinsurance strategy is to share the longevity risks arising in respect of the annuity business with Hannover Re (50% for business in force at 31 December 2015 and increased to 75% for new business from 1 January 2016 onwards). The reinsurance arrangements also allow the Company to draw on the wealth of expertise and experience of the reinsurer, in setting the pricing and technical provision longevity assumptions. The interests of both the Company and Hannover Re are therefore aligned.

For Equity Release Mortgage (ERM) assets, the No Negative Equity Guarantee (NNEG) and the cash flows profile are also impacted by customer behaviour (through early redemptions and interest cessations), mortality and morbidity. Redemption rates are monitored on a regular basis.

ERMs and annuity sales are subject to weekly monitoring against budgets and are reported to Pricing Committee.

Market risk

Market risk is the risk of loss or of adverse change in the financial situation, resulting directly or indirectly from fluctuations in the level of and in the volatility of market prices of assets, liabilities and financial instruments. Market risk comprises credit spread risk, property risk, interest rate risk (including asset liability mismatch risk), market concentration risk, equity risk, currency risk and inflation risk.

The Company has policies and procedures in place to control and manage the major components of market risk and provide a return to policyholders in line with expectations, including managing the duration and profile of assets against corresponding policyholder liabilities.

27. Risk management and controls (cont.)

Credit spread risk

Credit risk exposure arises from the following:

- Debt instruments – the Company holds debt instruments which are exposed to credit spread risk and default risk.

  Credit spread is the additional yield on corporate bonds relative to comparable risk-free rates, and primarily represents compensation for the risk of default and downgrades and an illiquidity premium.

  There are two main components of credit spread risk:

  - Credit spread changes - credit spreads widen (or narrow) as bond prices fall (or rise), which can be the result of changes in economic conditions, market sentiment or factors specific to the bond including downgrades, the impact of which is mitigated through the use of a 'buy to maintain' strategy by the Company.
  - Counterparty credit default - the risk of default puts the capital and interest of debt instruments at risk of repayment to the Company, this is mitigated by investing in high grade quality assets.

- ERMs – credit risk exposure for loans secured by mortgages against residential property is considered within 'Property risk' further in this note. The Company has defined policies and procedures in place to help control the significant components of credit risk.

The Company has defined policies and procedures in place to help control the significant components of credit risk.

Summary of principal assets bearing credit risk exposure for the Company, which are neither past due or impaired:

	31 Dec 2019 £'000	**31 Dec 2018 £'000**
Debt instruments (note 13)	1,136,233	987,268
Equity release mortgage assets (note 13)	497,488	452,587
Reinsurance assets (note 15)	472,494	464,301
Total	**2,106,215**	**1,904,156**

	31 Dec 2019 £'000	**31 Dec 2018 £'000**
Assets with long term credit ratings[1]:		
AAA	44,686	44,525
AA+	2,147	2,350
AA	537,640	491,310
AA-	45,034	57,415
A+	45,000	57,192
A	183,127	163,166
A-	301,568	241,911
BBB+	252,780	247,902
BBB	190,305	139,619
BBB-	6,440	6,179
Below BBB or not rated	497,488	452,587
Total	**2,106,215**	**1,904,156**

[1]Credit ratings are provided by nominated external credit assessment institutions (ECAI). Our nominated ECAI include Standard & Poor's Credit Market Services Europe Limited, Fitch Ratings Limited, and Moody's Investors Service Ltd.

27. Risk management and controls (cont.)

Property risk

The Company is exposed to both falls in residential property prices and increases in residential property price volatility through the NNEG in respect of the ERMs (see note 13). Property risk is managed and assessed through monitoring of house prices and house price indices, geographical spread of properties and loan to value ratios.

Interest rate risk (including asset liability mismatch risk)

Interest rate risk is the risk of loss resulting from the sensitivity of the values of assets, liabilities and financial instruments to changes to interest rate levels, term structure of interest rates or volatility of interest rates. The impact of interest rate changes on the asset values and best estimate liability values will give rise to a profit or loss depending on the extent to which asset and liability cash flows are matched. To the extent possible the Company seeks to materially match asset and liability cash flows through the holding of corporate bonds and ERMs with a duration similar to annuity cash flows. However, changes in interest rate will also impact the level of surplus through changes to the value of additional capital required to be held (to cover the Risk Margin and the SCR).

