Solvency and Financial Condition Report

Hodge Life Assurance Company Limited

For year ending 31 October 2018

HODGE

Our Values

Doing the right thing is what we aim to do in all areas of our business – it guides our decisions.

Hodge Lifetime is a business that has been dedicated to the retirement market since 1965. In that time, we've nurtured a great depth of experience and developed a very strong and solid reputation for looking after our customers while being at the forefront of innovation in our core retirement lending markets. This means that you can trust us to do right by you.

We do the right thing with regard to having a social responsibility too. The Hodge Foundation, a charity supporting the welfare, medical, academic and educational areas owns 79% of our business. This drives us, knowing that by helping our customers to achieve their goals, we are also helping good causes that are important to us.

Our Strategy

Our strategy is focused on the retirement lending and income markets. These products complement each other well, and we have a depth of experience in these fields. We aim to offer the most competitive annuity rates wherever possible. We offer one of the broadest ranges of retirement lending products, meaning that we can offer the right product to suit almost any need.

Our Brand

Hodge Lifetime is the trading name of Julian Hodge Bank ("JHB") and Hodge Life Assurance Company Limited ("the Company", "HLAC"), and the brand under which equity release and annuity plans are distributed.

Approval by Administrative, Management or Supervisory Body ("AMSB")

This Solvency and Financial Condition Report ("SFCR") was reviewed and approved by the Board of Hodge Life Assurance Company Limited on 6th February 2019.

Contents

Directors' responsibility statement

For the year ended 31 October 2018:

The directors of the Company acknowledge their responsibility for preparing the Solvency and Financial Condition Report and are satisfied that, to the best of their knowledge:

- The SFCR has been prepared in all material respects in accordance with the PRA rules and Solvency II regulations, as applicable to the Company;
- Throughout the financial year to 31 October 2018, the Company has complied in all material respects with the requirements of the PRA rules and Solvency II regulations as they apply to the Company; and
- It is reasonable to believe that in respect of the period from 31 October 2018 to the date of publication of the SFCR, the Company has continued to comply with the PRA rules and Solvency II regulations; and the Company intends to so comply in the future.

Approved by Board of Directors

And signed on behalf of the Board

Deian Jones

Chief Executive Officer

6 February 2019

Report of External Independent Auditor

Report of the external independent auditor to the Directors of Hodge Life Assurance Company Limited ('the Company') pursuant to Rule 4.1(2) of the External Audit Chapter of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the relevant elements of the Solvency and Financial Condition Report

Opinion

Except as stated below, we have audited the following documents prepared by the Company as at 31st October 2018:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31st October 2018, **('the Narrative Disclosures subject to audit**'); and
- Company templates S.02.01.02, S.12.01.02, S.22.01.21, S.23.01.01, S.25.01.21, S.28.01.01 ('**the Templates subject to audit'**).

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the '**relevant elements of the Solvency and Financial Condition Report'**.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the Other Information which comprises:

- The 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;
- Company templates S.05.01.02, S.05.02.01;
- Information calculated in accordance with the previous regime used in the calculation of the transitional measure on technical provisions, and as a consequence all information relating to the transitional measures on technical provisions as set out in the Appendix to this report; and
- The written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition report ('**the Responsibility Statement'**).

To the extent the information subject to audit in the relevant elements of the Solvency and Financial Condition Report includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of Hodge Life Assurance Company Limited as at 31st October 2018 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), including ISA (UK) 800 and ISA (UK) 805. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

Emphasis of Matter – Basis of Accounting & Restrictions on Use

We draw attention to the 'Valuation for solvency purposes', 'Capital Management' and other relevant disclosures sections of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority.

This report is made solely to the Directors of the Company in accordance with Rule 2.1 of External Audit Chapter of the PRA Rulebook for Solvency II firms. Our work has been undertaken so that we might report to the Directors those matters that we have agreed to state to them in this report and for no other purpose.

Our opinion is not modified in respect of these matters.

Other Information

The Directors are responsible for the Other Information. Our opinion on the relevant elements of the Solvency and Financial Condition Report does not cover the Other Information and, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the Solvency and Financial Condition Report or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations on which they are based which have been modified by the modifications, and supplemented by the approvals and determinations made by the PRA under section 138A of FSMA, the PRA Rules and Solvency II Regulations.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the relevant elements of the Solvency and

Financial Condition Report

It is our responsibility to form an independent opinion as to whether the relevant elements of the Solvency and Financial Condition Report are prepared, in all material respects, with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the Solvency and Financial Condition Report.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: **https://www.frc.org.uk/Our-Work/Audit-and-Actuarial-Regulation/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Auditors-responsibilities-for-audit/Description-of-auditors-responsibilities-for-audit.aspx.** The same responsibilities apply to the audit of the Solvency and Financial Condition Report.

Report on Other Legal and Regulatory Requirements.

In accordance with Rule 4.1(3) of the External Audit Chapter of the PRA Rulebook for Solvency II firms we are required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of Hodge Life Assurance Company Limited's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Ernst & Young LLP

Ernst & Young LLP

Bristol

06 February 2019

The maintenance and integrity of the Hodge Life Assurance Company Limited web site is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Solvency and Financial Condition Report since it was initially presented on the web site.

Appendix – relevant elements of the Solvency and Financial Condition Report that are not subject to audit

The relevant elements of the Solvency and Financial Condition Report that are not subject to audit comprise:

- The following elements of template S.12.01.02
  - Rows R0110 to R0130 – Amount of transitional measure on technical provisions
- The following elements of template S.22.01.21
  - Column C0030 – Impact of transitional measure on technical provisions

Summary

The Solvency and Financial Condition Report ("SFCR") is an annual report that the Company is required to produce as part of the Solvency II regime.

The SFCR is a public document and the Company is required to disclose this document on its website. The Company must also provide a copy to the UK supervisory authority, the Prudential Regulation Authority ("PRA").

This SFCR has been prepared in accordance with the PRA Rulebook and Solvency II Regulations.

The contents of the SFCR are prescribed by EU regulation and must contain the following sections:

Section heading	Description of contents
Business and performance	Provides basic information on the Company and gives a summary of business performance over the reporting year.
System of governance	Provides organisational information on the Company including committee structure, responsibilities of those committees and details of the processes used to manage risks in the Company.
Risk profile	Provides qualitative and quantitative information regarding the risks that face the Company.
Valuation for Solvency purposes	Provides values for the Company's assets and liabilities calculated in accordance with accounting rules and solvency rules, gives details on the assumptions used to calculate these valuations and provides information on the differences between them.
Capital management	Provides details on the regulatory capital requirements that the Company must hold in line with Solvency II rules and information on the Company's excess assets not required to meet its liabilities.

Business and performance

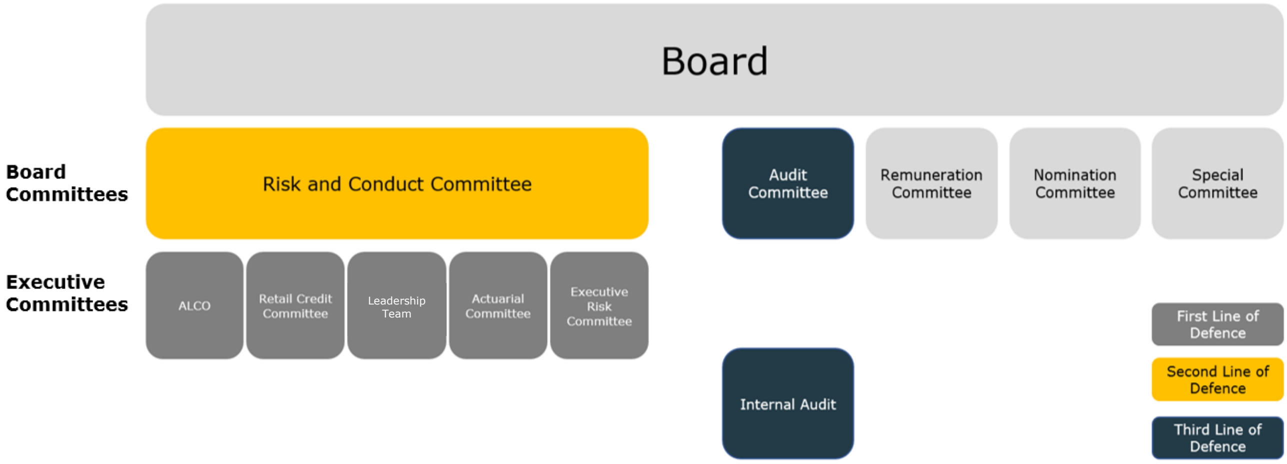
HLAC only writes individual annuity contracts. All business is written in the United Kingdom. The Company matches pension annuity liabilities with lifetime mortgage assets, corporate bonds and cash.

The Company has made a pre-tax profit of £6.1 million for the year. Although this is significantly down on the 2017 figure of £14.8 million, the profit for last year benefitted from one-off items which have not recurred. As we reported last year, the adoption of the Continuous Mortality Investigation's 2016 model of mortality improvement ("CMI_2016") had a positive impact on the 2017 results of £15.5 million. The underlying level of profit remains strong.

£47.5m of new single premium annuity business was written in the year. This is an increase of 62% compared to the previous year.

System of governance

The governance structure supports the 'three lines of defence' model operated by the Group. The committee structure extracted from the 'three lines of defence' model, as it applies to HLAC, is set out below.



