FORESTER LIFE LIMITED

(Registered in England & Wales, no. 02997655)

CONSOLIDATED ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

Contents

Forester Life Limited

BOARD OF DIRECTORS

J T Young**	(Independent Chairman)
E T Allison	(Chief Executive Officer)
M Christophers*	
R E Lamoureux*	(appointed 20 March 2018)
P D Reaburn*	(resigned 30 October 2018)
M R Granville*	(resigned 3 May 2018)
D G Robinson**	(appointed 15 January 2018)

* *Non-executive*
** *Independent non-executive*

Company Secretary
J C Rose

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National Westminster Bank Plc
City of London Office
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1 Princes Street
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Auditor
KPMG LLP
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Forester Life Limited

Chairman's Report

2018 was a year dominated by challenging market conditions. The Company's funds under management declined by c.£0.2bn, driven by negative investment returns during the latter part of the year. However, despite the market conditions, the business experienced good new business volumes and positive net fund inflows and achieved its profitability targets.

The Company has also successfully implemented a number of significant projects, most notably:

- The EU General Data Protection Regulation ('GDPR') came into force on 25th May 2018. GDPR set higher standards for data privacy, introducing tougher fines for non-compliance and breaches whilst also harmonising data protection rules with the rest of the EU. We have updated our procedures and processes to address the new standards introduced by GDPR and trained all employees across the Company on GDPR requirements.
- In July we completed system changes, marketing and training to add the Lifetime ISA to our product range.
- The EU Insurance Distribution Directive ('IDD') came into effect on 1st October 2018. The directive has been assessed and implementation of its requirements has been successfully delivered; all required changes for the IDD have been deployed to the point of sale and back office administration systems together with full regulatory training and testing in order that uninterrupted sales could continue.
- The FCA's Senior Managers and Certification Regime (SMCR) applied to the Company with effect from 10th December 2018. The core of the SMCR is a requirement for firms covered by the regime to identify and set out the responsibilities of their most senior decision-makers, who are then accountable for actions falling in their area of responsibility. The Company has taken all necessary steps to comply with its requirements.

Following the strategic decision to bring the administration of the Child Trust Fund (CTF) business in house at the beginning of 2017, the business continues to benefit from resulting long term pre-tax cost savings of c.£8m annually.

In summary, the Company made significant progress in 2018 in optimising its operating performance despite challenging market conditions.

The continued support of our customers and the strong commitment of our employees are crucial to the success of the Company. I would therefore like to take this opportunity to thank all our customers and employees on behalf of the Board.

John Young
Chairman
21 March 2019

Forester Life Limited

Strategic Report

The Directors present their Strategic Report for the year ended 31 December 2018.

Principal activity

The 'Group' comprises Forester Life Ltd ('the Company' or 'FLL') and its subsidiaries Forester Investments Ltd ('FIL') and Forester Fund Management Ltd ('FFML').

The Company carries on business in the UK, currently consisting of:

- investment business, principally stakeholder products, in FLL together with a large book of Child Trust Funds ('CTFs');
- administration of three closed with profits funds;
- annuity and protection business.

Business Performance

Following the strong financial results in 2017, 2018 saw volatile investment markets resulting in weakened customer confidence. Despite the markets, the Company continued to focus on its core business with sales being in line with prior year. The majority of the Company's sales continued to be, pursuant to applications, unit-linked products sold via the Company's field force as well as received direct from our customers.

Sales of unit-linked business measured by the accepted method of counting single premiums and contributions as 10% of amount received for the year, were £54.4m, 1% higher than 2017 (£53.8m). Overall contributions and premium income were £340.4m, a 1% decrease from 2017 (£345.4m) as, although new business was in line with prior year, single contribution business was lower.

Total assets under management fell by 5% to £4,014.0m (2017: £4,210.1m) despite net fund inflows of £70.4m primarily as a result of the negative investment returns experienced in 2018. The invested assets of the insurance business fell by £81.3m driven by net outflows of with profits funds in run-off and the negative investment returns in the year.

Operating expenses of £36.2m rose by 11% from 2017 £32.1m. Costs have risen due to changes in the recognition of deferred acquisition costs and inflation.

Total comprehensive income decreased by £18.0m to £9.9m however the 2017 result included significant one-off reserve releases. The underlying business, particularly the unit linked books of business, remains profitable with a positive outlook.

Looking Ahead to 2019

Looking forward to 2019, our strategy focuses on increasing market penetration by building affinity with Child Trust Fund customers and offering enriched services around our products to differentiate our brand in the financial services industry. The Company will be introducing systems, both online and for the field force, which will facilitate the creation of an omni-channel experience for our customers allowing them to interact with the business how they want when they want.

Significant uncertainty remains regarding the outcome of the UK's decision to leave the European Union. The main impacts for the Group of the ongoing uncertainty around 'Brexit' are the effects on UK growth and the consequent impact on customers' wealth and their ability to save or the need to encash their savings as their real income decreases. Another impact will be the effect on market volatility which will influence the value of assets under management on both unit linked and insurance business, the valuation of insurance business, new business volumes and persistency levels.

Approach to risk management

Effective risk management is fundamental to the Group as it supports the delivery of the business plan through enabling fully informed business decisions to be made, capital to be managed efficiently, value generated for customers to be protected and principal risks to be identified, evaluated and managed.

The risk management approach is outlined in the risk management framework which provides a robust approach for setting out the risks that the Group is able and willing to accept, the process for identifying and managing key risks, and how to measure and monitor the Group's risk exposures against the Board's risk appetite statements.

The Risk Management Framework is integrated with the Own Risk and Solvency Assessment ('ORSA'). The ORSA is both a set of processes and a report which considers the risks arising from the agreed strategic priorities, the Group's appetite for these risks and the management of them, how much capital is needed to protect the business against those risks and how resilient the business model is under stressed conditions. This analysis involves a forward-looking assessment of the risk and solvency requirements of the Group over the five year period of the business plan.

Principal risks and uncertainties

The principal risks and uncertainties facing the Group on both a current and a forward looking basis are regularly assessed. These, as well as the actions to mitigate and manage these risk exposures, are further discussed in Note 20 to the Financial Statements.

Solvency II

Since 1 January 2016, the Group has used the Standard Formula as a basis for calculating its regulatory capital position. The Group complied with all regulatory capital requirements that it was subject to throughout the reporting period. Refer to Note 19 for details on the Company's regulatory position.

Going concern

Having considered the position of the Group at the date of the Statement of Financial Position and its results, future prospects and risk profile, the Board has a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, management continues to adopt the going concern basis in preparing the annual report and accounts. In forming this view the Board considered the following matters:

- The performance of the Group and the future risks and uncertainties it faces as set out in the Strategic Report.
- The quality and expertise of the Group's staff and management team.
- The regulatory solvency position of the Company as at 31 December 2018. Management continues to focus on ensuring regulatory compliance and holding a suitable capital buffer.

Approved by the Board on 19 March 2019 and signed on 22 March 2019 on its behalf

E T Allison
Director

Forester Life Limited

Directors' Report

The Directors present their report and the audited consolidated Financial Statements for the year ended 31 December 2018.

Parent Company

The Company is a wholly owned subsidiary of Forester Holdings (Europe) Limited ("FHE"), a Company registered in England & Wales.

FHE is a wholly owned subsidiary of The Independent Order of Foresters ("Foresters"), a fraternal benefit society, incorporated in Canada with limited liability. The Company's registered address is Foresters House, 2 Cromwell Avenue, Bromley BR2 9BF, United Kingdom.

Financial instruments

The Group makes extensive use of financial instruments in the ordinary course of its business. Details of the risk management objectives and policies of the Group in relation to its financial instruments and information on the risk exposures arising from those instruments are set out in Note 20 to the financial statements.

Political contributions

Neither the Company nor any of its subsidiaries made any political donations or incurred any political expenditure during the year.

Directors

The Directors who held office during the year are listed on page 3.

None of the Directors had any disclosable interest in the ordinary shares of the Company.

According to the Register of Directors' interests, no rights to subscribe for shares in the Company were granted to any of the Directors or their immediate families, or exercised by them, during the year.

Directors' indemnities

The Directors have the benefit of a qualifying third-party indemnity provision (as defined in Section 234 of the Companies Act 2006). Foresters also maintains Directors' and Officers' liability insurance in respect of its subsidiaries and their Directors.

Statement of disclosure of information to auditor

Each person who is a Director at the date of this report confirms that:

1) so far as each of them is aware, there is no information relevant to the audit of the Company's Financial Statements for the year ending 31 December 2018 of which the auditor is unaware; and
2) each Director has taken all the steps that ought to have been taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditors, KPMG LLP, will be deemed to be reappointed and will therefore continue in office.

Approved by the Board on 19 March 2019 and signed on 22 March 2019 on its behalf

E T Allison
Director

Forester Life Limited

Corporate Governance Report

Corporate governance is the system by which companies are directed and controlled. Boards of Directors are responsible for the governance of their companies. Corporate governance is therefore about what the Board of a company does and how it sets the values of the company, and is to be distinguished from the day to day operational management of the company by the executives. In practice this means ensuring that business activities are undertaken competently in the best interests of the Company's stakeholders, and that Directors and staff act with integrity at all times.

Roles and responsibilities of the Board

The Company's organisational structure and relationship to its parent is clearly defined, with the roles of Chairman of the Board and the Chief Executive Officer clearly differentiated and separate. The responsibilities of the Board include setting the Company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting on their stewardship. The Chairman is responsible for leading the Board. The Chief Executive Officer is responsible for implementing strategy and managing the Company through an executive team.

Board Committees

UK Group Audit and Compliance Committee

The Committee's terms of reference are set by the Board. The Committee is drawn from the independent Non-Executive Directors that sit on the FLL Board of Directors and at least one member has recent relevant financial experience. The membership of the Committee, as at the end of the last meeting held during the year, was as follows:

D G Robinson (Chair)
J T Young

The Audit and Compliance Committee normally meets at least four times a year to help the Board fulfil its responsibilities in respect of:

- *Financial Reporting including any regulatory financial reports;*
- *Compliance function;*
- *Systems of internal control; and*
- *Internal and External Audit functions*

UK Group Risk and Investment Committee

The Risk and Investment Committee, on behalf of the Board of the UK Group Companies, is responsible for:

- *Investment strategies and performance monitoring;*
- *Risk management practices; and*
- *Capital management.*

In doing so, it provides regular reports to the respective Boards on its activities together with accompanying recommendations for action as appropriate.

The membership of the Committee, is as follows:
M Christophers (Chair)
E T Allison
R E Lamoureux
D G Robinson
J T Young

The Committee normally meets at least four times each year in order to provide input to the quarterly UK Group Companies' Board meetings.

Forester Life Limited

With-Profits Fund Advisory Panels

As the Company manages closed With-Profits Funds it has established With-Profits Advisory Panels. Each Panel acts in an advisory capacity to inform decision-making by the Board in relation to the management of that fund. Each Panel acts in accordance with its own terms of reference, regulations affecting the management of with-profits business and in particular the fund's Principles and Practices of Financial Management (PPFM).

Chairman's independence

An independent chairman has been in place since October 2017.

Review of the Board's performance

The Board reviews its performance by discussion at the end of each Board meeting and periodically by using a questionnaire. The results of an external assessment were presented to the Board in Q4 2018 and the findings are being considered for action where appropriate. The Board ensures it has a balance of required skills and experience in relation to the size and complexity of the UK operation.

Annual re-election of Directors

Non-Executive Directors are not appointed for specific terms, or subject to re-election, but all appointments are reviewed annually by the Governance Committee of Foresters. These arrangements are considered appropriate for a wholly owned subsidiary.

Relations with members

Foresters is a fraternal benefit society that provides financial services products and unique benefits to its members and their families. Through the member-governed Branch network, members are provided with opportunities to organise and participate in local volunteer activities and family-focused events. Through this model of community service, Foresters demonstrates its purpose of enhancing the well-being of its members, their families and their local communities. Foresters annual report gives details of the year's activities as well as the results of the business.

Risk Management

The Board is responsible for setting risk appetite which outlines the amount and type of risk that the UK Group is willing to take in order to meet its strategic objectives. Risk appetite is recommended to the Board by the Risk and Investment Committee. This Committee monitors the principal risks that could threaten the Group's business model, future performance and solvency position and oversees the operation and effectiveness of the risk management framework on behalf of the Board; this includes a suite of risk policies that cover the full range of risks to which the Group is exposed.

Risk appetite

Risk appetite is used by the executive team to ensure that the business is run in accordance with the Board's expectations. The UK Group has formally established and communicated its risk appetite through its risk management framework.

Risk appetite is used to ensure that the UK Group does not take on more risk than the capital base allows. One of the key risk appetite statements relates to maintaining an appropriate capital buffer to meet the internal capital target. To avoid risk appetite being breached, tolerances and limits have been established. These are trigger points indicating when action should be taken to bring the Group back within risk appetite. All risk appetites and limits are well within risk capacity.

Risk Management Policies

Clear requirements and rules have been designed to ensure that risk management is appropriately delivered. They establish a framework within which the Board's requirements for risk management are delivered and executed taking into account risk appetite limits and capital constraints.

Governance Structure

The Group adopts a "three lines of defence" model, such that risk management is acknowledged to be the responsibility of everyone within the UK Group. There are clearly defined roles, responsibilities and mandates for individuals and committees.

The first line, described as business and support functions, is responsible for implementing and adhering to the risk strategy, risk appetite as appropriate and wider risk framework. In particular the first line owns and manages its risks with the agreed risk appetite and in compliance with the policy framework.

The second line comprising risk and compliance functions, is responsible for advising the Board on its risk appetite and supporting the business in its application as applicable; determining and developing the risk management framework and tools for agreement by the Board which the first line uses to discharge its responsibilities; and provision of oversight, challenge and support to the first line on its management of risks.

The third line is internal audit, which is responsible for providing independent assurance over the adequacy and effectiveness of the design and implementation of the Group's governance, risk and control framework.

Risk identification, assessment and management

Business areas regularly review the profile of their existing risks. Risks are recorded on business area risk registers. Each risk identified is evaluated and given a score based on the likelihood of the risk materialising and the impact if it was to occur, based on the Group's risk assessment matrix. Risk owners provide details of any mitigating factors/controls in place against each risk. Actions are added to risks on registers where existing controls are not sufficient to mitigate the risk or are not effective. The most significant risks are included on an executive register, which is reviewed by the Executive Leadership Team regularly. This register will also include risks that have been identified by the executive that may not be included on the business level registers.

Risk monitoring and reporting

A risk report, designed to give sufficient oversight of the risk management framework and risk profile is presented regularly to the Executive and quarterly to the Risk & Investment Committee. This report highlights changes to the risk profile with consideration given to risks on both a current and an emerging risk basis, taking into account risk mitigations.