The Solvency II regulatory basis has some exposure to interest rates through the Risk Margin, net of the impact of the Transitional Measure on Technical Provisions (TMTP). The initial amount of the TMTP is determined as at day 1 of the application of the Solvency II directive (i.e. 1 January 2016), as the difference between the Solvency II technical provisions (after deduction of reinsurance recoverables) and the Solvency I Pillar 2 technical provisions (also after the deduction of reinsurance recoverables). This amount is then run-off linearly over 16 years. There is a requirement to recalculate every 2 years or when the risk profile of the organisation changes significantly. The purpose of the TMTP is to provide a smooth transition from the old Solvency I regime to the new Solvency II regime. The ability of the Company to recalculate the TMTP in relation to market/business changes is limited by the need for regulatory approval.

Market concentration risk

Concentration risk is due to a lack of diversification within the portfolios, for example too much exposure to a particular bond issuer or to a particular sector. Exposure limits for individual issuers are set and monitored regularly. Limits are also monitored for sector concentrations and other concentrations (e.g. geographical and asset class) are reported regularly.

The exposure to currency and inflation risk is minimal but processes are in place to assess, manage, monitor and report on these risks.

Equity price risk

The Company is indirectly exposed to equity price risk as a result of its holdings in Open Ended Investment Companies (OEIC) and Unit Trust Equity fund investments through the value of future management fees on unit linked business. An equity market movement of 10% in either direction is immaterial for the Company.

Counterparty Risk

Counterparty risk is the potential loss of earnings or capital arising from the inability or unwillingness of a counterparty to meet its contractual obligations to the Company. Exposure to counterparty risk arises primarily through reinsurance counterparty default risk, from the reinsurance agreements that the Company has with Hannover Re and also from investment counterparty risk and from certain other asset holdings (e.g. deposits).

The Company follows a set of principles when selecting reinsurance counterparties and procedures are in place for assessing and monitoring the creditworthiness of reinsurance counterparties. This includes a rigorous selection process for the reinsurer, seeking collateral arrangements to help manage any interdependencies with longevity risk, ensuring that the contracts are legally enforceable and setting appropriate reinsurance exposure limits.

27. Risk management and controls (cont.)

Liquidity risk

Liquidity risk is the risk of the Company being unable to meet its financial obligations when they fall due. These are primarily long term obligations (in excess of 12 months) to pay annuity liabilities. These liabilities are backed by cash flows from investments principally in corporate bonds and ERM assets. Assets are selected such that asset and liability cash flows are reasonably matched in timing, and, that there are expected to be sufficient asset cash flows to meet the liability outgo when due. At least 50% of the enhanced and RGA annuity liabilities are reinsured. The Company's obligations in respect of its Flexible Investment Annuity (FIA, now closed to new business) and drawdown component of TRA do not present liquidity risk as these are closely matched and readily realisable assets are held.

The illiquidity of ERM assets and the potential illiquidity of corporate bonds in a market stress event are considered when assessing the liquidity requirements for the Company.

Controls are in place to ensure active management of both long term and short term liquidity risks including the establishment of Red Amber Green (RAG) based liquidity management information metrics.

Following approval of the PIM for credit spread risk, the Trust was established to enable the use of ERMs within the MA. The Trust issued Senior (fixed) and Junior (residual) notes supported by the underlying asset cash flows. The Trust is also subject to liquidity risk from the difference between the cash inflow from the underlying ERM assets and its obligations to the MA portfolio. The Trust has been designed to be able to pay its liabilities under significant stresses to achieve an AA rating and an ear-marked liquidity facility has been set up in the non-MA portfolio, to which the Trust has access, to help ensure the continuation of these payments.

Following the Part VII transfer the main liquidity risk arises from the risk of not being able to recover the amounts owed for the Part VII from fellow group company Canada Life Limited. However, this amount is recoverable on demand and the counterparty has a strong regulatory capital position.

Expense risk

Expense risk refers to the risk of a change in value caused by the fact that the timing and/or the amount of expenses incurred differs from those expected, for example, expenses assumed for pricing basis.

