ReAssure

Guardian Assurance With-Profits Fund

Principles and Practices of Financial Management

REPORT TO POLICYHOLDERS ON COMPLIANCE DURING 2016

Contents

ReAssure

1. Introduction

1.1 ReAssure Limited ("ReAssure" or "the Company") maintains a document known as the Principles and Practices of Financial Management ("the PPFM") for each of its with-profits funds. This sets out the Principles and Practices that guide the management of the with-profits business held in the fund. A PPFM was first published in 2004.

1.2 This report to policyholders examines the management during 2016 of the with-profits business in the Guardian Assurance With-Profits Fund ("the Fund"). The latter is a ring-fenced fund within ReAssure.

1.3 This report sets out, with reasons, how ReAssure complied with the obligations associated with the PPFM for the Guardian Assurance With-Profits Fund during the course of 2016. These include the requirement to maintain appropriate governance arrangements designed to ensure that the Company complies with, maintains and records a PPFM. The report also describes the way in which ReAssure exercised discretion in the conduct of its with-profits business and how it addressed the conflicting requirements of different groups of policyholders and shareholders.

1.4 In preparing this report, ReAssure has taken advice from its With-Profits Actuary. Any terms used in the report have the meaning set out in the PPFM for the Guardian Assurance With-Profits Fund, a copy of which can be downloaded from ReAssure's website or obtained free of charge by writing to ReAssure at its registered address.

2. Guardian Assurance With-Profits Fund

BACKGROUND

2.1 ReAssure Limited is a life insurance company wholly owned by Swiss Re. In January 2016 Swiss Re bought the Guardian group of companies and Guardian Assurance Limited was renamed ReAssure Life Limited in June 2016.

2.2 On 31 December 2016 the assets and liabilities of ReAssure Life Limited (also referred to as the "Company" in respect of 2016) were transferred to ReAssure under the terms of the High Court approved Scheme in accordance with Part VII of the Financial Services and Markets Act 2000. The Guardian Assurance With-Profits Fund is managed and accounted for separately from all other funds of ReAssure.

2.3 The Fund contains both with-profits and non-profit business, including a relatively small amount of unit-linked business. The with-profits policyholders receive 90% of the profits arising in the Fund and the shareholder receives 10% of the profits.

2.4 The Fund was restructured and became closed to new business in 1998. As part of the restructure, the Fund received a cash injection from the then shareholder in return for 70% of the future profits arising on the major classes of unit-linked business written in the Fund. The cash injection was invested in the Fund. Since the Fund became closed to new business, the estate held within the Fund is no longer required as working capital and is being distributed gradually to the with-profits policyholders by way of higher bonus rates than would otherwise have been the case. Only with-profits policies that were in-force at the time of the announcement of the restructure benefit from the distribution of the estate.

CHANGES TO THE GUARDIAN ASSURANCE WITH-PROFITS FUND FROM 30 JUNE 2012

2.5 At 30 June 2012, some changes were made to the way that With-Profits policies were to be managed. The changes were made by Guardian with the agreement of our then regulator, the Financial Services Authority. The impact of these changes on our with-profits policyholders was a faster and more equitable distribution of the free estate (basically, the profits retained within the Fund over the last 190 years). In simple terms, this meant that terminal bonus rates for policies terminating, at least in the near term, would be higher than they would have been otherwise, although these are also impacted by financial market movements.

2.6 The changes were made to reduce the risks carried within the Fund with the aim of enhancing future payouts to with-profits policyholders wherever possible. For some with-profits policyholders, this meant higher future terminal bonus rates than would have been the case had this restructure not taken place. For other with-profits policyholders, where the value of the guaranteed benefits exceeds the assets accumulated in respect of their policy and the cost of the guarantee is already being met by the free estate, there was no change.

CHANGES TO THE GUARDIAN ASSURANCE WITH-PROFITS FUND FROM 31 DECEMBER 2016

2.7 The Part VII Scheme introduced a new potential future management action whereby once the value of the assets in the Fund falls below a prescribed level, then actions can be considered to merge the Fund with another with-profits fund and also to consider potential conversion to non-profits status. These actions would be subject to approval of the Fairness Committee (see paragraph 3.2), Board of Directors, Regulators and an Independent Expert appointed to review the exercise to ensure with-profits policyholders are treated fairly.