ORSA

The UK Group complies with Solvency II requirements using the standard formula to calculate the solvency regulatory capital requirement. In addition the UK Group performs its own risk and solvency assessment which is defined as the entirety of the processes and procedures employed to identify, assess, monitor, manage, and report the short and long term risks the UK Group faces or may face and to ensure that its appetite for these risks is conversant with its capital and commercial aspirations. This includes the Forward Looking Assessment of Own Risks which considers the risks to which the successful implementation of the business plan is exposed. This is to ensure that the internal and regulatory capital requirements will not be impaired, or if it is indicated that they will be, that management actions are in place to mitigate the position. The ORSA is therefore integral to Board oversight of business planning and capital management related processes within the UK Group. Formal ORSA reporting takes place on an annual basis and is a key part of the strategic planning cycle.

Forester Life Limited

Directors' Remuneration Report

This section of the report sets out the Company's policy on Directors' remuneration.

Executive Director

The Company's policy is to ensure that total remuneration of Executive Directors is competitive with that of comparable organisations in the financial sector. As far as practicable the policy aims to provide a strong link between pay and performance without encouraging inappropriate risk taking.

The Executive Director's remuneration includes the following:

- Basic salary - this is subject to annual review.
- Annual bonus scheme – the Company has an incentive plan open to all permanent members of staff based on key business targets. Assessment of performance against targets is made in February.
- Long-term incentive plan – Foresters operates a long term incentive plan open to senior executives of the Group. Payments are made annually based on an assessment of performance over 3 years.
- Pension scheme membership – the Executive Director is a member of the Forester Group Employee Pension Plan, a defined contribution scheme open to all permanent employees.
- Benefits in kind - the Executive Director is provided with a company car, private medical insurance, permanent health insurance and an expense allowance.

Non-Executive Directors' remuneration

Non–Executive Directors received the following remuneration:

Non-Executive Directors	2018	2017
	£000	£000
M Christophers	40	35
D G Robinson	40	-
J Young	60	35
R E Lamoureux	20	-
Mike Granville	20	35

The remunerations above are on an accrual basis and do not include associated Value Added Taxes. P Reaburn was not paid by the Company or Group.

Statement of Directors' responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements.

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

Company law requires the Directors to prepare Group and parent Company Financial Statements for each financial year. Under that law they have elected to prepare both the Group and the parent company financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union ('EU') and applicable law.

Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its Financial Statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect 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 UK governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE SOLE MEMBER OF FORESTER LIFE LIMITED

1. Our opinion is unmodified

We have audited the financial statements of Forester Life Limited ("the Company") for the year ended 31 December 2018 which comprise the:

- Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Cash Flows, Consolidated Statement of Changes in Equity,
- The Statement of Financial Position, Statement of Changes in Equity of the parent,

and the related notes, including the accounting policies in Note 1 of the Company financial statements.

In our opinion:
- the financial statements give a true and fair view of the state of Group and parent Company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the Directors on 28 June 1996. The period of total uninterrupted engagement is for the 24 financial years ended 31 December 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including 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. We summarise below the key audit matter, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

The impact of uncertainties due to the UK exiting the European Union on our audit Refer to page 25 (accounting policy) and pages 56 to 57 (financial disclosures)	
The risk	**Our response**
Unprecedented levels of uncertainty All audits assess and challenge the reasonableness of estimates, in particular as described in valuation in policyholder liabilities and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Group's future prospects and performance. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: *Our Brexit knowledge* We considered the directors' assessment of Brexit-related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks. *Sensitivity analysis* When addressing valuation of assets and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty. *Assessing transparency* As well as assessing individual disclosures as part of our procedures on valuation of policyholder liabilities, we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. **Our results** As reported under valuation of policyholder liabilities, we found the resulting estimates and related disclosures to be acceptable. We also found the assessments and disclosures in relation to going concern to be acceptable. No audit should, however, be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit

Valuation of insurance contract liabilities (£534m, 2017: £615m) The risk compared to the prior year is unchanged. Refer to page 25 (accounting policy) and pages 50 to 51 (financial disclosures)	
The risk	**Our response**
The Company has significant non linked insurance liabilities representing 13% per cent of the Company's total liabilities. Of these £493.6m is in respect of with-profits liabilities and these are set equal to the fund value as the entire amount of the fund will be distributed, and £40.3m is in respect of non-profit insurance liabilities. Only non-profit liabilities involve material subjective judgments. **Subjective valuation** The non-profit insurance liabilities are £40.3m (7.5% of the insurance contract liabilities) and the determination of these involves significant judgement over uncertain future outcomes. *Operating and economic assumptions and sector experience* Management is required to use judgment in the selection of key assumptions covering both operating assumptions and certain economic assumptions. The key operating assumptions include mortality, persistency and maintenance expenses. Mortality refers to rates of death on protection policies and rates of survival on annuity policies. Mortality requires a high degree of judgement due to the number of factors which may influence mortality experience. These factors include Company's own experience and management's and industry expected levels of future rates of mortality improvement and other external factors arising from developments in the market. Persistency (ie whether the policy is discontinued at the option of the policyholder), requires judgement in the assessment of past experience and the consideration of potential future changes in that experience. Expenses assumptions require significant judgment. Expenses include expected level of future expenses based on the expected future costs for administering the underlying policies. *Completeness and accuracy of data* Management uses actuarial models to calculate policyholder liabilities. There is a risk that the modelling does not actually and appropriately reflect the model specifications and / or the product features due to incorrect or incomplete data input into the model and / or unauthorised or erroneous changes to the models.	We used our own actuarial specialist to assist us in performing out procedures in relation to the judgements exercised in these areas Our procedures included: *Controls design and re-performance;* Testing of the design, implementation and operating effectiveness of key controls over the reserving process to determine the valuation of the liabilities including management's review and approval of the methods and assumptions adopted over the calculation of insurance liabilities and appropriate change management controls over the actuarial models. *Methodology choice* We have assessed the methodologies adopted and the selection of the assumptions for calculating the liabilities. This included: - Applying our understanding of the methodologies used by companies generally; - Applying our understanding of developments in the business and the need for and impact of changes in methodologies. *Setting assumptions:* We have assessed the assumptions adopted by: - Considering the relevant experience by reference to actual mortality experience of the policyholders and judgements made by management. - Taking account of relevant industry data on current mortality and expectations of future mortality improvements. - Assessing whether the expense assumptions reflect the expected future costs of administering the underlying policies by analysing current year costs and the likely impact of planned management actions on future costs. ***Our results*** We found the valuation and presentation of policyholder liabilities to be acceptable.

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £4.2m (2017: £4.5m), determined with reference to a benchmark of Group Net Assets, consistent with 2017 of which it represents 4% (2017: 5%).

We consider the Group's net assets to be the most appropriate benchmark as it represents the residual interest that can be ascribed to shareholders after assets and corresponding liabilities have been accounted for. We compared our materiality against other relevant benchmarks, such as total assets, total revenue and profit before tax to ensure the materiality selected was appropriate for our audit.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.21m (2017: £0.22m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Materiality for the parent financial statements as a whole was set at £4.2m (2017: £4.5m), determined with reference to a benchmark of Company Net Assets, consistent with 2017 of which it represents 4% (2017: 5%).

We consider the parent's net assets to be the most appropriate benchmark as it represents the residual interest that can be ascribed to shareholders after assets and corresponding liabilities have been accounted for. We compared our materiality against other relevant benchmarks, such as total assets, total revenue and profit before tax to ensure the materiality selected was appropriate for our audit.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.21m (2017: £0.22m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group or the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's business model, including the impact of a disorderly Brexit, and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Company's available financial resources over this period were:

- a significant deterioration in longevity experience, potentially caused by market wide event(s); and
- a deterioration in the valuation of the Company's investments.

As these were risks that could potentially cast significant doubt on the Group's and Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's and Company's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the impact of Brexit and the impact on the economic environment, which could result in a rapid reduction of available financial resources.

Based on this work, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5. We have nothing to report on the strategic report and the Directors' report

The Directors are responsible for the strategic report and the Directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the Directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge.

Based solely on that work:
- we have not identified material misstatements in those reports;
- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:
- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities
As explained more fully in their statement set out on page 13, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group'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 they either intend to liquidate the Group or parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud, other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The risk of not detecting a material misstatement resulting from fraud or other irregularities is higher than for one resulting from error, as they may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation not just those directly affecting the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

Our audit aimed to detect non-compliance with relevant laws and regulations (irregularities) that could have a material effect on the financial statements. In planning and performing our audit, we considered the impact of laws and regulations in the specific areas of the Companies Act 2006 and the Prudential Regulation Authority regulatory regime. We identified these areas through discussion with the directors and other management (as required by auditing standards), from our sector experience and from inspection of the Company's regulatory and legal correspondence. In addition we had regard to laws and regulations in other areas including financial reporting, and company and taxation legislation.

We considered the extent of compliance with those laws and regulations that directly affect the financial statements, being the Companies Act 2006, as part of our procedures on the related financial statement items. For the remaining laws and regulations, we made enquiries of the directors and other management (as required by auditing standards) and inspected correspondence with regulatory authorities, as well as legal correspondence.

We communicated the identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

8. The purpose of our audit work and to whom we owe our responsibilities

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.

Ben Priestley (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL

22 March 2019

Forester Life Limited

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2018

	Notes	2018 £000	2017 £000
Revenue			
Gross written premiums	2	**27,308**	32,185
Ceded premiums		**(716)**	(703)
Net Written Premiums		**26,592**	31,482
Fee income from investment business		**49,687**	46,699
Investment income	11	**(246,565)**	327,689
Total Revenue		**(170,286)**	405,870
Policyholder benefits and expenses			
Gross policyholder benefits and payments		**91,686**	89,587
Change in Gross insurance contract liabilities	13	**(81,344)**	(49,933)
Change in Ceded insurance contract liabilities	13	**1,301**	(1,811)
Change in investment contract liabilities	14	**(229,087)**	296,233
		(217,444)	334,076
Operating expenses	3	**36,243**	32,084
Total policyholder benefits and expenses		**(181,201)**	366,160
Income before income taxes		**10,915**	39,710
Income tax (credit) / expense	7	**(228)**	10,501
Net income for the year		**11,143**	29,209
Other comprehensive income			
Amounts that may subsequently be reclassified to income statement:			
Net unrealised (losses) / gains on available-for-sale assets	11	**22**	(347)
Amounts that will not be reclassified to income statement			
Re-measurement of defined benefit pension obligation		**(1,220)**	(939)
		(1,198)	(1,286)
Total comprehensive income		**9,945**	27,923

The notes on pages 25 to 70 form an integral part of these Financial Statements.

Forester Life Limited
Company registered number: 02997655

Statements of Financial Position
as at 31 December 2018

		2018		2017	
	Notes	Group £000	Company £000	Group £000	Company £000
Assets					
Intangible assets and deferred acquisition costs	8	36,247	13,357	40,369	15,190
Investment property	9	5,700	5,700	5,560	5,560
Investment in subsidiaries	10	-	18,976	-	19,062
Deferred tax asset	7	9,546	9,546	14,744	14,744
Financial investments	11	3,965,670	3,965,670	4,139,028	4,139,028
Insurance and other receivables	12	19,738	19,738	24,625	24,625
Cash and cash equivalents		59,254	59,249	67,178	67,174
Total assets		4,096,155	4,092,236	4,291,504	4,285,383
Liabilities					
Insurance contract liabilities	13	533,909	533,909	615,252	615,252
Investment contract liabilities					
Unit-linked	14	3,314,098	3,314,098	3,452,041	3,452,041
With Discretionary Participating Features	15	59,487	59,487	63,218	63,218
Employee benefit obligation	6	7,575	7,575	7,333	7,333
Deferred tax liability	7	589	589	6,894	6,894
Current tax liability		9,744	9,744	3,921	3,921
Benefits payable		15,862	15,859	13,384	13,381
Other liabilities	17	25,095	44,072	8,250	27,313
Total liabilities		3,966,359	3,985,333	4,170,293	4,189,353
Equity					
Called up share capital	18	68,500	68,500	68,500	68,500
Capital contribution		24,189	24,189	24,189	24,189
Retained earnings		42,308	19,415	32,525	7,344
Accumulated other comprehensive income		(5,201)	(5,201)	(4,003)	(4,003)
Total Equity		129,796	106,903	121,211	96,030
Total liabilities and equity		4,096,155	4,092,236	4,291,504	4,285,383

Approved by the Board on 19 March 2019 and signed on 22 March 2019 on its behalf

E T Allison
Director

The notes on pages 25 to 70 form an integral part of these Financial Statements.

Forester Life Limited

Consolidated Statement of Changes in Equity
for the year ended 31 December 2018

	Share Capital £000	Capital Contribution £000	Retained Earnings £000	Accumulated OCI £000	Total £000
Balance, beginning of year	68,500	24,189	32,525	(4,003)	121,211
Adjustment to retained earnings from adoption of IFRS 15	-	-	(1,361)	-	(1,361)
Transactions with equity holders					
Net income for the year	-	-	11,143	-	11,143
Other comprehensive income/ (loss):					
Re-measurement loss on pension plan	-	-	-	(1,220)	(1,220)
Gain on available for sale assets after tax	-	-	-	22	22
Total comprehensive income / (loss) for the year	-	-	11,143	(1,198)	9,945
Balance, end of year	68,500	24,189	42,308	(5,201)	129,796

Consolidated Statement of Changes in Equity
for the year ended 31 December 2017

	Share Capital £000	Capital Contribution £000	Retained Earnings £000	Accumulated OCI £000	Total £000
Balance, beginning of year	68,500	24,189	3,316	(2,717)	93,288
Transactions with equity holders					
Net income for the year	-	-	29,209	-	29,209
Other comprehensive income / (loss):					
Re-measurement loss on pension plan	-	-	-	(939)	(939)
Loss on available for sale assets after tax	-	-	-	(347)	(347)
Total comprehensive income / (loss) for the year	-	-	29,209	(1,286)	27,923
Balance, end of year	68,500	24,189	32,525	(4,003)	121,211

Forester Life Limited
Company registered number: 02997655

Company Statement of Changes in Equity
for the year ended 31 December 2018

	Share Capital £000	Capital Contribution £000	Retained Earnings £000	Accumulated OCI £000	Total £000
Balance, beginning of year	68,500	24,189	7,344	(4,003)	96,030
Adjustment to retained earnings from adoption of IFRS 15	-	-	(1,361)	-	(1,361)
Transactions with equity holders					
Net income for the year	-	-	13,432	-	13,432
Other comprehensive income / (loss):					
Re-measurement loss on pension plan	-	-	-	(1,220)	(1,220)
Gain on available for sale assets after tax	-	-	-	22	22
Total comprehensive income / (loss) for the year	-	-	13,432	(1,198)	12,234
Balance, end of year	68,500	24,189	19,415	(5,201)	106,903