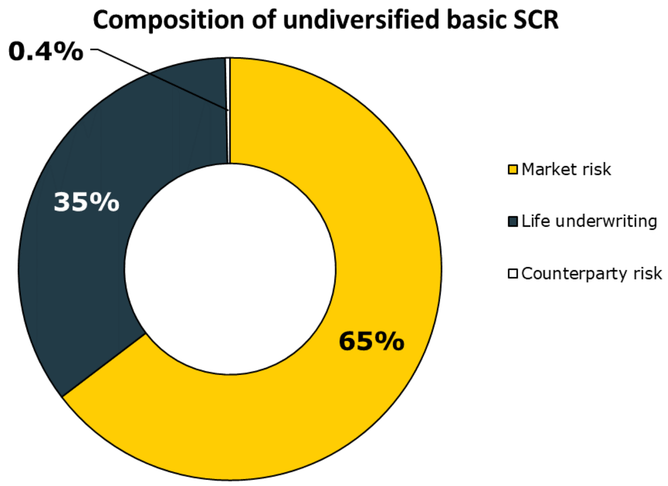
There have been no changes to the committee structure of the Company. See section B.1 for further information.

Risk profile

HLAC has a well-defined business model and organic growth strategy, which is focused on the retirement sector. The Company matches pension annuity liabilities with lifetime mortgage assets, reversions, corporate bonds and cash. All business is written in the UK.

The Company has been active in the equity release sector since its formation in 1965 and has developed significant skills and expertise in managing the risks involved in this business.

The chart below shows the component risks which make up the Company's total Solvency Capital Requirement ("SCR"). This is the amount of capital the firm must hold to protect it from extreme risk events and comply with EU regulation.



The chart shows that the Company's greatest exposure is to market risk and this arises through its investment in lifetime mortgages, reversions and corporate bonds. The key risk associated with lifetime mortgages is the No Negative Equity Guarantee ("NNEG") included in all lifetime mortgages, meaning that, if at the end of the loan the property price is insufficient to repay the loan, a loss is incurred by the Company. The reversions are a direct interest in property and therefore HLAC is exposed to the risk of a fall in property prices.

Life underwriting risk arises as a result of writing annuity business. The Company is exposed to the risk that annuitants live longer than estimated, increasing the overall amount of annuity payments made to our policyholders. There is also a risk that actual expenses incurred are greater than estimated, creating a short term expense overrun.

No new categories of risk exposures have been introduced in the year.

Valuation for solvency purposes

The Company prepares its financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS101").

FRS101 implements the valuation and reporting principles of International Financial Reporting Standards ("IFRS") in the UK. As a result, all financial statement valuations contained in this SFCR are consistent with IFRS.

The table below summarises the Company's assets and liabilities valued in accordance with both IFRS and Solvency II regulations.

31 October 2018 (£000s)	Solvency II valuation	IFRS valuation
Total assets	590,768	590,756
Total liabilities	446,871	446,370
Total equity / Own funds	143,897	144,386

All assets on the Solvency II balance sheet are valued on the same basis as in the financial statements. The small difference in asset value is caused by the presentation of derivatives. This is explained in further detail in section D1.

Differences in the value of liabilities are driven by the following:

- The IFRS methodology for the valuation of liabilities does not include the Solvency II concepts of the risk margin or transitional measures.
- The assumptions used in the valuation of insurance liabilities under IFRS also differ from the valuation of the best estimate liabilities under Solvency II:
    - The discount rate used under IFRS is higher. Under Solvency II the Company does not currently have approval to use the matching adjustment or the volatility adjustment and therefore must discount liabilities at the risk free rate. Under IFRS the higher risk-adjusted yield on the Company's assets is used in the liability discount rate.
    - The assumptions for longevity and expenses include a margin for adverse deviation under IFRS. For Solvency II reporting, the assumptions are best estimate, hence any margins for adverse deviation under IFRS are removed.

Capital management

The Company’s risk management framework incorporates explicit risk appetite statements relating to capital. The risk appetite specifies limits and triggers for the ratio of eligible own funds to Solvency Capital Requirement. This SCR coverage ratio is a key risk indicator which is regularly reported to the Risk and Conduct Committee and Board.

The Company’s own funds are entirely comprised of ordinary share capital and reconciliation reserves (retained earnings). These items are treated as Tier 1 unrestricted capital items. The entirety of own funds is therefore eligible to cover the Solvency Capital Requirement and Minimum Capital Requirement.

The table below summarises the Company’s capital position as at 31 October 2018.

31 October 2018 (£000s)	2018	2017
Own funds	143,897	154,834
SCR	78,443	76,680
SCR coverage ratio	183%	202%
MCR	19,611	19,170
MCR coverage ratio	734%	808%

The SCR coverage ratio has reduced by 19% in the year. A key driver of this decrease was the £16.0m dividend paid to Hodge Limited in the year. The dividend was part of a restructure of the Hodge Limited group of companies to provide greater clarity and oversight over the activities of the Company. HLAC is now wholly owned by Hodge Limited. The payment of the dividend is not considered to impact the Company’s ability to meet policyholder commitments.

The Company has applied the transitional measures on technical provisions (TMTP) in the valuation of technical provisions. The PRA requires firms to carry out a TMTP recalculation at the end of every 24 months following the commencement of the transitional measure on 1 January 2016. The PRA has given HLAC permission to recalculate the TMTP as at 31 December 2017. As at 31 October 2018 the value of the TMTP was £79.0m.

The TMTP represents a material balance for the Company given that it is used to cover the impact of not using the matching adjustment and phasing in the risk margin for business written before 1 January 2016. Therefore, not applying the TMTP would result in a material change to the solvency position of the Company.

The table below summarises the solvency position of the Company with and without the TMTP:

	31 October 2018		31 October 2017	
(£000s)	Amounts with TMTP	Amounts without TMTP	Amounts with TMTP	Amounts without TMTP
Basic own funds	143,897	78,302	154,834	94,456
Solvency Capital Requirement (SCR)	78,443	82,682	76,680	81,654
SCR coverage ratio	183%	95%	202%	116%

The Company would not have enough own funds to meet the SCR without applying the TMTP.

The Company has prepared a phasing-in plan to demonstrate that sufficient surplus is expected to emerge from the underlying portfolio to fund the unwind of the TMTP under best estimate and stressed conditions.

We note that the Company applies the standard formula for the calculation of the Solvency Capital Requirement. The Company is not using undertaking-specific parameters (USPs) to calculate its Solvency Capital Requirement. The Company does not use simplified calculations in any of its risk modules or sub-modules when calculating the Solvency Capital Requirement.

There was no breach of the Minimum Capital Requirements or Solvency Capital Requirements during the reporting period.

A. Business and performance

A.1 Business

Name and legal form of the undertaking

Hodge Life Assurance Company Limited ("the Company", "HLAC") is a privately owned life assurance company limited by shares, incorporated in the United Kingdom.

The registered office is:
One Central Square
Cardiff
CF10 1FS

Supervisory authority responsible for financial supervision

HLAC is regulated by the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA").

Prudential Regulation Authority 20 Moorgate London EC2R 8AH	Financial Conduct Authority 12 Endeavour Square London E20 1JN

External auditor of the undertaking

Ernst & Young LLP
The Paragon
Counterslip
Bristol
BS1 6BX

Holders of qualifying holdings in the undertaking and legal structure of the Group

The ultimate UK parent is The Carlyle Trust Limited ("TCT"). The following table details the shareholders of TCT with holdings exceeding 10%:

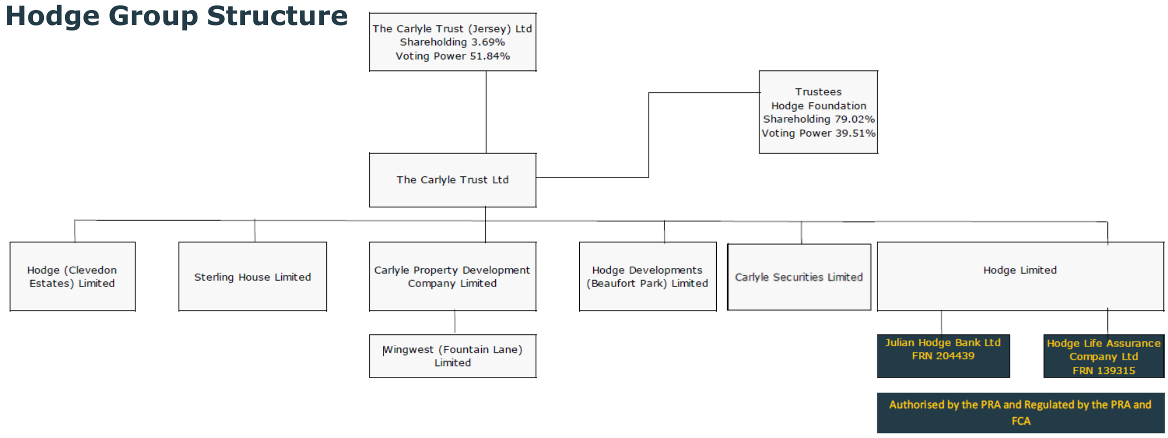
Shareholder	Shareholding	Voting Power
The Jane Hodge Foundation	79.02%	39.51%
The White Lodge Trust	10.36%	5.18%

The Carlyle Trust (Jersey) Ltd. has a voting power of 51.84% in the Carlyle Trust Limited.

HLAC is regulated as a solo insurance entity. HLAC is the only entity in the Group that undertakes insurance activities.