2.8 The Scheme also saw the transfer of the assets and liabilities associated with policies within the "Guardian Defined Unit Linked Business" to the shareholder-owned ReAssure Non Profit Fund. The Guardian Defined Unit Linked Business comprised defined unit-linked and unitised with-profits business (namely Choices Pension, Freedom Life and Group Money Purchase contracts). The non-linked cash flows from these policies were previously wholly reinsured to the shareholder following the Fund restructures in 1998 and 2012. Therefore, the reallocation of the Guardian Defined Unit Linked Business ensured that the location of these policies is consistent with the economic interest in these policies; the risks insured and any profits or losses arising from that business are allocated to the shareholder. The assets backing the unitised with-profits business are still maintained in the Fund (through an internal reinsurance arrangement documented in the Scheme).

2.9 Our PPFM was updated during 2016 to reflect these changes. Further details are available on our website at – www.reassure.co.uk – or write to us at ReAssure, Ballam Road, Lytham St Annes, Lancashire, FY8 4JZ, or at our Head Office.

3. Governance arrangements

3.1 The ultimate responsibility for the management of ReAssure's with-profits business during 2016 resided with the ReAssure Life Board ("the Board"). However, a sub-committee of the Board, known as the With Profits Committee, performed a number of functions on behalf of the Board in relation to the Company's with-profits business. This included monitoring compliance with the PPFM, reviewing its contents and approving any proposals to alter it.

3.2 The With-Profits Committee met quarterly during 2016. ReAssure had an existing Board sub-committee called the Fairness Committee which performs an identical oversight role to the other with-profits funds within ReAssure (National Mutual With-Profit Fund and Windsor Life With-Profit Fund). The independent oversight and responsibilities of the With-Profits Committee were transferred to the ReAssure Fairness Committee with effect from 31 December 2016 to coincide with the Part VII Transfer. The Terms of Reference of the Fairness Committee were updated accordingly to ensure continuation of the independent oversight of the Fund.

3.3 A With-Profits Actuary is appointed to provide advice on the exercise of discretion relating to matters affecting with-profits business. The With-Profits Actuary for ReAssure Life Limited (formerly Guardian Assurance Limited) was Mr Andrew Pennington until 1 May 2016 and Mr David Lightwood from that date (following the departure of Mr Pennington from ReAssure). During 2016 Mr Lightwood was an employee of Admin Re UK Services Limited (renamed "ReAssure UK Services Limited" in December 2016), a fellow group company to ReAssure.

3.4 The With-Profits Actuary attended meetings of the Fairness Committee and also, when required, those parts of Board meetings where with-profits issues were discussed. He received copies of papers relating to the Company's with-profits business, such as Bonus declarations, and had an opportunity to comment on them in advance of their wider circulation.

3.5 The With-Profits Actuary has prepared a report to the Board on the key aspects of discretion exercised during 2016 by the Company that affected the with-profits business in the Fund. A separate report from him to policyholders is annexed to this report.

4. Exercise of discretion

BONUS RATES

4.1 Regular Bonus rates for 2016 for conventional with-profits ("CWP") policies were approved by the Board in December 2016, having previously been reviewed and commented on by the With Profits Committee. The PPFM sets out that, for other than Deposit Administration, Pension Saver and Group Funding, annual bonus rates were reduced at the 31st December 2004 declaration to such a level that no further reductions were planned. Consistent with this approach, for the relevant classes of with-profits business, the annual bonus rates declared for 2016 were equivalent to the rates for 2015.

The declared yearly bonus rates are given below, with the previous year's rates for comparison.

Yearly bonus declared in arrears	31 December 2016	31 December 2015
Pension Plus	0.5%	0.5%
Versatile Individual Pension Plan	0.5%	0.5%
Buy-Out Plan	0.5%	0.5%
Personal Pension	1.0%	1.0%
Participating Pension	1.0%	1.0%
Chargeable Rates	2.6%	2.6%
Life Assurances	1.0%	1.0%

4.2 Regular Bonus rates for unitised with-profits ("UWP") policies were reviewed in March and December 2016. The rates remained unchanged at each review, consistent with the Practices outlined in the PPFM.

The declared yearly bonus rates are given below, with the previous year's rates for comparison.