Company Statement of Changes in Equity
For the year ended 31 December 2017

	Share Capital £000	Capital Contribution £000	Retained Earnings £000	Accumulated OCI £000	Total £000
Balance, beginning of year	68,500	24,189	8,868	(2,717)	98,840
Transactions with equity holders					
Net loss for the year	-	-	(1,524)	-	(1,524)
Other comprehensive income / (loss):					
Re-measurement loss on pension plan	-	-	-	(939)	(939)
Loss on available for sale assets after tax	-	-	-	(347)	(347)
Total comprehensive income / (loss) for the year	-	-	(1,524)	(1,286)	(2,810)
Balance, end of year	68,500	24,189	7,344	(4,003)	96,030

Forester Life Limited
Company registered number: 02997655

Consolidated Statement of Cash Flows
for the year ended 31 December 2018

	2018		2017	
	Group £000	Company £000	Group £000	Company £000
Cash flows from operating activities				
Profit / (loss) for the year	11,143	13,432	29,209	(1,524)
Adjustments for:				
Depreciation, amortisation and impairment	2,589	300	2,589	300
Impairment of Investment in subsidiary	-	86	-	32,738
Change in value of investment property	(140)	(140)	(110)	(110)
Financial income	210,604	210,739	(333,253)	(333,253)
Taxation	(228)	(228)	10,501	(2,947)
	223,968	224,189	(291,064)	(304,796)
Decrease / (increase) in trade and other receivables	4,886	4,886	(1,940)	(4,112)
Decrease / (increase) in trade and other payables	19,322	19,237	(10,360)	9,491
Net movement in investment contracts	(141,673)	(141,673)	396,221	396,221
Decrease in provisions and employee benefits	(82,321)	(82,321)	(51,357)	(51,357)
	(199,786)	(199,871)	332,564	350,243
Tax credit / (paid)	4,944	4,944	(9,142)	(9,142)
Net cash from operating activities	**29,127**	**29,262**	**32,358**	**36,305**
Cash flows from investing activities				
Purchases	(1,122,600)	(1,122,600)	(1,219,928)	(1,219,928)
Sales	1,068,465	1,068,465	1,172,141	1,172,141
Interest received	16,911	16,775	27,660	27,660
Acquisition of intangible assets	173	173	(3,321)	(3,321)
Net cash from investing activities	**(37,051)**	**(37,187)**	**(23,448)**	**(23,448)**
Net (decrease) / increase in cash and cash equivalents	**(7,924)**	**(7,925)**	**8,910**	**12,857**
Cash and cash equivalents at beginning of year	67,178	67,174	58,268	54,317
Cash and cash equivalents at end of year	59,254	59,249	67,178	67,174

All cash and cash equivalents comprise of cash at bank and overnight deposits.

The notes on pages 25 to 70 form an integral part of these Financial Statements.

1 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of the consolidated Financial Statements and the separate Company Financial Statements are set out below. The accounting policies have been applied consistently to comparative periods presented in these statements, unless otherwise stated.

1.1 Basis of Presentation

a) Statement of Compliance
Forester Life Limited (registered number 02997655) is a company incorporated in England and Wales and is resident for tax purposes in the United Kingdom. The Company's registered address is Foresters House, 2 Cromwell Avenue, Bromley BR2 9BF, United Kingdom. The Group Financial Statements for the year ended 31 December 2018 comprise the parent company and its subsidiaries.

The Group and Company Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standard Board ("IASB") and endorsed by the European Union ("EU") effective on or after 1 January 2018. On publishing the parent company Financial Statements together with the Group Financial Statements, the company has chosen to use the exemption in Section 408 of the Companies Act 2006 not to present its individual statement of profit or loss and related notes that form a part of these approved financial statements.

New standards, interpretations and amendments to published standards that have been adopted by the Group and the Company

IFRS 15 'Revenue from Contracts with Customers'
IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control - at a point in time or over time - requires judgement.
The Group and Company has adopted IFRS 15 from 1 January 2018 which resulted in the following amendments to the Group policies:

- The policy in respect of fee revenue from management of investment business and ring fenced fund assets has been updated to clarify that fees related to investment management services are recognised as a revenue over time, as performance obligations are satisfied.
- Deferred acquisition cost policy in respect of investment business has been revised to specify that only incremental costs are eligible for deferral, if recoverable. A new DAC methodology has been developed to comply with the standard.

The Group has adopted IFRS 15 using the cumulative effect method with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18 and related interpretation. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information.

The impact of transition to IFRS 15 on retained earnings as of 1 January 2018 is summarised below:

	2018 Brought Forward Position £000	IFRS 15 impact £000	2018 Brought Forward Position following IFRS 15 £000
Group			
Deferred Acquisition Costs	12,631	(1,361)	11,270
Retained earnings	32,525	(1,361)	31,164
Company			
Deferred Acquisition Costs	12,631	(1,361)	11,270
Retained earnings	7,344	(1,361)	5,983

Following the adoption of IFRS 15 a new DAC methodology has been applied from 1 January 2018. The estimated impact of implementing IFRS 15 on the Group and the Company's statement of financial position as at 31 December 2018 and its statement of Profit and Loss and OCI for the year amounted to £2.7m.
There was no material impact on the Group and Company's cash flows for the year ended 31 December 2018.

Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
In September 2016 IASB issued an amendment to IFRS 4 'Insurance Contracts' that addresses the accounting consequences of the application of IFRS 9 to insurers prior to implementing the new accounting standard for insurance contracts, IFRS 17, which replaces IFRS 4. The amendments are introduced to insurers: for the deferral approach and the overlay approach.

The overlay approach provides an option for all issuers of insurance contracts to adjust profit or loss for eligible financial assets by removing any additional accounting volatility that may arise from applying IFRS 9 before IFRS 17 is implemented. The deferral approach provides companies whose activities are predominantly related to insurance, an optional temporary exemption from applying IFRS 9 until January 1, 2021.

FLL has determined that it is eligible for, and has elected to apply, the temporary exemption from IFRS 9 as specified in IFRS 4. FLL's business activities are predominantly connected to insurance, its insurance contract liabilities and non-derivative investment contract liabilities measured at FVTPL make up a significant part of the FLL's total liabilities They exceed the 90% threshold as of 31 December 2018, the required assessment date.

Other interpretations and amendments
The following interpretation and amendments to published standards, applicable from 1 January 2018, have been adopted, none of which has material impact on the Group's or the Company's Financial Statements.

- IAS 40 Transfer of Investment Property
- Annual improvements to IFRS Standards 2014-2016 cycle (which contains amendments to:
    - IFRS 7 (Financial Instruments: Disclosures)
    - IFRS 10 (Consolidated Financial Statements)
    - IAS 19 (Employee Benefits)

- IFRIC 22 (Foreign Currency Transactions and Advance Consideration)

Standards, interpretations and amendments to published standards that have been issued but not yet in effect and have not been adopted early by the Group or the Company

IFRS 16 'Leases'
IFRS 16 Leases applies to annual periods beginning on or after 1 January 2019 and replaces IAS 17. The standard specifies how to recognise, measure, present and disclose leases. The standard requires that at the commencement date of the lease, a lessee will recognise a lease liability and a right-of-use asset, unless the term is 12 months or less, or the underlying asset has a low value. This is a change from the current accounting policy which requires leases to be classified as either an operating lease or a finance lease. The Company and its subsidiaries are not classified as the lessee under any operating leases and therefore there is no impact.

IFRS 17 'Insurance Contracts'
IFRS 17 Insurance Contracts, replacing IFRS 4, is effective for the 2021 year-end. The standard sets up new requirements for recognising, measuring, presenting and disclosing amounts arising from insurance/reinsurance contracts.

The objective is to enable users of the Financial Statements to assess the effects that insurance contracts have on the financial position, performance and cash flows.
It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of:

- Discounted probability-weighted cash flows
- An explicit risk adjustment, and
- A contractual service margin ("CSM") representing the unearned profit of the contract which is recognised as revenue over the coverage period.

The new standard will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features. Early indication is that whilst some leverage can be taken from Solvency II, there will be a large amount of additional work for insurers.

It is anticipated that the Company will be impacted significantly on financial and operational levels, therefore is required to make notable investments to ensure full compliance of the new standard.

IFRS 9 Financial Instruments
IFRS 9 Financial Instruments: Recognition and Measurement modifies the classification and measurement of financial assets and some contracts to buy and sell non-financial items – it has replaced IAS 39. It requires an entity to recognise a financial asset or liability in its statement of financial position. The asset or liability is measured at fair value plus or minus transaction costs that are directly attributable.
The mandatory effective date for applying IFRS 9 is for annual periods beginning on or after 1 January 2018.

FLL has elected to apply a temporary exemption from IFRS 9 as specified in the amended IFRS 4 'Insurance Contracts'.

IFRIC 23 'Uncertainty over Income Tax Treatment'
IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency.

The Annual Improvements to IFRS Standards 2015 -2017 Cycle (Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23) have been assessed, there is no material impact.

b) Consolidation
The Group consolidates those entities it is deemed to control. The degree of control is determined by the ability of the Group to govern the financial and operating policies of an entity in order to obtain benefits. The results of subsidiaries are included in the financial statements from the date control commences to the date control ceases. All inter-company transactions are eliminated on consolidation.

c) Use of estimates and judgments
The preparation of these Financial Statements requires management to make judgements, estimates and underlying assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised. The use of estimates and assumptions has the most significant effect on the measurement of insurance contract liabilities; amortisation of deferred acquisition costs; determination of employee benefit assets and liabilities; income taxes; and impairment provisions.

In the measurement of insurance contract liabilities the Company included the assumptions of lapse rates and mortality rates and judgements related to expense allocations. The use of estimates and assumptions is discussed in more detail in Note 13 of these Financial Statements and sensitivity analysis can be found in Note 20.

The use of estimates and assumptions in the measurement of employee benefit obligations can be found in the Note 6.

1.2 Investment property
Investment properties comprise real estate investments held to earn rental income or for capital appreciation. Investment properties are initially recognised at the purchase price including transaction costs. These properties are subsequently measured at fair value with changes in value recorded in investment income. Investment properties are appraised annually.

1.3 Financial assets

a) Financial investments
At initial recognition, financial investments, comprising bonds and equities, are designated or classified as Fair Value Through Profit or Loss ("FVTPL") or Available for Sale ("AFS").

Financial investments supporting insurance and investment contract liabilities are designated as FVTPL in order to reduce measurement or recognition inconsistencies that would otherwise arise as a result of measuring assets and the corresponding liabilities on different bases. The fair value of unit linked investment contract liabilities is determined by reference to the assets supporting these liabilities. Therefore, changes in the fair value of unit linked investment contract liabilities primarily offset changes in the fair value of the financial investments supporting these liabilities.
Financial investments are also classified as FVTPL assets if they are acquired principally for the purpose of selling or repurchasing in the near term. Financial investments not backing liabilities are classified as AFS assets.

Bonds and equities are designated as either FVTPL or AFS and both are initially recorded at fair value on the trade date with AFS recorded at fair value plus transaction costs.

The fair value of publicly traded bonds is determined using quoted market bid prices. For non-publicly traded bonds, fair value is determined using an indicative price supplied by a broker.

The fair value of publicly traded equities is determined using quoted market bid prices. Transaction costs on FVTPL equities are expensed. Transaction costs directly attributable to AFS equities are capitalised as part of the original cost of the equity.

Changes in the fair value of FVTPL on bonds and equities are recorded in net unrealised gains/ (losses) on fair value through profit or loss on investments, a component of net income in the Statement of Comprehensive Income.

Changes in the fair value of AFS bonds and equities are recorded in net gains/ (losses) on AFS assets, a component of Other Comprehensive Income (OCI).

Interest on AFS bonds is recorded in investment income using the effective interest rate method.

b) Cash and cash equivalents
Cash and cash equivalents comprise cash and bank balances and bank deposits that have an original maturity of three months or less.

The carrying value of cash and cash equivalents approximates their fair value.

c) Loans to policyholders
Loans to policyholders are classified as loans and receivables and are carried at cost less any impairment, which in most cases equals their unpaid balance.

d) Financial asset impairments
AFS financial assets are assessed individually for impairment at each date of the Statement of Financial Position. The Company considers various factors in assessing impairments, including but not limited to the financial condition and near term prospects of the issuer; specific adverse conditions affecting an industry or region; a significant and prolonged decline in fair value below the cost of an asset; bankruptcy or default of the issuer; and delinquency in payments of interest or principal. Bonds are deemed to be impaired when there is no longer reasonable assurance of timely collection of the full amount of the principal and interest due, with the impairment being based on an assessment of the recoverable amount.

When an AFS asset is identified as impaired, the net loss in OCI is reclassified to net realised gains (losses), a component of net income. Any further reduction in value subsequent to the initial recognition of impairment is also included in net income in the period in which the change occurs.

An impairment loss on AFS assets is reversed if there is objective evidence of a permanent recovery in the value of the asset based on an event occurring after the impairment loss was initially recognised. Any such reversal for an impaired AFS debt security is reflected in net income. Any subsequent recovery in the fair value of an impaired AFS equity security is recognised in OCI.

1.4 Investment in subsidiaries
The parent company accounts for investments in subsidiaries at cost less any accumulated impairment.

1.5 Intangible assets
a) Communication Workers Friendly Society ("CWFS") management contract
The CWFS management contract asset represents the right to manage the insurance contracts that were acquired in respect of CWFS in 2011. The initial fair value was determined by reference to the amount paid by means of an injection into the segregated CW insurance fund. It is amortised straight line over the life of those contracts, expiring in 2022.

IAS 38.88 defines an intangible asset with finite life as an asset with a limited period of benefit to the entity. As there is no reliable market value available to evaluate the value in use of the asset, the most appropriate method will be the present value of future profits emerging from the CW business. If there are indicators of impairment then the recoverable amount is determined and the asset is written down to the recoverable amount.

b) Child Trust Fund ("CTF") management contract
The CTF management contract asset represents Forester's right to manage its asset management contracts. The asset was acquired as part of the acquisition of the Tunbridge Wells Equitable Friendly Society ("TWEFS") transaction and the initial fair value was determined based on the consideration paid and the other assets acquired. It is amortised straight line over the life of the contracts acquired expiring in 2028.

IAS 38.88 defines an intangible asset with finite life as an asset with a limited period of benefit to the entity. As there is no reliable market value available to evaluate the value in use of the asset, the most appropriate method will be the present value of future profits emerging from the CTF business. If there are indicators of impairment then the recoverable amount is determined and the asset is written down to the recoverable amount. The impairment loss is charged to profit or loss in the related financial year.

Deferred acquisition costs

Deferred acquisition costs ("DAC") represent incremental costs incurred at the time of issue of an investment contract and acquisition costs incurred in respect of insurance contracts. DAC is capitalised to the extent that it can be recovered through future expected margins on insurance contracts or offset against management charges on investment contracts and is amortised over the lesser of 10 years or the life of the contract. The rate of amortisation is consistent with the pattern of emergence of future expected margins on insurance contracts and the recognition of the related fee income on investment contracts. DAC on lapsed or terminated contracts is written off immediately. DAC is further reviewed by category of business at the end of each reporting period and is written down by the amount that is considered to be no longer recoverable.