Given that the largest financial sector activity in The Carlyle Trust Group is banking, the Group is considered to be a *banking and investment services conglomerate*.

The following diagram shows the Group structure as at 31 October 2018:



Material lines of business and geographical areas

HLAC only writes individual annuity contracts. All business is written in the United Kingdom. The Company matches pension annuity liabilities with lifetime mortgage assets, fixed income securities and cash.

Significant business or external events over the period

During 2018, as part of a group reorganisation, ownership of the Company was transferred from Julian Hodge Bank Limited to Hodge Limited. It is the Board's view that this change provides greater clarity and oversight over the activities of the Company. Post the change of ownership, the Company paid a dividend of £16 million to its new parent.

Summary of business performance over the reporting period

The Company prepares its financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS101").

FRS101 implements the valuation and reporting principles of International Financial Reporting Standards ("IFRS") in the UK. As a result, all financial statement valuations contained in this SFCR are consistent with IFRS.

The business performance information given in this section is on an FRS101 basis as shown in HLAC's annual report and financial statements.

Income statement for the year ended 31 October 2018:

31 October (£000)	2018	2017
Earned premiums	47,456	29,314
Investment income	10,532	11,920
Unrealised gains/losses on investments	(596)	(9,318)
Gross claims and benefits paid	(24,528)	(23,595)
Movement in long term business provision	(20,028)	11,808
Administrative expenses	(6,746)	(5,351)
Profit before taxation	**6,090**	**14,778**

The Company has made a pre-tax profit of £6.1m for the year. Although this is significantly down on the 2017 figure of £14.8m, the profit for last year benefitted from one-off items which have not recurred. As we reported last year, the adoption of the Continuous Mortality Investigation's 2016 model of mortality improvement ("CMI_2016") had a positive impact on the 2017 results of £15.5m. The underlying level of profit remains strong.

£47.5m of new single premium annuity business was written in the year. Whilst we remain capital constrained due to the lack of the matching adjustment, earned premiums increased by 62% over the previous year.

A.2 Underwriting performance

The Company wrote £47.5m of new single premium annuity business in the year. The Solvency II line of business for single premium annuities is 'Other life insurance'. This business was all written in the UK. The Company retains 100% of the longevity risk associated with this business.

The Company paid out £24.5m in annuity benefits during the year, which was broadly in line with best estimate assumptions. This increased from £23.6m in the previous year, reflecting the growth in the underlying portfolio of annuity business.

The long term business provision relates entirely to annuity business. This increased by £20.0m from £416.9m to £436.9m. The increase is driven by the growth in the portfolio. The release in the provision in 2017 reflects lower annuity new business written in that year and the one off release of the provision from the adoption of the CMI 2016 mortality improvement model.

Administrative expenses increased from £5.4m to £6.7m. This was driven by an increase in project costs and Group overheads in the period.

The total profit for the year after taxation amounted to £4.9m (2017: £11.9m).

A.3 Investment performance

The Company believes that the overall investment strategy combining lifetime mortgages with fixed income securities, reversions and cash holdings gives a suitable match for annuity liabilities.

Total assets for the year ended 31 October 2018:

31 October (£000)	2018	2017
Loans and advances to credit institutions	16,147	33,065
Debt securities & treasury bills	79,357	64,217
Investment properties – reversionary interest in properties	78,769	86,528
Investments (lifetime mortgages)	415,331	397,834
Intangibles	1	10
Other receivables	547	153
Prepayments and accrued income	460	539
Derivatives financial instruments	144	0
Total assets	**590,756**	**582,346**

Overall the assets held by the Company increased by £8.4m.

- Loans and advances to credit institutions reduced by £16.9m. This was mainly driven by the £16.0m dividend paid to Hodge Limited.
- Debt securities and treasury bills increased by £15.1m. £64.2m of new debt securities and treasury bills were purchased in the period, offset by £48.5m of redemptions.
- Investment properties reduced by £7.8m. This was mainly driven by the run off of the reversion portfolio.
- Investments in lifetime mortgages increased by £17.5m. This is driven by £37.7m of new business written in the period offset by movements in interest rates and deaths and redemptions.

The Company directly administers the reversion and lifetime mortgage assets; the expenses arising from these investments are included within the total administrative expenses incurred of £6.7m noted in section A.2.

The Company does not have any investments in securitisations and does not have any off-balance sheet items.

A.4 Performance of other activities

There were no other areas of income received or expense incurred during the reporting period.

A.5 Any other information

None.

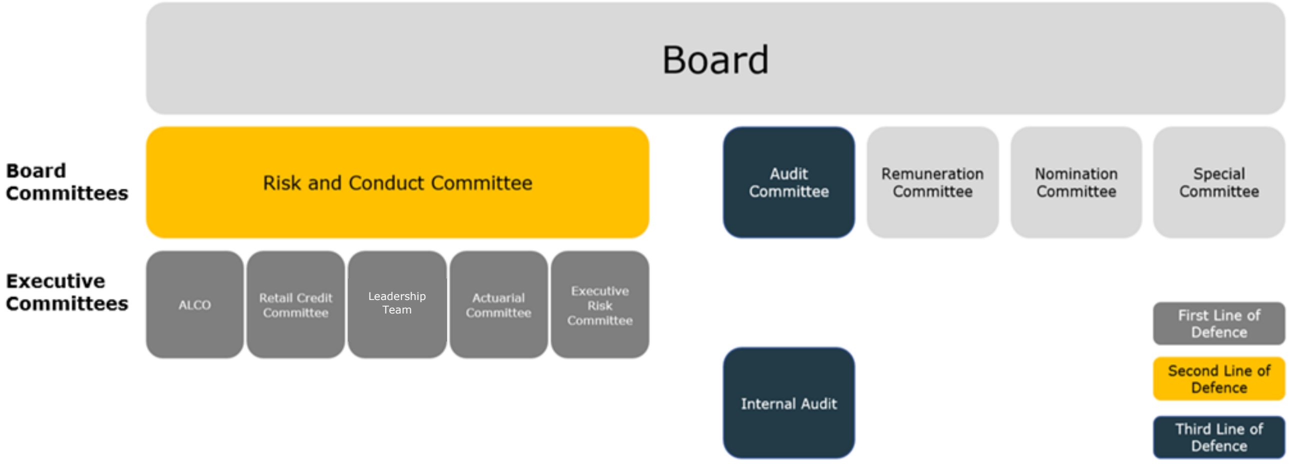
B. System of governance

B.1 General information on the system of governance

Structure of the administrative, management or supervisory body

The HLAC Board comprises five non-executive directors and two executive directors.

The governance structure supports the 'three lines of defence' model operated by the Group. The committee structure extracted from the 'three lines of defence' model, as it applies to HLAC, is set out below.



The membership of the Board Committees comprises the non-executive directors. The membership of the first line of defence committees comprises executive management.

Minutes of all first line committee meetings are made available to the relevant Board Committee. Board Committee meeting minutes are received by the Board at its next meeting.

The Group's Internal Audit function has been outsourced to PricewaterhouseCoopers LLP (PwC) and its representatives attend the Audit Committee and the Risk and Conduct Committee. PwC uses in-house experts when auditing complex, technical areas such as Actuarial, Treasury and IT.

The Board has retained the services of Oliver Gillespie of Milliman to advise it specifically on actuarial issues.

Roles and responsibilities of the Board

The Board has ultimate responsibility for the proper stewardship of the Company in all its undertakings. It meets regularly throughout the year to discharge its responsibilities for all important aspects of the Company's affairs, including monitoring performance, considering major strategic issues, approving budgets and business plans and reviewing operational performance. The Board holds regular discussions with the Company's shareholder to ensure a clear understanding of its views and requirements and during the year a shareholder covenant was agreed detailing the shareholder expectations of the Company.

Roles and responsibilities of the Risk and Conduct Committee

All members of the Risk and Conduct Committee are non-executive directors. Executive members of the Board and other senior executives attend as required by the Chairman.

The function of the Risk and Conduct Committee is to oversee the management of risk and the conduct of business on behalf of the Board to ensure that significant risks are identified, understood, assessed and managed and that good customer outcomes are achieved. The committee also oversees the Company's product governance. It is responsible for the second line of defence of the business, ensuring that the level of assurance available to the Board is sufficient and appropriate.

Roles and responsibilities of the Audit Committee

All members of the Audit Committee are non-executive directors. Executive members of the Board and other senior executives attend as required by the Chairman.

The function of the Audit Committee is to be responsible for the Company's third line of defence to monitor and review the work of the internal audit function, to consider the adequacy of internal control systems, to review the relationship with the external auditors, to review the statutory accounts including the key estimates and judgements used in the statutory accounts, and to consider compliance issues.

The committee also oversees the actuarial methods and results underpinning the Company valuation. This includes consideration of this SFCR and the approval of applications made to the PRA.

Roles and responsibilities of the Remuneration Committee

All members of the Remuneration Committee are non-executive directors. Executive members of the Board and other senior executives attend as required by the Chairman.

The function of the Remuneration Committee is to consider remuneration policy and specifically to determine the remuneration and other terms of service of executive directors and senior managers. The executive directors decide fees payable to non-executive directors.

Roles and responsibilities of the Nomination Committee

All members of the Nomination Committee are non-executive directors. Executive members of the Board and other senior executives attend as required by the Chairman.

The function of the committee is to recommend the appointment of directors to the Board and Board Committees and to ensure that there is an appropriate succession plan for executive and senior management positions.