Yearly bonus declared in advance	1 April 2016	1 April 2015
Choices Unitised With-Profits – Basic / Bonus Interest Rate	0.5% / 1.0%	0.5% / 1.0%
Freedom Unitised With-Profits	1.25%	1.25%

4.3 Terminal Bonus rates were set by the Board in April 2016 in line with the PPFM. The amounts payable under Deposit Administration and Pension Saver are predominantly based on 15 year gilt yields and the amounts payable under Chargeable Rates policies are based on the relevant premium rates and fixed interest yields. For Deposit Administration, Pension Saver and Chargeable Rates this approach was followed throughout 2016.

4.4 For other classes of with-profits business the calculation of Asset Shares is fundamental to the amount payable. The way in which Asset Shares should be calculated is described in section 4.2 of the PPFM and Asset Shares were calculated in this way throughout 2016.

4.5 Under the PPFM, Terminal Bonus rates are determined having regard to any excess (for groups of policies) of Asset Shares above the value of the guaranteed benefits including annual bonuses added. Terminal Bonus is reviewed monthly. The PPFM notes that for the majority of deferred annuity business in the Fund, the guaranteed benefits at retirement exceed the Asset Share by a significant amount and hence the Terminal Bonus rate is zero. The PPFM was followed throughout 2016 and Terminal Bonus rates were amended for different classes of business as follows:

Effective Date	TB changes	Products
1st January 2016	Conventional Deferred Annuities	Personal Pension
1st April 2016	Conventional & Unitised With Profits, both Life & Pensions	Endowment & Whole of Life, Personal Pension, Participating Pension, Choices & Freedom
22nd July 2016	Unitised With Profits only	Choices & Freedom
29th September 2016	Conventional Deferred Annuities	Pension Plus (incl. VIP, BOP, CHIRP, Pension Assurance), Personal Pensions & Participating Pension
25th October 2016	Conventional Life Assurance	Endowment & Whole of Life
29th November 2016	Conventional Deferred Annuities	Pension Plus (incl. VIP, BOP, CHIRP, Pension Assurance), Personal Pensions & Participating Pension

SURRENDER VALUES

4.6 The methods and bases used to calculate Surrender values were unchanged throughout 2016, being consistent with the description appearing in the PPFM.

4.7 The application of a Market Level Adjustment ("MLA") is assessed on a policy-by-policy basis and the practices detail the circumstances under which a MLA will be applied with respect to unitised with-profits business. No MLA was applied in 2016.

PAYOUTS

4.8 A target range for Maturities and Surrenders was set for the with-profits policies in the Fund of between 70% and 130% of the underlying Asset Share, with the aim that over the longer term these payouts should in aggregate equal 100% of Asset Share. The actual payout ratios were monitored monthly and more than 90% of with-profits claims during 2016 for each of the major classes of business fell within the required range, with the small number of payouts outside the range reviewed in detail. The approach used to set Terminal Bonus is designed with the aim that payouts should over the longer term in aggregate equal 100% of Asset Share.

4.9 The company chose the target range as being realistically achievable and fair given the cross subsidies inherent in with-profits business. Policies outside their target range were investigated and the most common reason for this related to life policies with very small premiums and sums assured where they typically received in excess of 130% of Asset Share.

INVESTMENT STRATEGY

4.10 The operation of the investment of the Company's assets was overseen by the Policyholder Investment Committee, which met monthly during 2016. In addition, the Board Investment Committee (a sub-committee of the Board) reviewed investment strategy and performance and met quarterly during 2016.

4.11 The investment policy is set out in the PPFM. The investment mix of each with-profits policy differs depending on the maturity of the business and the proportion of the final payout which is guaranteed. The Fund adopts a close matching policy such that any guaranteed payouts, including basic sums assured, annual bonuses and annuities in payment are matched in terms of size and timing by the projected cash flows from the fixed interest assets held.

4.12 Benefits that are not guaranteed, such as accrued terminal bonus, are generally backed by UK equities. The current equity investment objective is to track the performance of an index that represents the 350 largest companies on the London Stock Exchange and actual investment performance is monitored against this benchmark on a monthly basis. In accordance with the PPFM, Equity derivatives may also be used as appropriate, e.g. to provide protection against adverse market movements. A series of equity derivatives was purchased by the Fund in 2014 to provide some protection for conventional with profit endowment maturities (until 2019).

4.13 The investment strategy adopted during the year has been consistent with that set out in the PPFM and the equity backing ratios, which vary from class to class and also by duration, have been in the range set out in the PPFM as demonstrated in the table below.