1.6 Insurance and investment contracts

Product contracts are classified as insurance or investment contracts based on the level of insurance risk that the Company accepts from the policyholder.

a) Insurance contract liabilities
Insurance contracts are those contracts that transfer significant insurance risk to the Company. Insurance risk exists when the Company agrees to compensate policyholders or beneficiaries of an insurance contract for specified future events, such as death or disability that may adversely affect the policyholder and whose amount or timing are uncertain. Insurance contracts are shown as insurance contract liabilities on the statement of financial position.

Non Profit insurance contracts

Non-profit insurance contracts are written in the Group's Other Business Fund ('OBF').

The Company is aligned with the requirements of Solvency II where insurance contract liabilities are based on the sum of a Best Estimate Liability and a Risk Margin. The Best Estimate Liability is intended to be equally likely to prove to be too high as too low, and the Risk Margin is intended to allow for the cost of the capital which another insurer would need to allocate to take on the business in an arms' length transaction.

As a result, non-profit liabilities in the OBF are set equal to the sum of Best Estimate Liabilities and Risk Margin. The Best Estimate Liabilities have been calculated using the gross premium method (GPM) and are reported gross of ceded reinsurance. The GPM requires assumptions to be made about future best estimate cash flows, and there is significant risk that actual results will vary from those estimates. The risk varies in proportion to the length of the estimation period and the potential volatility of each assumption.

Under the Solvency II approach, the Best Estimate Liability for an insurance contract may be negative, and any such negatives remaining within the liabilities are not set to zero.

To recognise uncertainty in establishing these estimates and to allow for possible deviation in experience, a Risk Margin is added to the Best Estimate Liabilities. The Risk Margin is calculated in line with that used for Solvency II regulation purposes, with the following clarifications:

- When assessing multiple direction persistency stresses, the relevant stress will be the direction that bites at a company level for all contracts, not just non-profit insurance contracts in the OBF.
- The cost of capital used in the Risk Margin is currently the 6% per annum laid down by the Solvency II regulations, but the Company reserves the right to amend this estimate should this be appropriate in the future.

With Profits insurance contracts

The liabilities of each of the closed-to-new-business with-profits funds have been set equal to the total assets of those funds. This reflects the fact that the totality of the assets of these funds will be distributed to the relevant policyholders of those funds. Separately, the Solvency II regime tests to ensure that each of these funds is able to meet its Best Estimate Liabilities (which includes the value of the guaranteed benefits), Risk Margin and Solvency II capital requirements. Should any of these funds not be able to fully cover its own Solvency II requirements, then the balance would be covered by the OBF.

b) Reinsurance assets

The Company enters into reinsurance arrangements with other insurers in order to limit its exposure to significant losses. Maximum limits have been established for the retention of risks associated with life insurance policies by line of business. Risks in excess of these limits are reinsured with well-established, highly rated reinsurers. Reinsurance assets are measured consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of each reinsurance arrangement and with accepted actuarial practice in the UK.

Reinsurance transactions do not relieve the Company of its primary obligation to policyholders. Losses could result if a reinsurer fails to honour its obligations. Reinsurance assets are reviewed for impairment on a regular basis for any events that may trigger impairment. Impairment occurs when there is objective evidence that the Company will not be able to collect amounts due under the terms of the contract. Any impairment loss is recorded in net income in the statement of comprehensive income.

Premiums for reinsurance ceded are presented as ceded premiums and reinsurance recoveries on claims incurred are recorded as ceded policyholder benefits. The net balance with reinsurers with respect to ceded premiums and paid claims is recorded as an amount receivable from or payable to reinsurers and included in other assets or other liabilities, respectively, on the statement of financial position.

c) Investment contract liabilities – Unit Linked

Investment contracts are those contracts that transfer financial risk, with no significant insurance risk, to the Company. Investment contracts include unit linked contracts, deferred annuities with no guarantees, settlement options with no life contingency and various amounts on deposit.

Investment contract liabilities are recorded at fair value. Deposits to and withdrawals from investment contracts increase or decrease the liability respectively. Fee income derived from unit linked contracts is reported in other operating income in the statement of comprehensive income.

Investment income and changes in the fair value of the unit linked investments are offset by a corresponding change in the unit linked liabilities.

d) Investment contract liabilities – with Discretionary Participation Features ('DPF')

This category mainly comprises the Company's Deferred Pensions line of business. The business has been categorised as a Ring Fenced Fund under Solvency II, and has been accounted for similarly to with profits business, whereby total liabilities are set equal to the fund assets. A portion of the excess of the fund assets over the guaranteed liabilities accrues to the shareholder, whereby the shareholder receives $1/9^{th}$ of bonuses allocated to the policyholders. This portion is recognised within the total liability until each bonus declaration is made.

1.7 Income taxes

The tax expense for the period comprises current and deferred taxes. Tax is recognised as an expense or income in profit or loss, except when it relates to an item included in OCI or equity, in which case tax is also recognised in OCI or equity as appropriate.
The current tax expense (recovery) is based on taxable income (loss) for the year under UK tax regulations and the enacted or substantively enacted tax rate for the year and any adjustment to tax payable in respect of previous years.

Deferred taxes are accounted for using the liability method, whereby tax expected to be payable or recoverable is calculated on temporary differences arising between the carrying amounts of assets and liabilities under IFRS and the tax assets and liabilities calculated under the regulations of the relevant tax authority. Temporary differences, tax losses and tax loss carry-forwards are measured at the tax rates that are expected to be applied to those differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets are recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable income will be available against which these tax assets can be utilised. The carrying amount of recognised deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it becomes probable that future taxable income will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are offset if a legally enforceable right to offset current income tax assets and liabilities exists.

1.8 Employee benefits

The Company provides access to a defined contribution pension plan for eligible employees. This plan is administered by the Company's parent company, Forester Holdings (Europe) Ltd.

In addition, the Company has a defined benefit plan that was acquired as part of the acquisition of The Tunbridge Wells Equitable Friendly Society. All expenses of this scheme and the cost of eliminating the scheme deficit are charged to the TW Fund.

a) Defined benefit plan
A defined benefit plan is a post-employment benefit plan under which the Company pays variable contributions into a separate entity in order to secure certain benefits. The plan liabilities are valued periodically, and to the extent that the liabilities exceed the assets the Company has an obligation to increase its contributions to meet the deficit. Re-measurements of the liability, comprising actuarial gains and losses and the return on plan assets less interest incurred, are recognised in other comprehensive income.

b) Defined contribution plan
A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an operating expense in the statement of comprehensive income in the periods during which services are rendered by employees.

c) Other employee benefits
The Company also provides health benefits to eligible employees who are absent from work due to disability. The cost is expensed as incurred.

1.9 Revenue recognition
Revenue is recognised as follows:

a) Insurance contracts
Premiums are recognised as revenue when they become due and collection is reasonably assured. On recognition, the actuarial liability is calculated with the result that benefits and expenses are matched to premium revenue.

b) Fees
Fees are earned from the management of investment business and ring-fenced assets. Fees are recognised as revenue over time when the performance obligation to the customer has been satisfied.

c) Investment income
Investment income, net of investment expenses, realised gains (losses) on the sale of investments and changes in the fair value of FVTPL assets are recorded in investment income within the statement of comprehensive income. Changes in the fair value of AFS assets are recognised in OCI. Upon de-recognition of an AFS asset the cumulative gain or loss that was previously recognised in OCI is recognised in the income statement.

Interest and rental income is recognised on an accruals basis and dividends are recognised when they are declared. Interest on AFS assets is recognised on an effective interest rate basis.

1.10 Leases
Leases are classified as operating leases when a significant portion of the risks and rewards of ownership is retained by the lessor. Payments made under operating leases are expensed on a straight-line basis over the period of the lease. Where the Company is the lessor, the income is recognised on a straight-line basis over the lease term.

Investments in a lease that transfers substantially all the risks and rewards of ownership to the lessee are classified as a finance lease. The Company is the lessor under a finance lease and the investment is recognised as a receivable at an amount equal to the net investment in the lease, which is represented as the present value of the minimum payments due from the lessee and is presented within the Statement of Financial Position. Payments received from the lessee are apportioned between the recognition of the finance lease income and the reduction of the finance lease receivable. Income from the finance lease is recognised in the Consolidated Statement of Comprehensive Income at a constant periodic rate of return on the Company's net investment in the finance lease.

1.11 Provisions and contingent liabilities

A provision is recorded when it is probable that there will be a future outflow of resources and the amount can be reliably measured. If the event resulting in a future obligation is less than probable but greater than remote, or the amount cannot be reliably estimated, a contingency is disclosed in the notes to the Financial Statements.

2 GROSS WRITTEN PREMIUMS

a) Analysis of long-term business premiums

	2018		2017 (Restated)	
	Gross	Net	Gross	Net
	£000	£000	£000	£000
Life contracts	23,667	23,159	28,468	27,765
Pension contracts	3,641	3,433	3,717	3,717
Total	27,308	26,592	32,185	31,482
Participating contracts	23,157	22,655	27,611	27,088
Non-participating contracts	3,673	3,459	4,140	3,960
Unit linked contracts	478	478	434	434
Total	27,308	26,592	32,185	31,482
Periodic premiums	26,063	25,347	30,820	30,117
Single premiums	1,245	1,245	1,365	1,365
Total	27,308	26,592	32,185	31,482

There was an error in the classification of premiums in the 2017 accounts and therefore the amounts have been restated.

b) Analysis of new long-term business premiums, defined as those which arise from new policies written during the year as distinct from premiums received on existing policies. All new business in 2018 and 2017 was in non-participating contracts.

	2018		2017 (Restated)	
	Gross	Net	Gross	Net
	£000	£000	£000	£000
Life contracts	475	475	522	522
Pension contracts	1,965	1,965	2,694	2,694
Total	2,440	2,440	3,216	3,216
Periodic premiums	1,213	1,213	1,303	1,303
Single premiums	1,227	1,227	1,913	1,913
Total	2,440	2,440	3,216	3,216

There was an error in the disclosure of new business in the 2017 accounts and therefore the amounts have been restated.

3 OPERATING EXPENSES

A breakdown of operating expenses by nature is provided below:

	2018 £000	2017 £000
Employee benefits		
Salaries, benefits	6,592	5,332
Social security costs	1,211	985
Pension plan expenses	753	817
	8,556	7,134
Head office staff costs	9,320	8,772
Amortisation of intangible assets	2,589	2,589
Commissions to third parties	-	1,079
Administration costs	3,445	2,742
Technology costs	4,896	3,400
Legal and professional costs	2,828	3,052
Auditor's remuneration	430	530
Other expenses	4,179	2,786
Total operating expenses	36,243	32,084

The average number of employees during the period, all of whom were sales personnel, was 171 (2017: 162). Head office head count is not included as staff is employed by the immediate parent company, Foresters Holding (Europe) Limited.

4 AUDITOR'S REMUNERATION

	2018 £000	2017 £000
Audit of these financial statements	243	302
Amounts receivable by the company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the company	35	51
All other services	152	177
Total amounts receivable	430	530

In addition £5,000 (2017: £5,150) was charged for the audit of Foresters Investments Limited and Forester Fund Management Limited. This was borne by the Group's holding company Forester Holdings (Europe) Limited.

5 DIRECTORS' EMOLUMENTS

The aggregate amount of Directors' emoluments, including pension scheme contributions, was as follows:

	2018 £000	2017 £000
Directors		
Emoluments	679	641
Payable to one (2017: one) Director under a long-term incentive plan	172	104
Pension contributions to money purchase scheme	49	46
	900	791

The aggregate of emoluments receivable by the highest paid Director, including retirement benefits of £49,000 (2017: £46,000), was £716,000 (2017: £641,000).
Retirement benefits accrued under money purchase schemes to one Director (2017: one Director).

6 EMPLOYEE BENEFIT OBLIGATION

Defined contribution pension plan
The immediate holding company, Forester Holdings (Europe) Limited, operates a defined contribution pension scheme for the Group's employees. Employer's pension contributions were £1,043,000 (2017: £817,000).

Defined benefit pension plan
The Company acquired the assets and liabilities of the Tunbridge Well Equitable Friendly Society (TWEFS) retirement benefit scheme in 2013. A number of employees and former employees are members of this scheme, which closed to future accruals on 28 February 2011.

A full actuarial valuation was carried out as at 30 June 2017 in accordance with the scheme funding requirements of the Pensions Act 2004. According to the 2017 valuation, the company agreed with the trustees that it would aim to eliminate the deficit over a period of 6 years and 6 months from 30 June 2017 by the payment of annual contributions of £1,620,000 in respect of the deficit. In addition and in accordance with the actuarial valuation, the company has agreed with the trustees that it will meet expenses of the scheme and levies to the Pension Protection Fund.

A valuation was carried out as at 31 December 2018 showing a deficit on the scheme of £7,575,000 (2017: £7,333,000).

Management implemented a stop-loss arrangement in place from the 1st September 2016 whereby the Tunbridge Wells Ring Fenced Fund (TW RFF) paid a £4,299,000 reinsurance premium to the OBF and in return any increase to the pension deficit greater than £5,719,000 (the deficit at 31.12.2015), plus interest, is borne by the OBF rather than the TW RFF. All future increases to the pension deficit will be borne by the OBF through the reinsurance arrangement. The pension scheme movement will continue to be recorded in the TW RFF as per normal IAS 19 rules but the P&L impact negated by a reinsurance claim on the OBF.

As at 31st December 2018, the pension liability is £7,575,000 (2017: £7,333,000) and given the arrangement in place, £5,790,810 (2017: £3,749,145) of the deficit is borne by the Company's shareholders.

The amounts recognised on the statement of financial position are:

	2018 £000	2017 £000
Present value of funded obligations	(33,757)	(35,482)
Fair value of scheme assets	27,825	28,149
Deficit	(5,932)	(7,333)
Additional liability to reflect present value of committed future contributions	(1,643)	-
Net liability at 31 December	(7,575)	(7,333)

A minimum funding assessment as required under IAS 19 has been carried out. The assessment showed a liability position of £7.6m versus the IAS 19 valuation of £5.9m.

After taking into consideration the requirements set out in IFRIC 14, in particular IFRC 14 "When a minimum funding requirement may give rise to a liability" to determine whether an adjustment to increase IAS 19 liability might be required; IFRIC 14 states that if an entity has an obligation under a minimum funding requirement to pay contributions to cover an existing shortfall on the minimum funding basis in respect of services already received, the entity determines whether the contributions payable will be available as a refund or reduction in future contributions after they are paid into the plan. To the extent that the contributions payable will not be available after they are paid into the plan, the entity recognises a liability when the obligation arises.

The Management took a view based on information available at the moment to apply the most prudent view, and agreed to an adjustment of £ 1.6m, thus increasing pension liabilities provision.

The actual return on plan assets in the period was a loss of £978,000 (2017: gain of £1,201,000). The amounts recognised in the income statement are:

Expenditure	**2018 £000**	**2017 £000**
Net interest	157	196
Guaranteed Minimum Pensions	479	-
	636	196

There is no current service cost as benefit accrual ceased in 2011. No past service benefit improvements have been implemented during the accounting period.