Roles and responsibilities of the Special Committee

The committee is comprised of directors of the Company, one of whom must be a non-executive director. The role of the Special Committee is to provide a degree of non-executive oversight for certain specific matters without the need to convene a full Board meeting.

The functions of the committee include authorising individuals to execute documents on behalf of the Company and determine the mandate levels for individuals to operate and authorise bank account transactions for the Company.

Roles and responsibilities of the Assets and Liabilities Committee ("ALCO")

The committee consists of executive management and implements the policies of the Board with respect to liquidity and interest rate risk management and provides recommendations to the Board on strategies for managing these risks. It also monitors and controls new business pricing and treasury credit risk.

Roles and responsibilities of the Executive Risk Committee

The committee consists of executive management and monitors the Company's risk management framework. It also monitors and co-ordinates the activities of compliance, risk assurance and internal audit throughout the Company.

Roles and responsibilities of the Retail Credit Committee

The committee consists of executive management and is responsible for the implementation and maintenance of the overall risk management framework in respect of retail credit risk and responsible lending. It monitors the retail credit risk exposures of the Company and ensures that appropriate systems of internal control are in place to effectively manage retail credit risk. The risks associated with the Company's lifetime mortgages are addressed by this committee.

Roles and responsibilities of the Actuarial Committee

The committee consists of executive management and is responsible for monitoring the insurance risk exposure of the Company including longevity risk. It also monitors and provides input to the methods and assumptions used to undertake actuarial valuations of the Company's assets and liabilities. A further responsibility of the committee is ensuring adherence to the Group Model Governance Policy.

Roles and responsibilities of the Leadership Team

The committee consists of executive management and is responsible for the formulation and execution of the Company's strategy, and the day-to-day management of the Company, subject to specific limitations and constraints imposed by Board and is also responsible for formulating the IT strategy and policy and monitors and authorises IT activities throughout the Company.

Main roles and responsibilities of key functions

Risk function: The risk function is headed by the Head of Risk. Key responsibilities include:

- Promotion, training, maintenance and development of the risk management framework;
- Monitoring the consistency of application and ensuring the risk management framework is embedded across the Group;
- Provision of regular risk reporting to the Risk and Conduct Committee and other key Committees as required; and

- Undertaking a programme of assurance monitoring through a second line Assurance team to enable it to assess whether the first line of defence is operating effectively.

To ensure independence of the second line risk function, the Risk Team reports to the Risk and Conduct Committee and has direct access to the Chairman of that committee.

Compliance function: The Compliance function is headed by the Head of Compliance. Key responsibilities include;

- Approval of financial promotions;
- Management of financial crime and risks and oversight of General Data Protection Regulation (GDPR) compliance;
- Completion of regulatory horizon scanning;
- Ensuring all staff receive regulatory training on a regular basis;
- Provision of regulatory advice to support business management ensure regulatory compliance; and
- Supporting the promotion, training and embedding of the risk management framework.

Internal audit function: The Company outsources its internal audit function to PwC. The internal audit function reports to the Audit Committee and has direct access to the Chairman of that committee.

Actuarial function: The actuarial function is headed by the Chief Actuary; information on how the actuarial function is implemented is included in section B.6.

Material changes to the governance structure over the reporting period

Previously, the Risk function and the Compliance function were headed by the Head of Risk and Compliance. These two functions were separated in the year and the responsibilities of the Head of Risk and Compliance were split between the Head of Risk and the Head of Compliance.

Remuneration policy and practices

The Remuneration Policy is intended to attract, retain and motivate employees to achieve the objectives of the Company, to align to its values and to operate within its risk appetite and risk management framework. It is noted that the documented policy in place is set at a Group level and no specific elements or adjustments to this policy are deemed necessary for the Company.

The following factors underpin the Company’s remuneration practices;

- Remuneration should facilitate the delivery of results which enhance the long term interests of the Company’s stakeholders, including its shareholders.
- Remuneration should support the corporate values and desired culture.
- Remuneration should support the attraction, retention, motivation and alignment of the talent needed to achieve our business goals.
- Remuneration should reinforce leadership, accountability, teamwork and innovation.
- Remuneration should be aligned to the contribution and performance of the businesses, teams and individuals.

Fixed Remuneration

Fixed remuneration packages (comprising monetary and benefits elements) offered to staff are dependent on grade. Core benefits are available to all employees, with the exception of non-executive directors.

Regular benchmarking is undertaken to ensure that remuneration is line with market rates.

Variable Remuneration

Variable remuneration awards are non-contractual discretionary benefits based on company and individual performance. Both short and long term incentives are in place:

Short term	• The annual cash bonus is a performance-based remuneration plan designed to reward achievement of agreed budgets and short term objectives. This includes financial and non-financial results and measures. It is noted that none of the bonus elements are linked to individual sales targets. The annual cash bonus applies to all employees with the exception of the senior employees who only participate in the long term incentive plan (LTIP).
Long-term incentive plan (LTIP)	• The purpose of the LTIP is to align the interests of senior employees with the long-term interests of the Company. • The Board has a strategy to achieve strong yet sustainable growth. It also recognises that the achievement of that strategy is heavily dependent on senior employees within the Company and rewards them for the part they play in achieving that strategy. • Whilst senior employees may have specific business unit responsibilities, the Board wishes to foster a "single entity" culture, such that overall performance of the combined entity is the driving factor. It believes that the provision of an LTIP achieves this aim.

The Remuneration Committee may, at its discretion, award bonuses to individuals/categories of employees, without reference to specific qualifying financial criteria, if it feels that performance warrants a bonus.

We do not offer share options or shares, and as a matter of principle the Company does not enter into supplementary arrangements, unless exceptional circumstances dictate.

The Remuneration Committee approves all retention or termination payments which are not contractual.

Material transactions during the reporting period

A dividend was paid to Hodge Limited in the year as part of a restructure of the Hodge Limited group of companies to provide greater clarity and oversight over the activities of the Company.

There were no other material transactions with shareholders or members of the Board during the reporting period.

B.2 Fit and proper requirements

The Company has documented fitness and propriety procedures in place that outline the checks to be undertaken at both initial selection stages and regular annual assessments.

Roles that fall within the scope of the Senior Insurance Managers Regime (SIMR) are subject to the following pre-employment checks upon appointment (dependent on the role):

- Disclosures
- Credit search
- Identity check
- Sanctions screening
- FCA Register search
- Directorship check
- 6 years employment history via regulatory references
- Criminal records (DBS) check
- Qualification certificates

The Nomination Committee will meet as required to consider recommendations in relation to the appointment of directors to the Board and roles that require regulatory approval. Additionally, the Nomination Committee is also responsible for reviewing the Board composition and succession planning to ensure that a balanced and appropriately qualified Board is in place.

Fitness and propriety checks during employment include:

- Credit search (Annual)
- Criminal records (DBS) check (Annual)
- Performance review documentation (Annual)
- Personal development records (Annual)

Records are maintained of all fitness and propriety checks and the allocation of prescribed responsibilities within a central database.

Selection of all candidates in all roles is based on their ability to do the job and potential for development. Selection decisions will reflect the skills, knowledge, and experience and where appropriate qualifications as specified in job descriptions.

Due regard is given in designing interview requirements, to include assessment of relevant skills, professional background and attributes relevant to the role. Where appropriate, tests will be conducted to ensure those essential skills, inherent to the job, are demonstrated during the recruitment process.

Our performance management and learning and development policies, ensure that individuals maintain and continue to develop the relevant skills, knowledge and expertise to carry out their roles on an on-going basis.

Senior Insurance Managers Regime (SIMR)

As part of the PRA Rulebook insurance firms are required to allocate responsibility for controlled functions to named individuals in the Company.

The table below summarises the controlled functions prescribed under the SIMR regulation as at 31 October 2018. These have been allocated to individuals within the

Company using the fit and proper requirements highlighted above. It is noted that from 10 December 2018, the Senior Managers and Certification Regime extends to insurers. This has no material impact to the allocation of functions but will increase the scope of prescribed responsibilities to be allocated within HLAC.

SIMR reference	Description
SIMF1	The Chief Executive function
SIMF2	Chief Finance function
SIMF7	Group Entity Senior Manager function
SIMF9	Chairman function
SIMF10	Chairman of Risk Committee function
SIMF11	Chairman of Audit Committee function
SIMF12	Chairman of Remuneration Committee function
SIMF20	Chief Actuary function
CF2a	Chair of Nomination Committee Function
CF10	Compliance Oversight Function
CF11	Money Laundering Reporting Function

B.3 Risk management system including the own risk and solvency assessment

The Company operates a 'three lines of defence' model for risk management and oversight:

- The first line of defence has responsibility for the management of risk across the organisation and comprises executive committees, management and staff.
- The second line of defence is responsible for provision of oversight to ensure that the first line of defence is managing risk within the Board-approved risk appetite and in line with the Risk Management Framework (RMF).
- The third line of defence is responsible for the provision of independent assurance with regard to the effectiveness of internal controls and risk management processes across both first and second lines.

The RMF comprises a number of components and activities, some of the key components are summarised below.