MGM Advantage Services Limited provides life insurance management services, covering both new business acquisition and policy maintenance, to the Company. Therefore, the Company's exposure to expense risk relates primarily to its obligations in relation to the in-force portfolio of long term insurance contracts and the assets held in relation to these contracts. Expense risk is rigorously controlled and monitored closely through the management and reporting of actual and planned expenditure and through the periodic assessment of Expense risk capital.

Operational risk

Operational risk arises from potential failures or shortcomings of the Company's processes and systems; such failures or shortcomings may be caused by external events or by employees. Exposure to operational risk results from either normal day-to-day operations or an unanticipated event and can have material financial and/or reputational consequences. Operational risk includes risk exposures arising from people, infrastructure, process, systems, legal/regulatory, fraud and outsourcing. Operational risk also contributes to conduct risk. Operational risk is managed on an ongoing basis within the business; and supported by the bi-annual Risk and Control Self-Assessment (RCSA) process. Regular reporting of key operational metrics takes place, including the monitoring of risk events.

The most significant operational risk to the Company is therefore outsourcer failure, either that the outsourcing providers fail to deliver the agreed services, or fail to deliver them at the required standard, or fail to deliver them within expenses allowed for in the valuation of policy liabilities. All outsourcer contracts are overseen by assigned contract owners who are responsible for managing the relationship. The performance of outsourced suppliers is monitored regularly against service level agreement standards, with any ongoing issues addressed by the contract owner and potentially considered an indicator of expense risk.

27. Risk management and controls (cont.)

Reputational risk

Reputational risk relates to the potential for loss to occur as a result of existing and/or future customers or distributors losing confidence in the Company, leading to lower levels of new business for TRA. This risk is managed within the business on an on-going basis in a number of ways; including through regular risk review meetings with key business personnel and through the bi-annual RCSA process.

Strategic risk

Strategic risk relates to the risk of the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry challenges. These risks are identified by the business and logged in the risk register. They are monitored and managed by the risk owner and reporting on Key Strategic risks is taken to Group Executive Management Committee (GroupCo), Risk, Compliance and Investment Committee (RCIC) and the various Boards with the business planning.

Conduct risk

Under the risk strategy, the Company seeks to avoid conduct risk through the delivery of fair customer outcomes, market integrity or competition. This risk is managed within the business on an on-going basis and through the Customer Advantage Steering Group. Monthly reporting on the delivery of fair customer outcomes, such as complaint volumes and customer care metrics, is part of the Company's governance process and is reported to various committees and Boards.

28. Available capital resources (unaudited)

The Company is required to hold capital or a level of financial resources that do not fall below a minimum level as determined in accordance with the PRA regulations and EU directives for insurance and other PRA regulated business.

The capital of the Company includes ordinary shares, perpetual debt, distributable capital contribution reserves and retained earnings. In order to reconcile capital or available financial resources on an IFRS basis (as set out in note 20) to either a Solvency I or Solvency II basis, a number of adjustments are required. These include deductions for inadmissible assets, valuation differences on policyholder liabilities, including prudent margins required on a regulatory basis, the impact of transitional measures (relevant to the implementation of Solvency II only) and any relevant deferred tax impact arising as a result from these adjustments. Under Solvency II, transitional measures allow firms to increase their level of policyholder liabilities to the level required from Solvency I to Solvency II over a 16 year period for policies in force as at 1 January 2016. The Solvency II position of the Company is:

Solvency II Position:

	31 Dec 2019 £'000 (unaudited)	31 Dec 2018 £'000 (unaudited)
Analysis of Eligible Own Funds		
Tier 1 – unrestricted		
Ordinary share capital	41,620	41,620
Share premium	114,000	30,000
Reconciliation reserve	31,078	88,302
Total Tier 1	186,698	159,922
Tier 2		
Subordinated liabilities	66,379	60,311
Total Tier 2	66,379	60,311
Total Own Funds	**253,077**	**220,233**
Solvency Capital Requirement	205,329	161,962
Excess Solvency II Own Funds	**47,748**	**58,271**
Solvency Ratio	**123%**	**136%**

The Company considers its risk appetite in context of the Solvency II regulatory regime by maintaining a capital buffer above its Solvency II regulatory Solvency Capital Requirement (SCR). The SCR reflects a level of financial resources that enable insurance undertakings to absorb significant losses and provide reasonable assurance to its policyholders that payments will be made as they fall due. Including the effects of the Part VII transfer of insurance business on 1st January 2020, the Company is solvent on a Solvency II regulatory basis, as whilst overall capital held was significantly reduced, the SCR of the Company was also significantly reduced. The Company will continue to be regulated under the Solvency II regulatory regime until its insurance permissions are removed.