The English High Court ruling in Lloyds Banking Group Pension Trustees Limited v Lloyds Bank plc and others was published on 26 October 2018, and held that UK pension schemes with Guaranteed Minimum Pensions (GMPs) accrued from 17 May 1990 must equalise for the different effects of these GMPs between men and women. The case also gave some guidance on related matters, including the methods for equalisation.

The benefit obligations have been adjusted assuming the following:

- The minimum allowable method will be applied to past and future benefit payments
- There will be no limit on the "look-back" period for rectification
- No allowance for members who no longer have GMP liabilities within the scheme (members who have died without a spouse and members who have transferred out for example).

The allowance has been estimated based on average impacts for schemes with similar service periods and benefit structures.

The present value of plan liabilities is measured by discounting the best estimate of future cash flows to be paid out by the plan using the projected unit credit method. The value calculated in this way is reflected in the net liability in the balance sheet as shown above.

The projected unit credit method is an accrued benefits valuation method. In assessing this figure for the purpose of these disclosures, allowance has been made for future statutory revaluation of benefits up to retirement. At the balance sheet date the accumulated benefit obligation was £33,757,000 and the GMP reserve was estimated to be 1.44% of the obligation.

Changes in the value of defined benefit obligations are as follows:

	2018 £000	**2017 £000**
Opening defined benefit obligation	35,482	34,222
Interest cost	840	943
Actuarial losses:		
Change in financial assumptions	(2,078)	1,393
Past service cost arising from GMP equalisation	479	-
Benefits paid	(966)	(1,076)
Closing defined benefit obligation	33,757	35,482

Changes in the fair value of scheme assets are as follows:

	2018	2017
	£000	£000
Opening fair value of scheme assets	28,149	26,404
Interest income	683	747
Return on plan assets excluding interest income	(1,661)	454
Employer contributions net of charges	1,620	1,620
Benefits paid	(966)	(1,076)
Closing fair value of scheme assets	27,825	28,149

The major assumptions used by the actuary as at 31 December were:

	2018	2017
Rate of increase in pensions in payment (Limited Price Indexation)	3.00%-3.80%	3.00%-3.80%
Discount rate	2.70%	2.40%
Inflation assumption (RPI)	3.45%	3.45%
Mortality: assumed life expectancy at age 65	Years	Years
Male retiring now	21.8	21.9
Female retiring now	23.7	23.7
Male retiring in 20 years	22.8	23.0
Female retiring in 20 years	24.9	25.0

As the defined benefit scheme has been closed to future accruals since 1 March 2011 the rate of increase in salaries is not applicable because it has no effect on the actuarial liabilities.

The sensitivity to changes in the assumptions has been estimated as follows:

Assumption	Change in assumption	Change in liabilities
Discount rate	Increase of 1.00% p.a. Decrease of 1.00% p.a.	Decrease by 16.9% Increase by 20.3%
Rate of future revaluation of deferred pensions	Increase of 0.25% p.a. Decrease of 0.25% p.a.	Increase by 1.4% Decrease by 1.3%
Rate of future pension increases	Increase of 1.00% p.a. Decrease of 1.00% p.a.	Increase by 5.6% Decrease by 5.3%
Mortality	Increase in life expectancy of +1 year Increase in life expectancy of -1 year	Increase by 3.9% Decrease by 3.6%

The average duration of the defined benefit obligation at 31 December 2018 is 19 years (2017: 18 years).

The assets in the scheme were:

	2018 £000	2017 £000
UK equities	615	618
Overseas equities	8,028	8,069
Gilts	4,247	4,268
Corporate bonds	5,581	5,805
Property	1,272	1,278
Cash	1,469	1,732
LDI	5,685	5,446
Others	928	933
Total	27,825	28,149

7 INCOME TAX EXPENSE

a) Income tax expense

Current and deferred taxes are included in income taxes on the Consolidated Statement of Comprehensive Income as follows:

	2018 £000	2017 £000
Corporation tax expense		
Current period	3,863	9,897
Adjustment to prior periods	(623)	(4,053)
	3,240	5,844
Deferred tax (credit) / expense		
Relating to the origination and reversal of timing differences	(2,853)	604
Adjustment to prior periods	(615)	4,053
Income tax (credit) / expense	(228)	10,501

b) Income taxes included in Statement of Other Comprehensive Income (OCI)

Other comprehensive income/ (loss) is presented net of income taxes. The following tax expenses/ (credits) were included in OCI.

	2018 £000	2017 £000
Corporation Tax		
Gains / (losses) on debt securities	-	-
Deferred tax		
Unrealised gains / (losses) on available-for-sale assets	4	(67)
Adjustment to prior periods		
Reduction in deferred tax rate	-	-
Income taxes included in OCI	4	(67)

c) Reconciliation of effective tax rate

Income tax expense differs from the amount that would be computed by applying the UK statutory tax rates to income before taxes for the following reasons:

	2018 £000	2017 £000
Profit for the period before taxation	10,915	39,710
UK tax at 19% (2017: 19.25%)	2,074	7,645
Tax on ring fenced funds*	(2,117)	2,722
Non-taxable income less non-deductible expense	-	13
Effect of reduction in Corporation Tax rate on deferred tax	1,054	-
(Over) / Under provided in previous periods	(1,239)	122
Income tax expense	(228)	10,501

**The surplus after tax for the ring fenced funds is for the benefit of policyholders, and the allocation of this surplus is treated as a pretax expense in these Financial Statements.*

d) Change of tax rate

Reductions in the corporation tax rate from 20% to 19% (effective from 1 April 2017) and 18% (effective from 1 April 2020) were substantively enacted. The Finance Act 2016 enacted a further reduction from April 2020 to 17%.

This rate has been taken into account in determining the deferred tax asset.

e) Deferred income taxes

In certain instances the tax basis of assets and liabilities differs from the carrying amount in the consolidated financial statements. These differences will give rise to deferred income tax assets and liabilities. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when deferred tax assets and liabilities relate to income taxes levied on the taxable entity.

The deferred tax assets and liabilities at 31 December 2018 have been calculated based on the rate at which they are expected to reverse.

The net movement in the deferred tax liability account is as follows:

Group and company	2018 £000	2017 £000
Beginning of year	6,894	2,257
Statement of net income: (credit)/expense		
- Adjustment to prior periods	(2,186)	4,053
- Effect of reduction in Corporation Tax rate on Deferred Tax	(69)	-
- Movements in other timing differences	(4,050)	584
End of year	589	6,894

The net movement in the deferred tax asset account is as follows:

Group	**2018 £000**	**2017 £000**
Beginning of year	14,744	18,817
Statement of net income: credit/(expense)		
- Adjustment to prior periods	(1,571)	-
- Effect of reduction in Corporation Tax rate on Deferred Tax	(1,123)	-
- Utilisation of Tax Losses	(2,504)	(4,073)
End of year	9,546	14,744

Company	**2018 £000**	**2017 £000**
Beginning of year	14,744	5,369
Statement of net income: credit/(expense)		
- Transfer of CTF business	-	13,448
- Adjustment to prior periods	(1,571)	-
- Effect of reduction in Corporation Tax rate on Deferred Tax	(1,123)	-
- Utilisation of Tax Losses	(2,504)	(4,073)
End of year	9,546	14,744

Unrecognised group and company deferred tax assets

Deferred tax assets have not been recognised in respect of:

	2018	**2017**
	£000	**£000**
Tax losses	7,081	5,510
	7,081	5,510

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the future tax benefit through future taxable profits is probable.

8 INTANGIBLE ASSETS AND DEFERRED ACQUISITION COSTS

Group and company

	2018		2017	
	Group £000	Company £000	Group £000	Company £000
Deferred acquisition costs – investment business	12,377	12,377	12,631	12,631
Deferred acquisition costs – insurance business	-	-	1,279	1,279
Management contract for CWFS business	980	980	1,280	1,280
Management contract for CTF business	22,890	-	25,179	-
	36,247	13,357	40,369	15,190

Deferred acquisition costs – investment business

The adoption of IFRS 15 requirements, in particular, the requirement that identifiable incremental acquisition costs of obtaining a contract are eligible for deferral only if the entity expects to recover these costs, resulted in an adjustment to the brought forward retained earnings of £1,361,000.

In line with the Standard, the retrospective method has been applied and on 1 January 2018, £1,361,000 of DAC was written down through retained earnings.

	Investment business	
	2018 £000	2017 £000
Beginning of year	12,631	9,326
Adjustment to opening balance from adoption of IFRS 15	(1,361)	-
Additions	2,902	5,863
Amortisation	(1,795)	(2,558)
End of year	12,377	12,631

Further details on the adjustment to opening balance from the adoption of IFRS 15 can be found in Note 1.1.

Deferred acquisition costs – insurance business

	Insurance business	
	2018 £000	2017 £000
Beginning of year	1,279	1,264
Additions	-	282
Amortisation	-	(267)
Impairment	(1,279)	-
End of year	-	1,279

CWFS management contract

On 1 August 2011, FLL acquired the policies and associated assets and liabilities of the Communication Workers Friendly Society Ltd (CWFS), increasing its assets under management by approximately £96m. For regulatory purposes the policies are administered and accounted for in a ring fenced fund.

In accordance with the acquisition agreement, the Company paid £3.3m into the CW ring fenced fund at the date of acquisition, thereby increasing the unallocated surplus of the CW with-profits fund by the same amount. A corresponding intangible asset, representing the value of the contract to manage the CWFS policies, was also recognised. This asset is being amortised over the life of the CW policies, as shown below.

Group and company	**2018 £000**	**2017 £000**
Gross carrying value, beginning and end of year	3,300	3,300
Accumulated amortisation, beginning of year	2,020	1,720
Charge in the year	300	300
Accumulated amortisation, end of year	2,320	2,020
Net book value, beginning of year	1,280	1,580
Net book value, end of year	980	1,280

Management contract for CTF business

On 3 April 2013 the Company acquired Tunbridge Wells Equitable Investments Company Ltd, subsequently renamed FFML, for £53m. The initial fair value of the management contract asset was determined upon acquisition with reference to the purchase price paid and the fair value of the other assets and liabilities acquired. The asset is being amortised over the life of the contracts acquired. The movement of the asset in the period is shown below:

Group

	2018 £000	**2017 £000**
Gross carrying value, beginning and end of year	31,014	31,014
Accumulated amortisation, beginning of year	5,836	3,547
Charge in the year	2,289	2,289
Accumulated amortisation, end of year	8,125	5,836
Net book value at 1 January	25,178	27,467
	22,889	25,178

9 INVESTMENT PROPERTY

Movements in investment property balances were as follows:

Group and company	**2018 £000**	**2017 £000**
Balance, beginning of year	5,560	5,450
Additions at cost	-	-
Disposals	-	-
Revaluation	140	110
Balance, end of year	5,700	5,560

The Company has freehold title to its investment property. The property was valued as at 31 December 2018 by Adrian G Tutchings FRICS, of Linays Commercial Limited, who was acting as an external valuer. This property was valued at Market Value in accordance with the current Valuation Standards as stated within the Red Book including Valuation Technical & Performance Standards published by the Royal Institution of Chartered Surveyors. The market value has been ascertained through a review of the sale price of properties within the local area from which a square meter unit values have been derived. The square meter unit value has then been multiplied by user office space.

All investment properties are categorised as Level 3 assets in the fair value hierarchy with no movement between categories during the year.

Related amounts included in the consolidated statement of comprehensive income were as follows:

	2018 £000	**2017 £000**
Rental income	369	346
Revaluation of properties	140	110
Net property income	509	456

10 INVESTMENT IN SUBSIDIARIES

Company

	2018 £000	**2017 £000**
Investment in subsidiaries	18,976	19,062

All subsidiaries have been assessed and impaired to their net book value. The investment holding was reduced in the year due to the reduction in the net asset value of its subsidiary.

The Company's subsidiaries, which are all registered in England and Wales, are as follows:

Subsidiary Name	***Class of shares held***	***Proportions held***		***Principal activity***
		Directly	**Indirectly**	
Forester Investments Limited	Ordinary	100%	-	Holding company
Forester Fund Management Ltd	Ordinary	-	100%	Savings account provider
Tunbridge Wells Equitable Friendly Society Trustee Company Ltd	n/a	-	-	Non-trading

For each of the above companies, voting rights exactly match the proportion of shares held.

Tunbridge Wells Equitable Friendly Society Trustee Company Ltd is limited by guarantee and therefore holds no share capital. The Company has the power to appoint members of the board.

All subsidiaries have a registered address of Foresters House, 2 Cromwell Avenue, Bromley BR2 9BF, United Kingdom.

11 FINANCIAL INVESTMENTS

Summary of financial investments

The carrying values and fair values of invested assets are shown as follows:

	Fair value through profit or loss	**Available for sale**	**Total carrying value**	**Total fair value**
	£000	**£000**	**£000**	**£000**
As at 31 December 2018				
Bonds	891,522	-	891,522	891,522
Equities*	2,985,969	74,980	3,060,949	3,060,949
Derivatives and Collateral	13,199	-	13,199	13,199
Total financial investments	3,890,690	74,980	3,965,670	3,965,670
As at 31 December 2017	**£000**	**£000**	**£000**	**£000**
Bonds	867,518	37,793	905,311	905,311
Equities*	3,212,265	20,402	3,232,667	3,232,667
Derivatives	1,050	-	1,050	1,050
Total financial investments	4,080,833	58,195	4,139,028	4,139,028

All equities invested during the year were held in collective investment schemes. The collective investment scheme includes investments in equity and bonds. There were no transfers between available for sale assets and assets classified as fair value through profit and loss

a) Fair value hierarchy

The Company follows a fair value hierarchy to categorise the inputs to the valuation techniques used to measure the fair value of financial assets and liabilities. The three levels of the hierarchy are:

Level 1
Fair value is based on quoted market prices in active markets for identical assets or liabilities.

Level 2
Fair value is based on observable inputs other than Level 1 prices, such as quoted market prices for similar, but not identical, assets or liabilities in active markets, quoted market prices for identical assets or liabilities in markets that are not active, and other inputs that are observable, such as interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment spreads, credit risks, and default rates.

Level 3
Fair value is based on non-observable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 financial instruments are initially fair valued at their transaction price. After initial measurement, the fair value of Level 3 assets and liabilities is determined using valuation models, discounted cash flow methodologies, or similar techniques.

The hierarchy level for financial assets is based upon the following guidelines:

i) Bonds
Bonds are priced from a source which blends prices from external pricing providers. These prices are a mixture of prices based on actual transactions and, in the case of less liquid bonds, modelled prices.