RMF component	Description
Risk culture	The risk culture sets out the framework required to promote a strong risk intelligent culture so that everyone understands the approach to risk and takes personal responsibility to manage risk across the business.
Risk strategy	The risk strategy sets out the types of risk that the Company is willing to be exposed to as a result of its business strategy, and the desired risk management capability required to support achievement of this.
Risk appetite	Risk appetite defines the level of risk that the Company is willing to accept or wishes to avoid in order to meet its business

RMF component	Description
	objectives. It includes both qualitative statements and quantitative measures and addresses each of the key risk types faced by the Company as articulated within the risk strategy document.
Risk management policies and procedures	A number of policies and procedures are in place that set out a more detailed, granular expression of the risk exposures that are acceptable to the Company for each risk type. These aim to communicate the appetite for each risk to relevant members of staff, including any board-level limits and triggers set out within the risk appetite. These limits and triggers will be supported, where appropriate, by more granular limits / measures for monitoring by the relevant executive committee and management.
Risk management cycle	The risk management cycle comprises a number of processes to support the identification, assessment, management, monitoring and reporting of risks against risk appetite. Some of the key processes within the risk management cycle include: • Risk register: The risk register acts as a central record of the key risk types faced by the business and enables comparison of risk exposures for each risk type through the use of standardised risk rating methodology. It is senior management's responsibility to identify the key risks to which the business is exposed, whether internal or external, and to ensure that those risks are managed effectively. The risk function is responsible for the co-ordination, completion and review of the consolidated risk register, and for provision of oversight and challenge on senior management's assessment. • Risk assessments: Risk assessments include consideration of both current and emerging risks. The risk function provides regular oversight and challenge in respect of the departmental risk assessment and ensures that risks are escalated in accordance with the RMF. Emerging risks are considered by the Executive Risk Committee and reported to the risk function which is responsible for maintaining a database of all such risks. Significant emerging risks are reported to the Risk and Conduct Committee on a quarterly basis to ensure that strategies and initiatives are appropriate to mitigate the key risks. • Losses and near misses: Losses and near misses are reported to the Executive Risk Committee by each operational area on a quarterly basis. A summary of this is reported to the Risk and Conduct Committee on a quarterly basis. • Stress and scenario testing: A key component of the risk management framework is stress testing and scenario analysis through which the Company assesses the impact of risks that could threaten the business model, future profitability, solvency, liquidity or capital adequacy of the Company. The Board and senior management have engaged in a number of exercises which have considered and developed stress tests covering a range of risk categories. Stress testing is central to the annual business planning process and to the annual review and ongoing development of the Company's risk appetite.

RMF component	Description
Risk reporting	Risk reporting against policy requirements, risk appetite limits and triggers and risk exposures is in place through the reports provided to: • The Executive Risk Committee to enable it to monitor and manage risks in accordance with the terms of reference; and • The Risk and Conduct Committee which receives regular Key Risk Indicator reports to enable it to provide oversight and challenge across all risk types.

The Board is ultimately responsible for ensuring the effectiveness of the risk management framework, including approval of risk strategy and risk appetite. The Risk and Conduct Committee supports the Board in discharging this responsibility.

Own risk and solvency assessment (ORSA)

The ORSA is the Company's own view of its risk profile and the capital needed to manage these risks. The Company has quantified through its own analysis the size of historic risk events to translate these in to appropriate stress tests to use within the ORSA.

As part of the ORSA the Company confirms that it expects to comply continuously with the regulatory capital requirements. This is assessed on a forward-looking basis showing that own funds are expected to exceed solvency capital requirements over the business planning period.

The Company also assesses the appropriateness of the standard formula calculation of the SCR. This confirms that the risk profile does not materially deviate from the assumptions underlying the standard formula calculation of the SCR and provides justification for any residual deviations.

The ORSA is governed by an ORSA policy. This policy sets out the Board's expectations for completion of the ORSA, the normal ORSA timetable and the main roles and responsibilities. The ORSA policy is subject to an annual review by The Board.

The ORSA is carried out at least annually. Significant changes to the Company risk profile may trigger an interim ORSA report, outside the normal annual cycle. The regular risk and performance reports produced by the Company will highlight whether there are any significant emerging events which may suggest an interim ORSA should be produced. No triggers have occurred since the last ORSA report was produced.

The Chief Actuary has overall responsibility for the ORSA process and the ORSA report. The actuarial team carries out the calculations and drafts the report.

The ORSA report is reviewed by the Actuarial Committee, risk function and an external technical advisor to the Board. The ORSA report and processes are also subject to periodic internal audit review. The Board is the ultimate owner of the ORSA and approves the final report.

Embedding the ORSA within the Company

The ORSA is an integral part of the Solvency II regime, bringing together risk management and solvency needs. It is designed to be a continual point of reference for Board and help guide decision making by taking into account the risks the Company faces.

The ORSA is embedded into the Company's activities and management as follows:

- Financial forecasts and budgets reflect a forward-looking assessment of the capital requirements of the business.
- The Company's risk appetite is set with regard to the risks identified in the ORSA and the corresponding capital requirements.
- New business pricing assumptions are consistent with the best estimate valuation basis used in the ORSA.
- Regular stress and scenario testing is undertaken which reflects the risks identified in the ORSA.
- Key Risk Indicators (KRIs) which reflect risks identified in the ORSA are used as an early warning trigger for risk events. These are reported quarterly to the Risk and Conduct Committee to assess the impact on the solvency position of the Company on both a regulatory and ORSA basis. This assessment confirms the Company is operating within the limits set by the risk appetite.

B.4 Internal control system

The risk management policy requires that management should ensure that procedures clearly reflect the controls in place and communicate the processes to be followed by staff.

Key controls can be summarised as follows:

Control	Summary
Mandate Structure	A tiered mandate structure is in place for the authorisation of payments and transactions and for entering into contractual arrangements.
Access Controls and Segregation of Duties	Access to systems is restricted to those who require it in order to effectively carry out their role. Care is taken to ensure that a single member of staff does not have the ability to process a transaction from beginning to end. This is particularly important within the treasury function, where front office is clearly separated from back office operations.
Physical security	Access to the premises is controlled through electronic security passes, a manned reception desk and intruder alarms. Cheque books are locked in a security cabinet and only required staff given access.
Training and Supervision	All staff are provided with induction training and an on-going framework of refresher training to ensure that they have and retain the expected level of knowledge and skills to perform their role. All staff are closely supervised, with quality assurance monitoring in place within regulated areas of the business to ensure that any knowledge gaps are identified and filled.
Reconciliation controls	Business systems are regularly reconciled and suspense accounts regularly reviewed to ensure that transactions are accurate. The general ledger is also regularly reconciled to ensure the accuracy of financial reporting.
Data controls	Policy data is subject to regular reconciliation and reasonableness checks to ensure completeness, validity and accuracy of data on which actuarial valuations are based.

Control	Summary
Succession Planning	Succession plans are in place for both non-executive directors and executive management to mitigate the impact of loss of a key member of staff.
Information Security	Key system controls are in place to ensure the security of systems and data. These include the daily back-up of systems, anti-virus, firewall protection and email encryption. Staff are provided with training on how to keep information secure both at induction and on an annual basis.
Business Continuity and Disaster Recovery	A business continuity plan is in place and tested on a regular basis to ensure that the business could continue in operation in the event of a disaster.
Experience investigations	These are performed annually for key assumptions used in the actuarial valuation to assess their on-going appropriateness. This forms an integral part of the actuarial control cycle.
Horizon scanning	Regular horizon scanning is co-ordinated by the compliance function to ensure that any updates or changes to regulatory or legal requirements are identified and assessed in a timely manner.
Board reporting	A business performance report is presented at every Board meeting explaining the sources of profit in the month and the financial impact of emerging experience. This acts as an early warning signal for adverse experience.
Internal audit	Regular reviews are performed to ensure that HLAC's internal controls remain adequate. Internal audit reports therefore serve as a trigger to review any net risk assessments where control failings or issues have been identified.
Model governance	Significant models are subject to the application of robust controls, including their development, production and validation through a change control process. The Actuarial Committee monitors the effectiveness of model governance processes.
External advisors	These are used where appropriate to assist in identifying new risks on the horizon.

The responsibility for monitoring on-going compliance with policies and procedures remains with first line management. The process level risk assessments capture management's assessment of the effectiveness of controls in place. The programmes of work undertaken by the second and third line provide additional assurance to the Board in relation to the adequacy and effectiveness of the internal control environment.

B.5 Internal audit function

The Company outsources its internal audit function to PwC. The internal audit function reports to the Audit Committee and has direct access to the Chairman of that committee to provide for its on-going independence.

The internal audit function undertakes a programme of internal reviews, as set out within its five year risk-based strategy and annual plan approved by the Audit Committee. An annual report is provided to the Audit Committee to provide a summary of the work performed throughout the year, in addition to the individual audit reports produced following every review, to provide independent assurance to that committee that controls within the area of review have been designed and are operating effectively.

B.6 Actuarial function

The Company has an in-house actuarial team to support the business and meet the requirements of the actuarial function. The actuarial team is headed by the Chief Actuary, who is also an in-house member of staff.

The Chief Actuary is a Fellow of the Institute and Faculty of Actuaries, holds a Chief Actuary (Life) Practising Certificate and is an Approved Person under the Senior Insurance Management Regime (SIMR).

The Chief Actuary reports into the Chief Executive Officer.

The key responsibilities of the actuarial function are to:
- Coordinate the calculation of technical provisions
- Justify differences in technical provisions from year to year
- Compare best estimates against experience
- Assess the appropriateness of methods and assumptions
- Assess the sufficiency and quality of data
- Assess whether IT systems used in calculations support the methodologies
- Assess the uncertainty of estimates
- Express an opinion on the overall underwriting policy
- Express an opinion on the adequacy of reinsurance arrangements
- Contribute to risk management through risk modelling underlying capital requirements
- Produce written reports to Board setting out the tasks undertaken by the actuarial function

B.7 Outsourcing policy

The Company elects to outsource a number of activities through the use of specialist third parties to undertake certain tasks, in preference to undertaking these tasks itself. All third parties are located in the UK.