Equity Backing Ratio	December 2015	December 2016
Deferred Annuities	5%	5%
Section 226 Personal Pensions	14%	18%
Conventional Life	51%	55%
UWP Life	50%	54%
UWP Pensions	63%	68%

4.14 The gross investment returns achieved over the 12-month period to 31 December 2016 were used directly in the calculation of the Asset Shares during 2016 based on the assumed asset mix of the relevant Asset Share.

4.15 The “Estate” is the excess of the value of the assets in the Fund over the value of the assets needed to support the current and expected future liabilities of the Fund. The Estate is invested in a mixture of UK fixed interest securities and UK equities in line with the PPFM.

Business risk

4.16 The Fund is closed to new business and non-profit annuities under vesting pension policies were secured outside the Fund during 2016.

4.17 As a result of strategic change within the Company, a number of such annuities during 2016 were purchased using a panel of external providers (rather than the Non-Profit Fund of ReAssure Life). This change resulted in an increased choice of annuity providers for policyholders and enabled funds from different pension providers to be combined into one annuity. The Company received an “introducer’s fee” for annuities that are taken out through the external panel (which is retained by the shareholder). Prior to implementation this was reviewed by the Fairness Committee who concluded this was fair, taking into consideration the set-up costs incurred by the Company and the fact that the annuity rate offered is required to be the Open Market rate of the provider. As a result, the annuity rate was unaffected by the introducer’s fee and therefore customer outcomes were unaffected.

4.18 No costs arising from business risks were charged to Asset Shares.

Charges and expenses

4.19 The fees charged to the Fund during 2016 for administration and investment services were consistent with those disclosed in the PPFM. The PPFM notes that all normal management and administration expenses are met by the shareholder through a shareholder-owned service company. The Fund pays the shareholder an agreed level of expense based on an agreed amount per policy. The amount varies by type of policy and increases each year at a rate equal to the increase in the retail price index plus 1%.

4.20 The Fund paid an agreed annual management charge to two external investment managers for investment services at cost. The level of expenses borne by the Fund and similarly the amount of expenses allocated to Asset Shares during 2016 was consistent with these agreements.

4.21 The tax charge for 2016 was performed as though the Fund were a stand-alone proprietary life insurance company, again as required by the PPFM. The PPFM states that the investment returns allocated to Asset Shares are adjusted for taxation where appropriate. Hence, the investment returns allocated to the life business are reduced for taxation whereas the returns with respect to pension business are not reduced. Any difference between the tax allocated to Asset Shares compared to the overall tax assessment of the Fund emerges as a miscellaneous profit or loss and is allocated to the Estate. Since 30th June 2005, the additional tax resulting from the transfer out of the Fund of the shareholder’s share of profits has been met by the Estate whereas previously it was charged directly to Asset Shares.

Management and Distribution of the Estate

4.22 The approach to managing the Estate is set out in the PPFM. The intention is to distribute the Estate equitably to eligible with-profits policies (those in force at the time of the Fund’s restructure at the end of 1998) by using ”Bonus Surplus” to enhance Asset Share returns. Consistent with this intention, for 2016 a Bonus Surplus of 3% was declared, unchanged from 2015.

4.23 Consistent with the PPFM, the Estate was also used during 2016 to provide capital support towards meeting the regulatory solvency requirements, the cost of guarantees, smoothing costs and any compensation or redress in connection with the way business written in the Fund has been marketed or sold.

EQUITY AMONGST POLICYHOLDERS AND WITH SHAREHOLDERS

4.24 The grouping of policies for the purposes of determining payouts and the mechanism used to attribute items of experience to the different groups was unchanged throughout 2016, being consistent with the PPFM. The approach to smoothing and to the distribution of the Estate similarly followed established practices, as described in the PPFM.

4.25 The Guiding Principles in the PPFM set out the shareholder commitment to the Fund. Both shareholders and policyholders have a vested interest in its prudent financial management, including a controlled distribution of profits and allocation of Bonuses. Shareholders are entitled to 10% of the profits from the Fund (by way of a transfer to the Non-Profit Fund). The profit is calculated as part of the statutory returns and approved by the Board.

5. Maintenance of the PPFM

5.1 The With-Profits Committee was responsible during 2016 for reviewing the contents of the PPFM and approving any changes proposed to it.