The most liquid bonds, comprising those issued or guaranteed by the UK Government, together with AAA-rated sovereign and supranational bonds, are generally considered to be Level 1. Listed corporate bonds are generally included in Level 2. Prices not obtained from the general pricing source are considered to be Level 3. In these cases the Company may use an indicative price from a single provider.

ii) Equity securities
During the year, all equities investment are within the collective investment scheme, these are all deemed to be level 1 assets as there are deemed quoted market prices. In 2017 the listed securities, which were all companies within the FTSE-350, were treated as Level 1 within the fair value hierarchy. They were valued using prices sourced from the primary exchange and so quoted in an active market. On a look through basis, assets held within collective investment schemes include equities, bonds and derivatives.

iii) Derivatives
All derivatives including foreign exchange contracts and futures classified as level 2 as they are either actively traded in an active market or all input data are observable.

The following tables present the financial investments measured at fair value and classified by the fair value hierarchy:

31 December 2018	Level 1 £000	Level 2 £000	Level 3* £000	Total fair value £000
FVTPL assets:				
Bonds	673,634	217,888	-	891,522
Equities	2,985,969	-	-	2,985,969
Derivatives	-	13,199	-	13,199
AFS Assets:				
Bonds	-	-	-	-
Equities	74,980	-	-	74,980
Total	3,734,583	231,087	-	3,965,670

31 December 2017	Level 1 £000	Level 2 £000	Level 3* £000	Total fair value £000
FVTPL assets:				
Bonds	658,082	209,436	-	867,518
Equities	3,212,265	-	-	3,212,265
Derivatives	-	1,050	-	1,050
AFS Assets:				
Bonds	37,793	-	-	37,793
Equities	20,402	-	-	20,402
Total	3,928,542	210,486	-	4,139,028

*Investment property are categorised as level 3 assets (refer to Note 9). There were no transfers between Level 1 and Level 2 during the year (2017: £Nil).

b) Net investment income

Net investment income comprised the following components:

	2018 £000	2017 £000
Interest and dividends	17,150	18,650
Realised gains	5,995	109,721
Unrealised gains	(263,886)	205,228
Net return on financial assets	(240,741)	333,599
Net rental income	369	346
Unrealised gains	140	110
Net return on investments properties	509	456
Investment Expenses	(6,333)	(6,366)
Total	(246,565)	327,689

Interest and dividends were derived from the following sources:

2018	**FVTPL**	**AFS**	**Loans and receivables**	**Total**
	£000	**£000**	**£000**	**£000**
Interest income from:				
Cash and cash equivalents	176	-	-	176
Bonds and other fixed term securities	15,885	835	-	16,720
Loans to policyholders	-	-	254	254
Total interest	16,061	835	254	17,150

2017	**FVTPL**	**AFS**	**Loans and receivables**	**Total**
	£000	**£000**	**£000**	**£000**
Interest income from:				
Cash and cash equivalents	6	-	-	6
Bonds and other fixed term securities	17,578	788	-	18,366
Loans to policyholders	-	-	278	278
Total interest	17,584	788	278	18,650

As all equities investment are within the collective investment scheme, dividend income is reinvested directly back into the collective investment scheme resulting in an increase unrealised gains as opposed to dividend income.

Included within interest income was £Nil (2017: £Nil) in respect of interest income accrued on impaired financial assets.

Net realised gains / (losses) on financial assets comprised:

		2018			**2017**	
	FVTPL	**AFS**	**Total**	**FVTPL**	**AFS**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Bonds and other fixed term securities	7,596	358	7,954	11,870	(30)	11,840
Equities	18,647	127	18,774	99,805	3,224	103,029
Derivatives	(20,733)	-	(20,733)	(5,148)	-	(5,148)
Net realised gains on financial assets	5,510	485	5,995	106,527	3,194	109,721

Net unrealised gains / (losses) on financial assets carried at FVTPL comprised:

	2018	**2017**
	£000	**£000**
Bonds and fixed-term securities	(13,846)	(2,082)
Equities	(247,765)	206,363
Derivative assets	2,479	1,050
Derivative liabilities	(4,754)	(103)
Total net fair value gains on financial assets at FVTPL	(263,886)	205,228

c) Net unrealised gains / (losses) on AFS assets

This component of Other Comprehensive Income comprised the following:

	2018 £000	2017 £000
Unrealised gains/(losses) for the current period	22	(347)
Previously recognised unrealised losses transferred to realised gains on disposal	-	-
Total	22	(347)

d) Impairments

During 2018 there were no impairment losses on disposal of AFS assets for the Company to reverse (2017: £Nil).

12 INSURANCE AND OTHER RECEIVABLES

Insurance and other receivables comprised the following:

	2018 Group £000	2018 Company £000	2017 Group £000	2017 Company £000
Loans to policyholders	4,947	4,947	4,913	4,913
Policyholder debtors	572	572	642	642
Reinsurers' share of insurance liabilities	6,666	6,666	7,966	7,966
Amounts due from reinsurers	361	361	355	355
Accrued investment income	4,809	4,809	4,971	4,971
Policyholder taxes recoverable	1,130	1,130	3,338	3,338
Due from fund managers	-	-	146	146
Prepayments and other	1,253	1,253	2,294	2,294
	19,738	19,738	24,625	24,625

The fair values of the items in the table above, excluding the reinsurers' share of insurance liabilities, approximates their carrying value.

13 INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS

a) Nature and composition of insurance contract liabilities and related reinsurance assets

Insurance contract liabilities include life, permanent health, annuities in payment and with-profits insurance.

The accounting policies for insurance contracts and related reinsurance assets are set out in Note 1.6(a) and 1.6(b).

The Company limits the amount of loss on any one policy by reinsuring certain levels of risk with its ultimate parent company, Foresters, or third party reinsurers. Maximum limits have been established for the retention of risks associated with life insurance policies by line of business.

b) Analysis of changes in insurance contract liabilities and reinsurance assets

With Profit funds	2018			2017		
	Gross liabilities £000	Re-insurance assets £000	Net liabilities £000	Gross liabilities £000	Re-insurance assets £000	Net liabilities £000
Balance, beginning of year	569,910	(7,954)	561,956	603,439	(6,134)	597,305
In-force business	(76,347)	1,297	(75,050)	(33,529)	(1,820)	(35,349)
Change in contract liability	(76,347)	1,297	(75,050)	(33,529)	(1,820)	(35,349)
Balance, end of year	493,563	(6,657)	486,906	569,910	(7,954)	561,956

Non Profit funds	2018			2017		
	Gross liabilities £000	Re-insurance assets £000	Net liabilities £000	Gross liabilities £000	Re-insurance assets £000	Net liabilities £000
Balance, beginning of year	45,342	(12)	45,330	61,746	(21)	61,725
New business	(690)	-	(690)	(247)	-	(247)
In-force business	210	4	214	5,373	5	5,378
Refinement of assumptions	(4,516)	(1)	(4,517)	(21,530)	4	(21,526)
Change in contract liability	(4,996)	3	(4,993)	(16,404)	9	(16,395)
Balance, end of year	40,346	(9)	40,337	45,342	(12)	45,330

c) Insurance contract liabilities and supporting assets

The nature and method of determining the more significant assumptions made by the Company in valuing its insurance contract liabilities are described in the following paragraphs. For each of the with-profit funds and the deferred pension fund, the entire fund is reserved for the benefit of the fund's policyholders (or the future shareholder share for the deferred pension fund) and hence the liabilities are equal to the assets. The following assumptions therefore apply to the non-profit insurance business only.

For non-profit insurance business the valuation assumptions are based on best estimates of future experience. Actual experience is monitored to assess whether the assumptions remain appropriate.

Sensitivity analysis can be found in Note 20.

Lapse rates
For non-profit business, the following lapse assumptions apply

Product	Year 1	Year 2	Year 3 and thereafter
Lifestyle/Mortgage Protection Options	8.0%	8.0%	See below
Pension Term	N/A	N/A	2.0%
Whole Life	N/A	N/A	0.0%
Forester Universal Life	N/A	N/A	8.0%
Monthly Income Benefit	N/A	N/A	4.0%
Annuities in Payment	0.0%	0.0%	0.0%
Other Policies	N/A	N/A	1.0%

Year	Lifestyle/Mortgage Protection Options
Year 3	7.0%
Year 4	7.0%
Year 5	7.0%
Year 6	6.0%
Year 7	5.0%
Year 8 and thereafter	5.0%

Investment returns
For non-profit insurance business, liabilities are discounted at risk free rates as prescribed by EIOPA in accordance with Solvency II regulation.

Maintenance expenses
For non-profit insurance business, amounts are included in actuarial liabilities to provide for the costs of administering in-force policies, including the costs of premium collection, adjudication and processing of claims, periodic actuarial calculations, preparation and distribution of policy statements, and related indirect expenses and overhead. The process of forecasting expenses requires estimates to be made of factors such as inflation, salary rate increases, productivity changes, business volumes and indirect tax rates. Estimates of future policy maintenance expenses are based on the Company's expected future experience. There is a margin for prudence included in the risk margin. (refer to Note 1.6(a)).

Mortality
For non-profit insurance, best estimate mortality rates are based on standard tables below:

Mortality tables	**2018**	**2017**
Term Assurance	TM00, TF00	TM00, TF00
TW Annuities in payment	IML00/IFL00	IML00/IFL00
Pensions in payment	CMI 2017 M/F	PP00
Life Assurance	AM00, AF00	AM00, AF00

The Company has identified that the principal insurance risks are a worsening of demographic risks, higher expenses and lower interest rates. The nature of the demographic risks varies depending on the specific product within the non-profit insurance block of business. For annuity products longer life expectancies are the key risk, on health and life insurance products higher mortality and morbidity rates create a strain for the Company. If there was a change to mortality rates that affected all non-profit insurance products equally then the Company may benefit from an offsetting effect between some of its products. The interest rate risk derives from a mismatch between the sensitivity of assets and liabilities to changes in interest rates.

14 INVESTMENT CONTRACT LIABILITIES - UNIT LINKED

GROUP AND COMPANY

Changes in unit linked investment contract liabilities	2018 £000	2017 £000
Balance, beginning of year	3,452,041	1,105,544
Transfer in of CTF business	-	1,950,583
Transfer from TW Ring Fenced Funds	1,468	-
	3,453,509	3,056,127
Additions to the account of the unit holder:		
Deposits received from the unit holders	313,882	314,005
Investment income	3,900	11,148
Net change in unrealised (loss) / gain on investments	(226,863)	204,733
Net realised (loss) / gain on sale of investments	(6,433)	78,564
Tax gain / (charge)	1,063	(1,475)
	85,549	606,975
Deductions from the account of the unit holder:		
Amounts withdrawn or transferred by unit holders	(175,521)	(164,507)
Management fees	(49,439)	(46,554)
	(224,960)	(211,061)
Balance, end of year	3,314,098	3,452,041

The liabilities were supported by the following assets / (liabilities):

	2018 £000	2017 £000
Cash and cash equivalents	40,055	55,294
Bonds	533,125	479,171
Equities in collective investment schemes	2,747,709	2,919,792
Derivative assets	2,479	1,050
Derivative liabilities	(4,754)	(103)
Other assets	(4,516)	(3,163)
Investments for account of unit holders	3,314,098	3,452,041

15 INVESTMENT CONTRACT LIABILITIES with Discretionary Participating Features

GROUP AND COMPANY

Changes in investment contract liabilities with Discretionary Participating Features

	2018 £000	2017 £000
Balance, beginning of year	63,218	62,911
Deposits received during the year	37	41
Interest credited and other	(752)	3,279
Surrenders and encashments	(2,831)	(2,760)
Expenses charged to policyholders	(185)	(253)
Balance, end of year	59,487	63,218

The liabilities were supported by the following assets:

	2018 £000	2017 £000
Bonds	32,750	34,780
Equities	18,363	21,038
Other assets	8,374	7,400
Investments for account of plan holders	59,487	63,218

16 DERIVATIVE FINANCIAL INSTRUMENTS

GROUP AND COMPANY

The investment strategy allows entering into a number of traded derivatives.

The asset and liabilities of these contracts at 31 December are detailed below.

Derivative financial instrument assets	2018 Market value £000	2017 Market value £000
Exchange traded derivatives	-	183
Foreign exchange forward contracts	2,479	867
Total derivative assets	2,479	1,050

Derivative financial instrument liabilities	2018 Market value £000	2017 Market value £000
Exchange traded derivatives	2,722	-
Foreign exchange forward contracts	2,032	103
Total derivative liabilities	4,754	103

In addition to the above Derivatives position, we hold a Collateral of £15,920,331 (2017:£9,992,470).

17 OTHER LIABILITIES

Other liabilities comprised the following:

	2018 Group £000	2018 Company £000	2017 Group £000	2017 Company £000
Amounts owed to parent company	6,244	6,244	3,474	3,474
Amounts due to other group companies	-	18,977	-	19,063
Amounts due to reinsurers	83	83	114	114
Derivative liabilities	4,754	4,754	103	103
Unsettled trades	10,553	10,553	-	-
Other liabilities and deferred income	3,461	3,461	4,559	4,559
	25,095	44,072	8,250	27,313

The fair value of these liabilities approximates their carrying value. Substantially all the liabilities are due within 12 months of the date of the statement of financial position.

18 CALLED UP SHARE CAPITAL

	2018 £000	2017 £000
Issued and authorised		
68.5m (2017: 68.5m) Ordinary shares of £1 each	68,500	68,500

The Ordinary shares carry full voting rights and qualify for dividends. There are no restrictions on the repayment of capital other than as imposed by the Companies Act 2006.

19 CAPITAL MANAGEMENT

The Company is required to maintain eligible capital, or 'Own Funds' in excess of the value of its Solvency Capital Requirements (SCR) on the Solvency II basis and to comply with the requirements established by the Solvency II framework Directive, as adopted by the Prudential Regulation Authority(PRA) in the UK. The over-riding objective of the Solvency II capital framework is to ensure there is sufficient capital within the insurance company to protect policyholders and meet their payments when due.

The Company has a long-term business fund, four ring-fenced funds and shareholder funds. The surplus contributed from the long-term business is not attributable to with-profits business, and is deemed to be distributable within the Company shareholder funds. Three of the ring-fenced funds are with-profits funds which are now closed to new business with the fourth being the deferred pension fund that has been ring fenced since September 2016.

Ring fenced funds are segregated funds with their own assets and liabilities which are determined on a Solvency II basis.

The Company intends to maintain surplus capital in excess of the SCR in order to meet the Solvency II total requirements, and to maintain an appropriate additional margin over this to absorb changes in both capital and capital requirements.

Capital is held in the form of marketable investment assets. Management has set investment criteria covering asset mix, credit quality, individual counterparty exposure, equity sector limits and fixed income duration so as to maintain an appropriate balance between risk and return.

There are certain valuation differences between the IFRS balance sheet and the Solvency II balance sheet, for example between IFRS insurance liabilities and Solvency II technical provisions. The Company has complied with the capital requirements under Solvency II throughout the year.

The Company's objectives in managing its capital are:

- to match the profile of its assets and liabilities closely, taking account of the risks inherent in the business;
- to maintain financial strength sufficient to support new business growth in line with the Company's business plan;
- to satisfy the contractual entitlements of its policyholders and the requirements of its regulators;
- to ensure financial flexibility by maintaining strong liquidity and access to a range of capital markets;
- to allocate capital efficiently to support growth;
- to manage exposure to changes in interest and inflation rates by way of a comprehensive hedging programme; and
- to manage exposure to movements in exchange rates.