The following activities are currently outsourced:
- Use of RICS-qualified surveyors to undertake valuations of residential property used as security for a lifetime mortgage or reversion;
- Use of third party legal firms to undertake the conveyancing of residential property transactions and the related loan redemption or property sale;
- Use of a third party to undertake annuity servicing;
- Use of a third party investment manager to make recommendations in relation to corporate bond investments;
- Use of third party internal audit function (as covered in B.5).

The Company's outsourcing policy outlines the process that must be followed for any proposed outsourcing arrangements and operations that must be in place to manage on an on-going basis. This includes consideration of whether the outsourcing will be of a critical or important nature.

On-going monitoring activities include a combination of monitoring of adherence to service level agreements and regular account management meetings and visits. These are also subject to second and third line coverage.

Adequacy of the system of governance

It is considered that the system of governance in place, comprising the organisational structure, risk management and internal control systems, is effective and provides for sound and prudent management of risks faced by the Company. Structures support the strategic objectives and operations of the Company and ensure that the Board is able to make informed business decisions with a full appreciation of the impact on risk exposures and whether they are in within risk appetite.

B.8 Any other information

None.

C. Risk profile

Risk assessment process

The HLAC Board is responsible for the adequacy of HLAC's risk management processes and framework, and for ensuring that all material risks are identified and addressed. At an executive level, the first line committees are responsible for ensuring the identification and management of risks and the Executive Risk Committee is responsible for the adequacy of the risk management framework.

Risk profile

HLAC has a well-defined business model and organic growth strategy, which is focused on the retirement sector. HLAC writes business in the UK only. The Company matches pension annuity liabilities with lifetime mortgage assets, reversions, fixed income securities and cash.

As a result of writing annuity business, the Company is exposed to the risk that annuitants live longer than estimated, increasing the overall amount of annuity payments made to policyholders.

The Company has been active in the equity release sector since 1965, and has developed significant skill and expertise in managing the risks involved in this business. The key risk associated with equity release is the No Negative Equity Guarantee (NNEG) included on all lifetime mortgages, meaning that, if, at the end of the loan, the property price is insufficient to repay the loan a loss is incurred by the Company.

Hodge Lifetime has vast experience of the entire lifecycle of the product, including the sale of property after the death of the borrowers.

Prudent person principle

The Company believes that the overall investment strategy combining lifetime mortgages with fixed income securities, reversions and cash holdings gives a suitable match for annuity liabilities.

The Company recognises that legacy reversion assets and lifetime mortgages are also illiquid assets. The Company's liquidity risk policy is reflected in the levels of cash and other liquid assets it maintains to meet its shorter term obligations and structural risks.

The Company's retail credit risk policy limits the overall exposure to the risks associated with lifetime mortgages through property eligibility criteria, loan amount limits and geographical exposure limits for new lending.

The Company's treasury credit risk policy limits the overall exposure to credit default risk and counterparty risk through debt securities, money market funds and deposits with credit institutions.

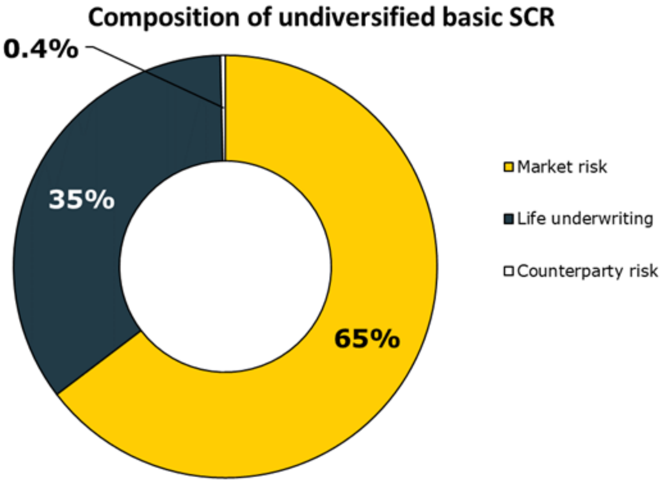
Derivative contracts are held to mitigate the exposure to interest rate risk arising through the investment of surplus funds into lifetime mortgages.

The Company's operational risk policy defines the types of operational risk faced, the level of risk appetite and policy limits and the processes in place to identify, assess, manage, monitor and report operational risks and events. The Company accepts that operational risks arising from its people, processes, systems or the external environment are a natural consequence of its business operations but seeks to avoid or mitigate the risk to a minor level wherever practical.

Risk exposures

An overview of the principal risks associated with the business including an outline of how they are managed is summarised in the following section.

The resulting risk profile as given by the standard formula Solvency Capital Requirement (SCR) for HLAC as at 31 October 2018 is shown below.



The majority of the risk exposure under the standard formula SCR relates to market risk. This is driven by the Company's holdings of lifetime mortgages, reversions and debt securities. The life underwriting risk is driven by the annuity business the Company has written. The counterparty default risk relates to deposits with credit institutions and other money market funds held by the Company and exposures created through derivative contracts (interest rate swaps).

Risk sensitivity

The Company carries out stress and sensitivity analysis as part of its annual ORSA process which includes stress testing for its material risks.

ORSA stress tests are based on extreme events with an associated probability of 1 in 200 years. These events have been set through the Company's own analysis of historic risk events.

This stress testing has identified that the Company is most exposed to the longevity risk associated with its annuity contracts and property risks associated with lifetime mortgages and reversions.

Section C7 details a sensitivity analysis of key risks to which the Company is exposed. The results of this analysis demonstrate that the Company remains sufficiently capitalised in each of the risk scenarios.

C.1 Underwriting risk

Longevity risk

The Company is exposed to longevity risk through the annuity contracts it has written. Actuarial assumptions relating to the level and trend of mortality rates are required for both pricing and reserving for these contracts. The Company is exposed to the risk that actual experience of mortality rates is lower than these assumptions.

The amount of longevity risk exposure is managed by a longevity risk policy that defines the nature of the risk and outlines the risk appetite and operating limits. The policy defines limits on the acceptance of new business and avoidance of concentration of risk in any individual contract. Actuarial assumptions are determined using recent experience combined with industry standard mortality tables and mortality improvement models. An experience analysis investigation is carried out annually to confirm the appropriateness of the mortality assumptions.

The Company does not currently use reinsurance to mitigate longevity risk.

Expense risk

The Company is exposed to the risk that the costs of administering the in force portfolio are higher than expected. Actuarial assumptions relating to the amount of expenses and future inflation of expenses are required for pricing and reserving of the annuity contracts.

An experience analysis investigation is carried out annually to confirm the appropriateness of the expense assumptions.

C.2 Market risk

The Company is exposed to market risk through its holdings of lifetime mortgages, reversions and debt securities. Section D.1 sets out the valuation of the Company's assets.

Property risk

The Company is exposed to property risk through its holdings of reversions. The reversions are a direct interest in property and therefore the value of this asset class will follow the performance of the UK residential property market. HLAC is exposed to the risk of a fall in property prices.

The reversion portfolio is closed to new lending and is in rapid run off due to the old average age of the underlying lives.

The Company is also exposed to property risk through lifetime mortgages. Falls in property prices will increase the likelihood of incurring losses as a result of the presence of the NNEG. This risk is captured in the spread risk module of the Standard Formula.

Interest rate risk

Interest rate risk arises through any mismatch in the amount and timing of cash flows on assets and liabilities held by the Company.

The Company monitors 3 balance sheets: IFRS, Solvency II Pillar I and ORSA. The capital resources and capital requirements differ between these measures and will move differently as interest rates change.

It is therefore necessary to take a balanced approach between these three balance sheets in assessing the overall level of interest rate risk exposure and interest rate derivatives are used to mitigate this risk.

Concentration risk

The Company may be exposed to concentration risk as a result of large individual exposures within its investment portfolios.

For lifetime mortgages, this risk is managed by limits on the maximum loan amount to any individual. For debt securities, this risk is managed through counterparty limits set in the Company's treasury credit risk policy. Reversions are closed to new business and therefore concentration risk is not considered a key risk for these products.

Other market risks

HLAC does not have any exposure to equity risk or currency risk. Exposure to credit risk is detailed in the section below.

C.3 Credit risk

Spread risk

Spread risk is the risk of movements in the market price of investments as a result of a change in the perceived credit quality of the asset. The Company is exposed to the spread risk associated with lifetime mortgages and debt securities.

The exposure to credit risk through lifetime mortgages is mitigated through limits on new lending set out in the Company's retail credit risk policy. The exposure to credit risk through debt securities is mitigated through the Company's treasury credit risk policy.

Counterparty default risk

Counterparty default risk is the risk that the Company cannot recover the value of its assets if the counterparty defaults. The Company is exposed to counterparty default risk associated with money market funds and deposits with credit institutions as well as exposures created through derivative contracts.

The exposure to counterparty default risk is mitigated through the Company's treasury credit risk policy.

C.4 Liquidity risk

Liquidity risk arises through an inability to meet the Company's obligations as they fall due. These obligations are predominantly the payment of annuity benefits.