28. Available capital resources (unaudited) (cont.)

The Company continually manages and monitors its capital position from a regulatory perspective, by reference to the performance of its assets and liabilities and by giving due consideration to:

- any potential future capital issuances;
- any opportunity to repay or redeem debt capital;
- results of projections made in the Company's Own Risk and Solvency Assessment (ORSA);
- how any issuance, redemption or repayment, or other variation in the valuation of capital may affect the application of limits on tiers of capital from a regulatory perspective; and
- how applying a distribution policy will affect the capital of the Company.

The capital position of the Company is also projected, based on differing scenarios, over a 5 year period and capital management actions are considered carefully. Planned new business sales are an input to capital management actions and the business plan to ensure that the desired risk appetite is maintained.

Other risks that influence the capital management of the business include:

- Credit stress – whereby exposure to widening of credit spreads and actual defaults, due to investments held predominately in corporate bonds by the Company, increase capital requirements.
- Risk free rates – the Company is exposed to falls in risk free.
- New business margins and sales volumes – these can affect the balance sheet as new business is capital consumptive so higher sales than planned can reduce capital faster than expected in the absence of any increase in margin.

Throughout the accounting year, the Company complied with regulatory imposed solvency capital requirements.

29. Ultimate parent company

The immediate parent company of MGM Advantage Life Limited is MGM Advantage Holdings Limited, a company incorporated in the United Kingdom. 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, is Power Corporation of Canada, a company 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, is The Canada Life Assurance Company, a company 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.

The ultimate parent undertaking of the Company until 2 January 2018 was ICE Acquisitions S.à r.l., a company incorporated in Luxembourg.

30. Post balance sheet events

On 1 January 2020 the Company completed a Part VII transfer of all its long-term insurance business to Canada Life Limited, details of which as set out within the Strategic Report and note 18 to these financial statements. The net assets of the long-term insurance business at 31 December 2019 was £284.1m. The transaction was performed at a fair market value on the basis of a Solvency II valuation consistent with that reported at 31 December 2019, receiving £81.9m consideration, whilst leaving cash of £0.2m to cover the short term commitments as a SIPP operator. This resulted in a loss on disposal in 2020 of £202.2m which will be recognised in the financial results in 2020 and is not expected to give rise to any tax charge or benefit to the Company.

The consideration for the transfer was settled by a £75m Promissory Note, which was issued by Canada Life Limited to the Company, payable upon demand and bearing interest equivalent to similar short-dated obligations, and, the remainder of £6.9m to be settled in cash.

The ongoing coronavirus pandemic (COVID-19) is an emerging risk to which the Company is exposed. The Company is monitoring the situation closely and has made preparations to ensure that it will continue to operate effectively and ensure the safety and well-being of customers, Group employees and wider communities. Service continuity plans are in operation, with Group employees working remotely to maintain service to customers. The Company continues to review service standards and hold regular communication with outsource providers, and their response to the pandemic has been robust and highly collaborative and they continue to provide full services to our customers.

After the Part VII transfer the Company has net assets of £81.9m consisting of cash and amounts owed from a fellow group company, Canada Life Limited, for the Part VII transfer which is payable on demand. The impact of COVID-19 on the post Part VII Balance sheet of the Company is not significant. After the Part VII transfer, on 1 January 2020, the Company's Minimum Capital Requirement ('MCR') solvency ratio was 498% (unaudited), with the Solvency Capital Requirement ('SCR') being lower than the MCR. The Company currently continues to operate within Solvency II regulatory capital guidelines and in excess of the MCR and SCR. Since the Part VII transfer the Company has applied to the PRA/FCA to change its regulatory permissions from an insurer to a MiFID investment firm, entirely regulated by the FCA which would have lower applicable solvency requirements. The Company considers it has sufficient capital and liquidity to continue operating for the foreseeable future even if growth in the SIPP product is significantly slower than anticipated as a result of COVID-19.

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

The Company considers both events to be non-adjusting post balance sheet events under IAS 10.