In line with the Solvency II regulations and guidance, during the year the Company recognised loss absorbency capacity of deferred tax (LACoDT) for unit-linked business and subsequently lower its Solvency Capital Requirement. The table below illustrates that the Company has sufficient capital resources available to meet its present capital requirements:

31 December 2018
FLL Company (£m)

	2018* **£000**	**2017** **£000**
Eligible Own Funds	253.0	275.0
Solvency Capital Requirement	(152.7)	(195.4)
Excess Own Funds	100.3	79.6
Solvency Ratio	166%	141%

* The 2018 solvency position is unaudited

The 2018 solvency capital requirement included the utilisation of LACoDT whilst the 2017 position did not. The utilisation of LACoDT reduced the 2018 capital requirement by £14.5m.

20 RISK MANAGEMENT

The UK Group's approach to risk management is outlined in the Strategic Report on page 6.

The principal risks to which the Group has determined it is exposed in seeking to deliver its strategy and business plan are set out below, along with the risk mitigations. These risk categories are expected to remain relatively stable over time. The Group has specific policies in place, approved by the Board, to manage these risks and which support the risk management framework, explained in the Risk Management Policy and the Risk Appetite Framework document.

The UK Group's goal in managing risk is to ensure that the outcomes of activities involving elements of risk are consistent with its risk appetite, and to maintain an appropriate risk/reward balance while protecting the Group from events that have the potential to impair its financial strength materially or prevent the UK Group meeting its objectives.

Strategic risk

This is the risk that FLL's strategic objectives, as outlined in its business plan, are undermined either as a result of an ineffective planning process leading to the plan being based on incorrect information and/or assumptions or by one or a combination of the risks discussed further below. The Group has a Strategic Risk Policy in place which has been approved by the Board and outlines the basis upon which this risk is managed.

As part of the annual business planning process, the risks are identified that could have an immediate or a future impact on the plan. Identified risks are evaluated by reference to their potential impact and compared to the UK Group's risk appetite statements. As outlined in the Risk Appetite Framework document, one of the Board's key determinants of risk appetite is by reference to the capital requirement generated by these risks from both a regulatory and internal capital target perspective. The output from the ORSA, including a forward looking assessment of own risk, is reviewed in terms of the Board's expressed risk appetite, including the internal capital target.

The planning process that is adopted is iterative in that the plan goes through a number of stages where it is reviewed and challenged at both UK and parent company Board level. As a consequence, at the point when the plan is tabled for final agreement it has been through an effective challenge process. Thereafter management information is in place to monitor progress against the plan.

Core to the Group's strategy is the achievement of growth on an organic basis and / or by acquisition to address the risk that the business is unable to support its ongoing expense base due to revenues decreasing as a result of falling policy numbers. The Child Trust Fund (CTF) book of over 1m policies begins running off from September 2020. The field force will be allocated CTF customers based on the age of the child, with those who are already 16 being approached first, and on the basis of payment activity.

A key strategic priority is to integrate a customer relationship management system with the core business administration system. Risks that arise from failing to successfully implement this project are that the opportunity to provide customer services and the field force with a holistic view of customer activity are delayed, and that marketing interventions are less effective. This risk interacts with cyber risk due to the increased dependency on the resilience of IT systems. A further aspect of the system improvements is to provide customers with an Omni-channel platform so that they can do business with the Company seamlessly through a variety of channels. The failure of this aspect of the project could result in lower sales, particularly from younger customers.

The UK Group has recognised its reliance on unit linked savings and investments sold through a salesforce using a simple advice model which makes exposes the business model to regulatory change. Management continues to discuss options for the future.

Brexit continues to cast a shadow over the UK economy. Under Article 50, Britain is scheduled to leave the EU by the end of March 2019. There are to main risk around Brexit:

- Macro-economic
  The main impact for Foresters is the impact on sales and withdrawals (total or partial) as our customers may be less inclined to invest as a result of the uncertainty. Brexit will likely impact interest rates, foreign exchange rates and the strength of the UK's economy, all of which have knock-on effects for job security, house prices and mortgage and savings rates.

  The open unit linked business is invested in Global equities and therefore Brexit is only one of a number of factors impacting the investment markets. The company does hold funds that are invested in UK equities which are are more likely to be impacted.

  The impact of a potential further fall in sterling for Foresters is mixed. The company holds investments in a global equity fund and falls in sterling can lead to increases in market valuations as UK equity income from abroad is boosted. The Bank of England says its response to Brexit could be to shift policy in either direction. Interest rates will likely also shift, with an increase in interest rates reducing the value of bonds and gilts.

- Operational concerns
  There are a number of relatively minor operational concerns including:
  - Employees - Employee legislation is unlikely to change in the short term however the longer term EU staff may need to provide additional evidence to support their right to work in the UK.
  - Communications - The Company publishes an Investment Bulletin monthly including continual references to Brexit.
  - Data Protection - This relates to the risk that firms are inhibited or prohibited from transferring personal data across the new UK/EU border. This is a low risk as very little data is transferred to the EU (only c.4,000 customers live in the EU) and, as the UK plans to incorporate the GDPR into UK law after Brexit, the EU will likely regard UK regulation as equivalent.
  - Supplies - There are no crucial suppliers within the EU; the main purchases from the EU are IT consumables. Import tariffs are likely to increase costs of goods coming from Europe.
  - Travel - Employees do not regularly travel on business to the EU / EEA.

Investment Market Risk

Investment market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market price. The Group has an Investment Market Risk Policy in place which has been approved by the Board and outlines the basis upon which this risk is managed. Trading is subject to restrictions and limits as outlined in the Investment Policy Guidelines to ensure that market exposures are within appetite. The UK Group undertakes stress and scenario testing to understand the UK Group's sensitivities to investment market risks.

The external environment proved to be challenging in 2018. The economy and politics are inextricably linked, and the trade war between China and the United States negatively impacted investment markets. In addition Brexit has added to the continuing economic uncertainty, which has impacted investor confidence.

In the context of the UK Group's business profile, there are four key investment market risk components:

- Equity risk
- Interest rate risk
- Credit risk
- Currency Risk

Equity Risk

Equity risk is the risk of loss brought about by fluctuations in stock market prices.

The Group derives a significant element of its income from annual management charges (AMCs) made on customers' unit linked assets under management. The Group therefore has an indirect exposure to equity risk as a significant element of the assets under management is invested in equities. As a consequence, a fall in equity market values will lead to a fall in the level of assets under management and therefore a fall in the level of AMCs. Based on unit linked assets under management (excluding unit-linked assets in the with-profit funds) at 31 December 2018, which stood at £3,271m (2017: £3,400m), a 10% sustained fall in equities would give rise to an expected fall in annual AMCs of £2.2m (2017: £2.3m), partially offset by a £0.1m reduction in investment expenses over the business plan period of 5 years.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group mitigates its exposure to interest rate risk by matching the duration of assets and liabilities by fund which involves allocating financial investments to funds matching a specific type of liability. For products with fixed and highly predictable benefit payments, investments are made in fixed income assets that closely match the product liability cash flows. Protection against interest rate change is achieved as any change in the fair market value of the assets will be offset by a similar change in the fair market value of the liabilities. The risk associated with the mismatch in portfolio duration, cash flow and asset prepayment exposure are reviewed regularly.

Some of the investment business contracts accrue interest at a long term rate. The margin on this business is sensitive to a sustained decline in interest rates, though the Group has the ability to vary the crediting rate to reflect current and foreseen investment returns.

Profits on insurance business are susceptible to interest rate risk. The Group has estimated that an immediate 1% fall in fixed interest returns would improve the profit on insurance business by £2.6m after tax (2017: £2.1m) and a 1% rise in fixed interest returns would impair profit by £2.9 m (2017: £2.1m) over the business plan period of 5 years.

Credit Risk

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to fulfil its payment obligations, and arises on debt instruments held for investment, settlement risk on all securities transactions, loans to policyholders, reinsurance debtors and balances on deposit with banks.

The Board approved Credit Risk Policy sets out the approach to the management of this risk. Specific guidelines have been established:

- to minimise undue concentration of assets in any single geographic area, industry or company;
- to limit the purchase of fixed income securities to investment-grade assets; and
- to specify minimum and maximum limits for fixed income securities by credit quality ratings.

Compliance with the guidelines is monitored monthly by Finance.

Credit risk also arises from reinsurance activities. The Group limits the amount of loss on any one policy by reinsuring certain levels of risk with its ultimate parent company, Foresters, or third party reinsurers. Maximum limits have been established for the retention of risks associated with life insurance policies by line of business. Management regularly monitors the creditworthiness of reinsurers to ensure compliance with FLL's guidelines.

Maximum exposure to credit risk

The Group's maximum exposure to credit risk related to financial instruments and other assets is the carrying value of those assets, net of any allowances for losses. The maximum credit exposure to financial instruments is as follows:

	2018	2018	2017	2017
	Group £000	Company £000	Group £000	Company £000
Cash equivalents	59,254	59,249	67,178	67,174
Bonds	891,522	891,522	905,311	905,311
Policyholder debtors	5,519	5,519	5,555	5,555
Other assets subject to credit risk	27,418	46,394	22,070	41,132
	983,713	1,002,684	1,000,114	1,019,172
Equities	3,030,949	3,060,949	3,232,667	3,232,667
Investment properties	5,700	5,700	5,560	5,560
Other assets not subject to credit risk	45,793	22,903	54,713	29,534
Total assets	4,096,155	4,092,236	4,293,054	4,286,933

Concentration of credit risk

Concentration of credit risk arises from exposures to a single debtor, a group of related debtors or groups of debtors that have similar credit risk characteristics in that they operate in the same geographic region or in similar industries. The Group has established investment portfolio level targets and limits to ensure that portfolios are widely diversified across asset classes and individual investment risks.

The Group sets limits on its exposure to a single issuer, including total exposure to a parent company, its subsidiaries and any other entity for which the parent acts as a guarantor. Total exposure includes the sum of the Group's investment in bonds, equities, money market instruments and, if applicable, cash and cash equivalents.

The following table provides details of the carrying value of bonds by nature of issuer and geographic distribution.

Group and company	**2018**			**2017**		
	FVTPL £000	**AFS £000**	**Total £000**	**FVTPL £000**	**AFS £000**	**Total £000**
Bonds issued or guaranteed by:						
UK Treasury and other UK agencies	686,886	-	686,886	675,519	32,832	708,351
EU governments or agencies	32,448	-	32,448	21,866	-	21,866
Other Non EU global government	2,520	-	2,520	2,545	-	2,545
Supranational bodies	35,838	-	35,838	39,195	2,823	42,018
Total government or supranational bonds	757,692	-	757,692	739,125	35,655	774,780
Total corporate bonds	133,830	-	133,830	130,245	286	130,531
Total bonds	891,522	-	891,522	869,370	35,941	905,311

The credit rating of the bond portfolio was as follows:

	2018		2017	
Bond Quality	**£000**	**%**	**£000**	**%**
Investment grade:				
AAA	76,594	8.6	76,979	8.5
AA	718,632	80.6	734,242	81.1
A	64,989	7.3	66,787	7.4
BBB	31,307	3.5	27,303	3.0
Total bonds	891,522	100.0	905,311	100.0

Currency Risk

The base currency of investments is GBP. For some funds, overseas assets may be purchased or cash held in other currencies. A strengthening in sterling will reduce the value of overseas assets, and consequently reduce the value of future charges. For those funds holding overseas assets, currency hedging is at the Fund Managers' discretion, subject to limits as defined in the Investment Management Policy.

Loan impairments

An allowance for losses on loans is established when a loan becomes impaired as a result of deterioration in credit quality, to the extent there is no longer assurance of timely realisation of the carrying value of the loan and related investment income. The carrying value of an impaired loan is reduced to its estimated net realisable value at the time of recognition of impairment. No allowances for losses have been taken in 2018 or in 2017.

Unrealised gains (losses) on AFS assets are recorded in OCI at fair value.

At 31 December 2018, the Group held no bonds on which interest payments were in default (2017: Nil).

Expense Risk

Under the Group's business model, revenues are directly linked to investment performance, as a significant element is derived from charges on assets under management. Such revenues are therefore exposed to the risk of falls in investment markets. In addition, revenue is generated through the per policy charge made on those policies held within the ring fenced funds. These are vulnerable to being inadequate should lapse or surrender rates be in excess of assumed levels.

Lastly, the other business fund (protection, deferred pension and annuities) is also subject to investment market, insurance risks and asset / liability mismatch.

Consequently, the primary means by which profit margins can be maintained, other than through increased sales or the acquisition of additional books of run-off business, is expense management. The Expense Risk Policy which has been approved by the Board explains the approach that is taken to ensure that expenses are robustly controlled within the Board's risk appetite limits.

Persistency Risk

Persistency risk is the risk of loss due to customers' behaviour being different than anticipated in terms of discontinuing or reducing contributions or withdrawing benefits partially or in total prior to maturity of the contract.

Persistency is integral to the successful implementation of the UK Group's business plan. A deterioration in persistency can result in a decrease in the level of income derived from AMCs on assets under management and / or a reduction in the number of extant policies and plans thereby impairing economies of scale, leading to an increase in administration costs per plan and a consequent erosion of profit margins.

Deterioration in persistency is normally a by-product of another risk(s) crystallising as follows:

- Strategic Risk – the Group fails to offer products and/or services that meet customers' demands and/or expectations which leads to them taking their business elsewhere;
- Investment Market Risk – poor investment returns or market volatility has the potential, to cause customers to decide to lapse or surrender their policy prior to maturity or partially encash or fully encash their plan;
- Credit Risk – default on corporate bonds could lead to impairment of investment returns which in turn could give rise to customers deciding to lapse or surrender their policy prior to maturity or partially encash or fully encash their plan;
- Operational Risk – a decline in customer service levels could impact customer retention. Equally, regulatory sanctions levied against the Group could affect customer confidence thereby having a detrimental effect on retention.
- Group Risk – the actions of Foresters and its related companies outside of the UK Group could have a damaging effect on FL UK's reputation thereby leading to increased levels of lapses, surrenders etc.

The UK Group's appetite for persistency risk is outlined in the Persistency Risk Policy together with the approach to management of this risk. Risk management activity is principally delivered by close monitoring of surrender, lapse and encashment levels against approved tolerances such that appropriate action can be taken if tolerance levels are breached. The relationship with customers through the field force means that at times of stress the company can respond directly to customers' concerns and provide reassurance as necessary.

Operational risk

Operational Risk is defined as the risk of loss resulting from failed internal processes, people, systems or from external events, which includes regulatory and reputational risk.