The Company recognises that legacy reversion assets and lifetime mortgages are illiquid assets. The Company operates a liquidity risk policy and explicit liquidity risk appetite statements to monitor and manage liquidity risk exposure.

The exposure to liquidity risk is mitigated through minimum requirements for highly liquid assets held as set out in the Company's liquidity policy. This requires the Company to hold sufficient liquid assets to withstand a severe liquidity shock scenario.

HLAC's insurance contracts are entirely single premium annuities and therefore there is no Expected Profit Included in Future Premiums ("EPIFP").

C.5 Operational risk

The Company accepts that operational risks arising from its people, processes, systems, third parties or the external environment are a natural consequence of its business operations but seeks to avoid or mitigate the risk to a minor level wherever practical. The operational risk policy defines the types of operational risk faced, the level of risk appetite and policy limits and the processes in place to identify, assess, manage, monitor and report operational risks and events.

C.6 Other material risks

The company is exposed to the following additional risks.

Conduct risk

Conduct risk has the potential to arise if the Company's behaviours result in poor customer outcomes; it is inherent in any operation that provides products or services to customers. Delivering good customer outcomes is a key driver in building a valuable, sustainable business and the Company is only willing to tolerate negligible levels of conduct risk. Annuities and later life lending products are distributed through regulated intermediaries which mitigates the exposure to direct sales and distribution.

Regular conduct risk training is completed for all staff members, with more in-depth training for certified individuals. Additionally, a number of processes are in place and executed by first line management to manage and monitor conduct risk exposures across the end to end customer journey. Conduct risk processes are subject to review and challenge as part of the annual assurance plan, and oversight provided by the Head of Risk and Compliance.

C.7 Any other information

The risk exposures highlighted above have not materially changed over the year and no new categories of risk exposure have been introduced.

The Solvency II balance sheet at 31 October 2018 has been recalculated to show the sensitivity of results to changes in assumptions. Sensitivity analysis helps the Company understand the impact of a range of risk events on the Solvency II balance sheet. The SCR coverage ratio at 31 October 2018 was 183%.

Sensitivities	Impact on own funds (£000s)	Impact on SCR (£000s)	Impact on SCR coverage ratio (%)
1% fall in interest rates	1,457	13,727	-26%
10% fall in property values	(11,310)	(1,557)	-11%
10% decrease in mortality (annuities only)	(17,403)	432	-23%

Assumptions

- 1% fall in interest rates: this sensitivity reduces the discount rate used for assets and liabilities by 1%. This is subject to a floor of 0%. The Company has assumed that the transitional measure on technical provisions has been recalculated in this scenario. Asset and liability values increase in an interest rate down stress. Larger asset and liability values result in a greater impact of the SCR stresses leading to a large increase in the SCR.
- 10% fall in property values: this sensitivity allows for a change in lifetime mortgage and reversion asset values arising from an immediate fall of 10% in property prices. This stress results in a fall in asset value leading to a reduction in own funds. The lower value of assets results in a smaller impact of the stresses in the SCR.
- 10% decrease in mortality: this sensitivity allows for a 10% decrease in base mortality rates. This sensitivity is modelled only for annuities however under this scenario an offsetting positive impact would arise for lifetime mortgages. Liability values increase while asset values remain unchanged leading to a reduction in own funds. The increased value of liabilities results in a larger impact of the stresses in the SCR.
- No future management actions are modelled.
- For each of the sensitivities, all of the other assumptions remain unchanged.

Risk appetite for risk sensitivities

The Company remains sufficiently capitalised in each of the risk scenarios above. The Company does not expect any of these scenarios to undermine the strategy and business model of the Company.

The Company has specific risk appetite statements relating to the sensitivity of the balance sheet to individual risk factors. This is used to monitor and manage the degree of exposure to each risk factor.

D. Valuation for Solvency purposes

D.1 Assets

Summary of asset valuation

The table below sets out the valuation of the Company's assets on an IFRS and Solvency II basis as at 31 October 2018:

31 October 2018 (£000)	Solvency II	IFRS
Loans and advances to credit institutions	15,900	16,147
Debt securities & treasury bills	79,357	79,357
Investment properties – reversionary interest in properties	78,769	78,769
Investments	415,331	415,331
Intangibles	1	1
Other receivables	794	547
Prepayments and accrued income	460	460
Derivatives	156	144
Total assets	**590,768**	**590,756**

Unless noted otherwise below, no changes have been made to the recognition and valuation bases used or to estimations during the reporting period.

Differences between valuation for solvency purposes and valuation in financial statements

All assets on the Solvency II balance sheet are valued on the same basis as in the financial statements.

The differences in loans and advances to credit institutions and other receivables are due to the reclassification of funds owed from a custodian.

The derivatives are presented differently in the IFRS balance sheet to the Solvency II balance sheet. In the IFRS statements, all of the Company's derivatives are held as assets. In the Solvency II balance sheet, each swap is valued and presented as an asset or liability depending on whether the value is positive or negative.

There are a number of differences in terminology between the description and grouping of assets in the financial statements and the Solvency II balance sheet as set out in the Quantitative Reporting Template (QRT) S.02.01 (see appendix B).

The table below provides a mapping of the IFRS balances to the Solvency II balance sheet. Values are shown in £000s.

Solvency II description	Solvency II value	IFRS description	IFRS value
R0180 Collective investments undertakings	14,022	Loans and advances to credit institutions	**16,147**
R0200 Deposits other than cash equivalents	1,022		
R0410 Cash and cash equivalents	856		
Subtotal	**15,900**		
R0150 Corporate bonds	55,402	Debt securities & treasury bills	**79,357**
R0140 Government bonds	23,955		
Subtotal	**79,357**		
R0080 Property (other than for own use)	**78,769**	Reversionary interest in properties	**78,769**
R0060 Property, plant & equipment held for own use	**1**	Intangible assets	**1**
R0250 Loans and mortgages to individuals	**415,331**	Investments	**415,331**
R0380 Receivables (trade, not insurance)	794	Other receivables	547
R0360 Insurance and intermediaries receivables	460	Prepayments and accrued income	460
Subtotal	**1,254**	Subtotal	**1,007**
R0190 Derivatives	**156**	Derivatives	**144**
	590,768	**Total**	**590,756**

There are small differences as a result of classification into different holdings between IFRS and Solvency II. As noted above, the differences in loans and advances to credit institutions and other receivables are due to the reclassification of funds owed from a custodian.

Fair value estimation

Fair value is the price that would be received to sell an asset at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date.

The Solvency II fair value of assets is consistent with IFRS methodology. The following paragraph describes the IFRS classification. The methods used under IFRS are considered to be consistent with the specific valuation methods permitted for investments valued using "Alternative Valuation Methods" outlined in Article 10(5) - 10(7) of the Solvency II Delegated Regulation.

Where applicable, the Company measures the fair value of a financial instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions take place with sufficient frequency and volume to provide pricing information on an on-going basis. For all other financial instruments, the Company determines fair value using other valuation techniques as summarised in the hierarchy below:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Valuation techniques for which all significant inputs are based on observable markets.
- Level 3: Valuation techniques for which significant inputs are not based on observable markets.

Valuation of collective investments undertakings

The collective investments undertakings are the Company's investment in money market funds. The value of these assets is the total balance held within these funds.

No estimates or judgements are used by the Company in the valuation of this asset class.

Valuation of deposits other than cash equivalents

The deposits other than cash equivalents are collateral amounts pledged as cash to counterparties relating to interest rate derivatives. The value of the collateral is based on the counterparty valuation of the interest rate derivative.

No estimates or judgements are used by the Company in the valuation of this asset class.

Valuation of cash and cash equivalents

The cash and cash equivalents are the Company's deposits with financial institutions. The value of these assets is the total balance held within these deposits.

No estimates or judgements are used by the Company in the valuation of this asset class.

Valuation of government bonds and corporate bonds

The Company measures the fair value of all holdings of government and corporate bonds using the quoted price in an active market for the instrument at the balance sheet date. This is a 'Level 1' valuation for IFRS purposes.

No estimates or judgements are used by the Company in the valuation of this asset class.

Valuation of property (reversionary interest)

The Company measures the fair value of the reversionary interests in property using an actuarial valuation. This is a 'Level 3' valuation for IFRS purposes as there is no active market and the valuation technique requires significant inputs which are not based on observable markets.

The 'Level 3' valuation under IFRS is considered to be consistent with the specific valuation methods permitted for investments valued using "Alternative Valuation Methods" outlined in Article 10(5) - 10(7) of the Solvency II Delegated Regulation.

Significant estimates and judgements are made by the Company in the valuation of this asset class.

The fair value of reversionary interests in property was calculated by discounting the value of future expected cash flows.

The principal assumptions underlying the calculation of reversionary interests in property include the following:

Property prices: The value of a property at the valuation date is based on the value at the last survey and increased to the valuation date using an appropriate index of house prices. It is then adjusted down by an annual underperformance assumption and a deduction for sales costs. This allows for the risk that the properties under-perform the index.

Mortality and entry into long term care: This is based on the combined expectation of death or entry into long term care of the tenant or the last remaining tenant in relation to a joint life contract. This assumption has been derived by reference to PCMA00/PCFA00 mortality tables and the CMI 2017 model for mortality improvements.

Expenses: Assumptions for future policy expense levels are based on the Company's recent expense analyses. Expenses are modelled as an amount per policy per annum that incorporates an annual inflation rate.

Discount rate: The discount rate applied to the reversionary interests in property cash flows comprises two parts: a risk-free curve and an allowance for illiquidity. The risk-free yield curve used within the valuation of reversionary interests is the GBP curve published by EIOPA for 31 October 2018.