5.2 There was one material change to the Principles during 2016 to recognise the introduction of additional management actions (in respect of the Part VII Transfer) that can be considered once the size of the Fund has reduced to a specified level.

5.3 Practices in the PPFM were amended during 2016 to reflect the change in ownership, rebrand and Part VII. There were several changes to the PPFM & Consumer Friendly Principles and Practices of Financial Management (CFPPFMs) during 2016, all of which were presented to (and approved by) the With Profits Committee. In summary, the changes were as follows:

March 2016	Changes to PPFM & CFPPFMs to reflect change in ownership from Cinven to Swiss Re Life Capital
June 2016	Changes to PPFM & CFPPFMs to reflect the rebrand from Guardian Assurance to ReAssure Life Limited
September 2016	Change to the PPFM in anticipation of the Part VII
December 2016	Changes to the CFPPFMs to reflect the changes made to the main PPFM in September 2016.

6. Policyholder communications

6.1 Following the 2015 Bonus declaration, holders of conventional with profits policies were mailed a statement in 2016 setting out the details of the Regular Bonuses added to their policy. Holders of UWP policies were provided with annual statements.

6.2 Copies of the CFPPFM documents were provided to CWP policyholders during the bonus mailing. The CFPPFMs were maintained on the Company's website during the year (there are four versions covering different product types: Unitised With-Profits, Conventional Life, Conventional Pensions and Group Pensions).

7. Conclusion

7.1 In the opinion of both the ReAssure Limited Board of Directors and the Fairness Committee, the Company complied with the material obligations associated with the PPFM for the Guardian Assurance With-Profits Fund during the course of 2016. In particular, throughout the year, it;

- maintained appropriate governance arrangements designed to ensure that it complied with, maintained and recorded a PPFM;
- exercised discretion appropriately in the conduct of its with-profits business; and
- addressed appropriately any competing or conflicting rights, interests or expectations of its with-profits policyholders (or groups of policyholders) and shareholders.

30 June 2017

ReAssure

Annex

Guardian Assurance With-Profits Fund

Report to Policyholders from the With-Profits Actuary

FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2016

The Guardian Assurance With-Profits Fund Principles and Practices of Financial Management ("PPFM") is a detailed document which sets out how ReAssure Limited ("the Company") manages its with-profits business.

The Company has discretion in a number of areas, such as setting bonuses, policy payouts and surrender values, and in addressing any competing or conflicting rights of policyholders and shareholders.

The purpose of my report to the Company's with-profits policyholders is to give my opinion, as required by the rules of the Financial Conduct Authority, as to whether the Company has taken the interests of its with-profits policyholders into account in a reasonable and proportionate manner in exercising this discretion during 2016.

The report is provided for the purpose set out above and should not be used as the basis to make any decisions regarding contracts with the Company, (including whether to enter into them, to continue them or to terminate them), for which decisions fuller information and qualified financial advice should be sought.

In my capacity as With-Profits Actuary to the Company, I advise the Board of the Company (including authorised sub-committees) on key aspects of the discretion exercised by it in respect of its with-profits business.

I have considered the Company's report ("the Report") on compliance with the PPFM for the Guardian Assurance With-Profits Fund to which this report is annexed, and I have reviewed the discretion exercised by the Company during 2016.

In doing this I have also considered the data in reports submitted to the With Profits Committee during 2016 and also a report regarding compliance with the PPFM for the Guardian Assurance With-Profits Fund submitted to the Fairness Committee in March 2017.

Based on the information and explanations provided to me by the Company, I am satisfied that:

- the Report fairly summarises the principal areas in which the Company exercised discretion during 2016 in the conduct of its with-profits business;
- the Company complied with the material obligations of the PPFM during 2016; and
- any significant discretion exercised by the Company during 2016 took the interests of the with-profits policyholders in the Guardian Assurance With-Profits Fund into account in a reasonable and proportionate manner.

In arriving at my opinion, I have taken into account where relevant the rules and guidance contained in the Financial Conduct Authority's COBS 20 (With-profits). The Board for Actuarial Standards has issued standards (Insurance TAS version 1, TAS-R version 2, TAS-D version 1 and TAS-M version 1) which apply to reports produced by actuaries. This report complies with these standards.

David Lightwood
Fellow of the Institute and Faculty of Actuaries
With-Profits Actuary
30 June 2017