The UK Group does not seek to take on operational risk as a strategic risk but accepts that, for the business undertaken, operational risk will be an aspect of the risk taken on. As a consequence, the approach taken is to manage operational risk to a level comparable with our risk appetite, through a combination of sound corporate and risk governance, strong systems and controls, and, where appropriate, limit and tolerance structures. These are outlined in the Operational Risk Policy approved by the Board.

Other Risks

The foregoing outlines the principal risks to which the business is exposed. The Board has identified that the UK Group is exposed to further risks in seeking to deliver its business plan but these are not considered to be as material as the risks discussed above. The risks in question are discussed further below.

Insurance risk

Insurance Risk is the risk of loss caused by fluctuations in the timing, frequency and severity of insured events relative to the expectations of the Group at the time of underwriting. The Group's approach to insurance risk is outlined in the Insurance Risk Policy which has been approved by the Board.

The Group's appetite for insurance risk is driven by its strategy. This emphasises that, going forward, the business is concentrating on growing its savings and investment business and increasing its market presence as an insurance consolidator through the acquisition of third party books of business. Whilst, therefore, the Group is not seeking to proactively market and sell products that would increase its exposure to insurance risk, it accepts that future strategic acquisitions may involve the take-on of additional insurance risk.

A number of assumptions are made when a product is designed and priced. These assumptions are used to develop the initial measurement of insurance contract liabilities. The setting of these assumptions requires a significant amount of professional judgment and therefore, actual experience may be materially different from assumed experience which results in the nature of the insurance risk exposure.

The following risk factors are components of insurance risk:

Mortality risk and morbidity risk are the risks that paid death claims or permanent health claims occur sooner or are more volatile than assumed. This risk can occur on any contracts where the payment on death or illness is greater than the insurance contract liability held. This includes the risk of anti-selection that results in a requirement to pay claims that the Group had not expected (for example due to non-disclosure).

Longevity risk is the risk that annuities in payment are paid for a longer period than assumed.

The Group manages insurance risk by establishing Board approved polices and guidelines for product development and product pricing which require that all material risks be provided for at the time of product design and pricing of new products. Additionally, experience studies are performed annually, the outcome of which is used to update the valuation of insurance contract liabilities and the pricing of new and existing products. The Group also uses reinsurance to transfer risks in excess of its retention limits.

The actuarial assumptions used in the measurement of insurance contract liabilities take insurance risk factors into account as discussed in Note 13.

Impact of key insurance sensitivities

Variable	Change in variable	Impact on pre-tax P&L
Fall in lapse rates	10% fall	(£1.3m)
Increase in expenses	10% increase	(£1.1m)
Increase in mortality rates	2% increase	(£0.2m)

Liquidity risk

This is the risk that liabilities crystallise more quickly than anticipated and that the UK Group does not have sufficient liquid assets to meet those liabilities. This could arise, for example, if there is a material increase in customer encashments (persistency risk). The inability to meet liabilities as they fall due will incur asset breakage costs and, in a worst case scenario, impact the business model due to reputational impacts as a result of not being able to meet customer expectations.

A number of key processes and controls are in place to ensure that the UK Group has sufficient liquidity to meet its liabilities. These include daily cash flow forecasts, cash balances / buffer held equivalent to one month's outflow, a high level of investments held in near-liquid assets and the maintenance of overdraft facilities with key banking partners. In 2018 100% of claims were met without any liquidity concerns.

A stressed liquidity metric is calculated based on Standard & Poor's liquidity model, which measures liquidity under both immediate and ongoing stress scenarios, with a 1 month timeframe for an immediate scenario and a 1 year timeframe for an ongoing scenario. The tolerance is set at 180% which is the requirement for an A rating. The company remained within risk appetite throughout 2018.

Given the highly liquid nature of the UK Group's investment assets, their size relevant to net cash flows and the level of controls in place it is not considered necessary to hold additional capital against Liquidity Risk.

Counterparty Default Risk

There are three principal areas of potential default:

- credit institutions with which the UK Group has lodged its own assets or those of its customers;
- policyholders in terms of loans; and
- recoveries.

Counterparty risk is minimised by ensuring that the credit institutions and reinsurers used have sound credit ratings. Policyholder loans are generally covered by the surrender value.

Concentration Risk

This is defined as the risk that the UK Group invests too heavily in a limited number of companies, institutions, sectors or economies making it overly reliant on them and therefore exposed to material changes in their profile. This risk is not considered material as the UK Group's investment policy provides limits regarding concentration levels which ensure that sufficient diversification is maintained.

The Group minimises liquidity risk by taking the following steps:

- holding operational and investment cash balances sufficient to meet expected outflows for at least one month; and
- setting investment limits which require a high level of investments to be held in the most liquid assets (e.g. UK Government bonds).

The estimated cash flows based on the contractual maturities of the Group's significant financial assets and liabilities as at 31 December 2018 are shown in the following table.

Group and Company 31 December 2018	**1 year or less or undated**	**1-5 years**	**5-10 years**	**Over 10 years**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
Cash and cash equivalents	59,254	-	-	-	59,254
Equities	3,060,949	-	-	-	3,060,949
Derivative assets	2,479	-	-	-	2,479
Derivative liabilities	(4,754)	-	-	-	(4,754)
Insurance contract liabilities	(60,382)	(178,293)	(102,285)	(192,949)	(533,909)
Investment contract liabilities*	(3,373,585)	-	-	-	(3,373,585)
Claims and other payables	(15,862)	-	-	-	(15,862)
	(331,901)	(178,293)	(102,285)	(192,949)	(805,428)

Group and Company 31 December 2017	**1 year or less or undated**	**1-5 years**	**5-10 years**	**Over 10 years**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
Cash and cash equivalents	67,178	-	-	-	67,178
Equities	3,232,667	-	-	-	3,232,667
Derivatives assets	1,050	-	-	-	1,050
Derivative liabilities	(103)	-	-	-	(103)
Insurance contract liabilities	(63,158)	(220,348)	(134,912)	(196,834)	(615,252)
Investment contract liabilities*	(3,515,259)	-	-	-	(3,515,259)
Claims and other payables	(13,384)	-	-	-	(13,384)
	(291,009)	(220,348)	(134,912)	(196,834)	(834,103)

**Investment contract liabilities are comprised mainly of unit linked liabilities which have no maturity date. The assets backing these liabilities have various maturity dates.*

Actual inflows from bonds may differ from contractual maturities either because assets are sold before maturity or because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

Ring Fenced Funds (RFFs)

The Group administers closed books of business in RFFs. Three of these are with profits funds, and each of these are established by reference to a legal contract that outlines the basis upon which the fund will be administered going forward so as to protect the interests of the policyholders within the fund. Whilst the funds are protected from contagion from the Group, in the event that the RFFs themselves are unable to meet UK solvency requirements, the Group is required to make good any such shortfall.

The RFFs therefore pose the following risks to the Group:

- the potential for the solvency position of one or more of the RFFs to impair the capital position of the Group and thereby affect its ability to deliver its strategy and business plan; and
- the potential for issues arising from the management and administration of the business held within the RFFs to impact the reputation of the Group.

The business administered within the RFFs is exposed to the same risks as those that potentially affect the Group's ongoing business, most notably investment market risk, credit risk, liquidity risk, operational risk, expense risk, and insurance risk. The Group addresses the management of these risks as far as they apply to the RFFs on the same basis as its ongoing business and therefore the policies in place for these risk categories also apply to the management of the RFFs.

The Forester Life With Profits RFF and the TW Fund's solvency positions are marginal and are therefore kept under constant review. Management actions have been taken to preserve their solvency positions, and in the case of the TW Fund these management actions are significant.

Currently no allowance has been made from a capital perspective as the potential management actions are sufficient to maintain solvency.

Group Risk

Group Risk is the risk that the activities of the parent company or another company within the Group directly or indirectly affect FLL's ability to successfully implement its business plan.

The Company recognises that the financial strength and size of the Foresters Group has a significant beneficial impact on its business and brings with it access to resources and support, such as expertise and capital. As a subsidiary, however, the Company recognises that ultimately the direction of its business is at the discretion of Foresters which introduces risks for the Company. The Company is also sensitive to the risk that potential issues arising from and affecting Foresters and other Foresters entities could have a detrimental impact from a capital and / or reputational perspective on the business.

21 RELATED PARTY TRANSACTIONS

FLL is the principal UK operating subsidiary of Forester Holdings (Europe) Ltd (FHE). Related party transactions arise as follows:

- FHE incurs substantially all the operating costs for the Company's UK business and recharges the appropriate share to FLL for settlement in cash.
- FLL owns the building housing the UK Head Office and charges rent to FHE.
- FHE employs UK Head Office employees and acts as principal employer for the pension scheme in the UK.
- FLL has an excess of loss reassurance treaty with its ultimate parent company Foresters in respect of large sums assured on individual life contracts. Settlement is made quarterly through FHE.
- FHE previously contracted with FLL to provide permanent health insurance for UK employees. Premiums are no longer paid but claims may be made in respect of coverage previously provided.

Transaction details were as follows:

	2018 £000	**2017 £000**
Operating costs recharged by FHE (including a charge in respect of salaries, pension contributions and other pension costs)	32,724	33,512
Rent charged to FHE by FLL	369	346
Reassurance premiums payable to Foresters less claim recoveries	180	153
Health insurance payment	80	-

Intercompany creditor balances at the year- end were as follows:

	2018 £000	**2017 £000**
Immediate parent company	6,244	3,474
Total	6,244	3,474

All related party transactions have taken place at terms that would exist in arm's length transactions. The inter-company creditor balances are unsecured and paid in cash on a quarterly basis

There are no other loans or guarantees provided by FLL to related parties.

As an alternative to obtaining professional indemnity (PI) insurance, as required by IPRU 13.1.17, the company has, in the past, provided a guarantee to Forester Fund Management Limited indemnifying the recipient, subject to an aggregate limit of £3.8 million and a single claim limit of £650,000, against losses arising from PI claims or losses. The guarantee was incepted on 1 February 2015 for one year and renewed on 1 February 2016 on annual basis on identical terms but ceased on 31 January 2018 in line with the de-authorisation of Forester Fund Management Limited.

22 COMMITMENTS – GROUP AND COMPANY

The Company has no commitments to make payments as a lessee at the end of 2018 and 2017. It is entitled to receive the following rents under non-cancellable operating leases:

	2018 £000	2017 £000
< 1 year	369	369
1-5 years	1,476	1,476
Over 5 years	1,199	1,568
Total	3,044	3,413

The Group has an obligation to make payments under a service contract as follows:

	2018 £000	2017 £000
< 1 year	1,809	2,628
1-5 years	7,238	8,633
>5 years	3,619	6,273
Total	12,666	17,534

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23 CURRENT ASSETS AND LIABILITIES

Amounts expected to be recovered or capable of being settled within and beyond 12 months from the reporting date were as follows:

Group	2018 Total	2018 Within 12 months	2018 Beyond 12 months	2017 Total	2017 Within 12 months	2017 Beyond 12 months
	£000	£000	£000	£000	£000	£000
ASSETS						
Intangible assets	36,247	2,589	33,658	40,369	2,589	37,780
Investment property	5,700	-	5,700	5,560	-	5,560
Deferred tax asset	9,546	1,527	8,019	14,744	1,767	12,977
Financial investments	3,965,670	3,965,670	-	4,139,028	4,139,028	-
Insurance and other receivables	19,738	14,556	5,182	24,625	19,454	5,171
Cash and cash equivalents	59,254	59,254	-	67,178	67,178	-
TOTAL ASSETS	4,096,155	4,043,596	52,559	4,291,504	4,230,016	61,488

	2018 Total	2018 Within 12 months	2018 Beyond 12 months	2017 Total	2017 Within 12 months	2017 Beyond 12 months
LIABILITIES						
Insurance contract liabilities	533,909	60,382	473,527	615,252	63,159	552,093
Investment contract liabilities unit-linked	3,314,098	3,314,098	-	3,452,041	3,452,041	-
Investment contract liabilities with Discretionary Participating Features	59,487	59,487	-	63,218	63,218	-
Employee benefit obligation	7,575	1,620	5,955	7,333	1,620	5,713
Deferred tax liability	589	182	407	6,894	1,149	5,745
Current tax liability	9,744	9,744	-	3,921	3,921	-
Benefits payable	15,862	15,862	-	13,384	13,384	-
Other liabilities	25,095	25,095	-	8,250	8,250	-
TOTAL LIABILITIES	3,966,359	3,486,470	479,889	4,170,293	3,606,742	563,551

Forester Life Limited
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Company		2018			2017	
	Total	Within 12 months	Beyond 12 months	Total	Within 12 months	Beyond 12 months
	£000	£000	£000	£000	£000	£000
ASSETS						
Intangible assets	13,357	2,589	10,768	15,190	2,589	12,601
Investment property	5,700	-	5,700	5,560	-	5,560
Deferred tax asset	9,546	1,527	8,019	14,744	1,600	13,144
Investment in subsidiary	18,976	-	18,976	19,062	-	19,062
Financial investments	3,965,670	3,965,670	-	4,139,028	4,139,028	-
Insurance and other receivables	19,738	14,556	5,182	24,625	19,454	5,171
Cash and cash equivalents	59,249	59,249	-	67,174	67,174	-
TOTAL ASSETS	4,092,236	4,043,591	48,645	4,285,383	4,229,845	55,538

		2018			2017	
	Total	Within 12 months	Beyond 12 months	Total	Within 12 months	Beyond 12 months
LIABILITIES						
Insurance contract liabilities	533,909	60,382	473,527	615,252	63,159	552,093
Investment contract liabilities unit-linked	3,314,098	3,314,098	-	3,452,041	3,452,041	-
Investment contract liabilities	59,487	59,487	-	63,218	63,218	-
Employee benefit obligation	7,575	1,620	5,955	7,333	1,620	5,713
Deferred tax liability	589	182	407	6,894	1,149	5,745
Current tax liability	9,744	9,744	-	3,921	3,921	-
Benefits payable	15,859	15,859	-	13,381	13,381	-
Other liabilities	44,072	44,072	-	27,313	27,313	-
TOTAL LIABILITIES	3,985,333	3,505,444	479,889	4,189,353	3,625,802	563,551

24. ULTIMATE PARENT COMPANY AND CONSOLIDATED FINANCIAL STATEMENTS

During the year and at the year end, the ultimate parent undertaking and the undertaking which headed the largest group of undertakings for which group Financial Statements are drawn up and of which the Company was a member was The Independent Order of Foresters, a fraternal benefit society, incorporated in Canada with limited liability, registered address is 789 Don Mills Road, Don Mills, Ontario, M3C 1T9, Canada.

Forester Holdings (Europe) Limited is a wholly owned subsidiary of The Independent Order of Foresters, registered address Foresters House, 2 Cromwell Avenue, Bromley BR2 9BF, United Kingdom.

During the year and at the year end, the company which headed the smallest group of undertakings for which group financial statements are drawn up and of which the company was a member was Forester Life Limited, a company incorporated in Great Britain.

Both sets of consolidated financial statements are available to the public and may be obtained from Foresters House, 2 Cromwell Avenue, Bromley BR2 9BF.