Valuation of loans and mortgages to individuals

The Company measures the fair value of the lifetime mortgages using an actuarial valuation. This is a 'Level 3' valuation for IFRS purposes as there is no active market and the valuation technique requires significant inputs which are not based on observable markets.

The 'Level 3' valuation under IFRS is considered to be consistent with the specific valuation methods permitted for investments valued using "Alternative Valuation Methods" outlined in Article 10(5) - 10(7) of the Solvency II Delegated Regulation.

Significant estimates and judgements are made by the Company in the valuation of this asset class.

Changes have been made in the year to the methodology applied to the discounting and expected lapses used in calculating the no negative equity guarantee and the methodology used in the valuation of subsequent draws.

The fair value of lifetime mortgages is calculated by discounting the value of future expected cash flows. The difference between the fair value at the transaction date and the transaction price is not recognised but deferred and recognised uniformly over the expected life of each loan.

The principal assumptions underlying the calculation of lifetime mortgages include the following:

No-negative equity guarantee: The fair value of lifetime mortgages takes into account an explicit provision in respect of the no-negative equity guarantee which is calculated using the Black 76 model. The key assumptions used to derive the value of the no-negative equity guarantee include current property price, property growth and property volatility. The current property price is based on the last survey valuation and increased to the current valuation date using an appropriate index of house prices. It is then adjusted down by an annual property price underperformance assumption and a deduction for sales costs. The future property price is based on the Bank of England implied future inflation adjusted for earnings growth and an annual property price underperformance assumption. The volatility of future property prices is based on historical returns of house price indices with allowance for auto-correlation and any additional volatility arising on individual properties.

Mortality or entry into long term care: This is based on the combined expectation of death or entry into long term care of the borrower or the last remaining borrower in relation to a joint life contract. This assumption has been derived by reference to PCMA00/PCFA00 mortality tables and the CMI 2017 model for mortality improvements.

Voluntary early redemptions: Due to limited market information, these assumptions have been derived from the Company's own experience on this product.

Expenses: Assumptions for future policy expense levels are based on the Company's recent expense analyses. Expenses are modelled as an amount per policy per annum that incorporates an annual inflation rate.
Discount rate: The discount rate applied to the lifetime mortgage cash flows comprises two parts: a risk-free curve and an allowance for illiquidity. The risk-free yield curve is the GBP curve published by EIOPA for 31 October 2018.

Valuation of Receivables (trade, not insurance)

Receivables are the balances owed to the Company by other parties. These are short term receivables and are therefore not discounted.

No estimates or judgements are used by the Company in the valuation of this asset class.

Valuation of Insurance and intermediaries receivable

Receivables are the balances owed to the Company by other parties.

No estimates or judgements are used by the Company in the valuation of this asset class.

Derivatives

This is the fair value of the interest rate swaps held by the Company. The fair value is based on counterparty valuations as these instruments are not traded in an active market. This is a 'Level 2' valuation for IFRS purposes as all inputs to the valuation are taken from observable markets.

The derivatives are presented differently in the IFRS balance sheet to the Solvency II balance sheet. In the IFRS statements, all of the Company's derivatives are held as assets. In the Solvency II balance sheet, each swap is valued and presented as an asset or liability depending on whether the value is positive or negative.

No estimates or judgements are used by the Company in the valuation of this asset class and the valuation under IFRS and Solvency II is the same.

D.2 Technical provisions

Summary of valuation of technical provisions

The table below sets out the valuation of the Company's technical provisions on an IFRS and Solvency II basis as at 31 October 2018. Values are shown in £000s.

Solvency II description	Solvency II value	IFRS description	IFRS value
R0670 Best estimate liabilities	429,201	Provisions for long term business – liabilities arising from insurance contracts	**436,949**
R0680 Risk margin	8,348		
Subtotal	**437,549**		

The above table shows best estimate and risk margin net of transitional measures on technical provisions. The total technical provisions on a Solvency II basis were £437.5m as at 31 October 2018. All technical provisions relate to individual annuity contracts which are classified as 'Other life insurance' lines of business.

The valuation of technical provisions for solvency purposes incorporates the following adjustments for long term guarantees and transitional measures:

- The Company did not use the matching adjustment.
- The Company did not use the volatility adjustment.
- The Company does have approval to use the transitional measures on technical provisions. This amount was £79.0m as described in the following section.
- The Company did not use the transitional measures on interest rates.

Differences between valuation for solvency purposes and valuation in financial statements

The IFRS methodology for the valuation of technical provisions does not include the Solvency II concepts of the risk margin or transitional measures.

The assumptions used in the valuation of insurance liabilities under IFRS also differ from the valuation of the best estimate liabilities under Solvency II:

- The discount rate used under IFRS is higher. Under Solvency II the Company did not use the matching adjustment and therefore must discount liabilities at the risk-free rate. Under IFRS the higher risk-adjusted yield on the Company's assets is used in the liability discount rate.
- The assumptions for longevity and expenses are based on best estimate with a margin of 20% and 15% respectively for adverse deviation under IFRS but are a best estimate under Solvency II.

Valuation of best estimate liabilities for solvency purposes

The valuation of annuity best estimate liabilities is calculated by discounting the future expected cash flows.

The principal assumptions underlying the valuation of annuities include the following:

Mortality rate: This is based on the expectation of death of the annuitant or the last remaining annuitant in relation to a joint life contract. Mortality assumptions have been derived by reference to PCMA00/PCFA00 mortality tables and the CMI 2017 model for mortality improvements.

Expenses: Assumptions for future policy expense levels are based on the Company's recent expense analyses. Expenses are modelled as an amount per policy per annum that incorporates an annual inflation rate. The Company also holds a separate provision for a short term expense overrun.

Discount rate: The discount rate applied to the annuities uses the risk-free yield curve for GBP published by EIOPA for 31 October 2018.

Valuation of risk margin for solvency purposes

The risk margin calculation is calculated by projecting the solvency capital requirement (SCR) for the run-off of existing business for 'non-hedgeable' risks (i.e. risks that cannot be easily transferred to a third party due to the lack of a deep and liquid market). A prescribed cost of capital charge of 6% is applied and the result is then discounted at the risk-free rate to determine the risk margin.

The value of each of the risks is calculated at the valuation date. A 'rebasing' approach is then used to approximate the value of that risk at all future valuation dates. This involves projecting base and stressed values from the valuation date and then rebasing the stressed values at each future time period in line with the expected run off of the business.

Uncertainty associated with the value of technical provisions

The main source of uncertainty in the value of technical provisions relates to the assumptions used in the valuation. There is a risk that future experience differs from the assumptions underlying the best estimate liabilities, for example, annuity policyholders living longer than estimated.

The best estimate assumptions are governed by a rigorous process which includes monitoring actual experience against expected experience and adjusting best estimate assumptions as appropriate. This process is underpinned by actuarial judgement and peer review.

Section C.7 details the sensitivity of the Solvency II own funds and SCR to changes in key assumptions.

Impact of not applying the transitional measures on the solvency position

The Company has applied the transitional measures on technical provisions (TMTP) in the valuation of technical provisions. As at 31 October 2018 the value of the TMTP was £79.0m.

The TMTP has been used by the Company to phase in the impact of moving from the valuation principles under INSPRU to the Solvency II regime. The move to Solvency II has increased the value of technical provisions for the Company in two areas:

- The concept of the matching adjustment is an additional requirement under Solvency II. Under INSPRU the risk adjusted yield on assets was used to discount the value of annuity liabilities. Under Solvency II the Company does not use the matching adjustment and must therefore discount annuity liabilities at the risk-free rate.
- The concept of the risk margin is an additional requirement under Solvency II.

The TMTP was originally approved by the PRA on 17 December 2015 (reference number 2053903) and took effect on 1 January 2016.

The PRA requires firms to carry out a TMTP recalculation at the end of every 24 months following the commencement of the transitional measure on 1 January 2016. The PRA has given HLAC permission to recalculate the TMTP as at 31 December 2017.

The TMTP represents a material balance for the Company given that it is used to cover the impact of not using the matching adjustment and phasing in the risk margin for business written before 1 January 2016. Therefore, not applying the TMTP would result in a material change to the solvency position of the Company.

The table below shows the solvency position of the Company with and without the TMTP.

31 October 2018 (£000s	**Amounts with TMTP**	**Amounts without TMTP**	**Impact of removing the TMTP**
Technical provisions	437,549	516,579	79,030
Deferred tax	(4,240)	9,196	13,436
Basic own funds	143,897	78,302	(65,595)
Eligible own funds to meet Solvency Capital Requirement	143,897	78,302	(65,595)
Solvency Capital Requirement (SCR)	78,443	82,682	4,239
Eligible own funds to meet Minimum Capital Requirement	143,897	78,302	(65,595)
Minimum Capital Requirement (MCR)	19,611	20,671	1,060
SCR coverage ratio	183%	95%	(88)%

Without the TMTP, basic own funds would be expected to reduce by £65.6m to £78.3m after allowing for the effects on deferred taxation. The SCR would be expected to increase by £4.2m to £82.7m because of a reduction in the loss absorbing capacity of deferred taxes (LACDT).

The Company would therefore not have enough own funds to meet the SCR without applying the TMTP.

The Company has prepared a phasing-in plan to demonstrate that sufficient surplus is expected to emerge from the underlying portfolio to fund the unwind of the TMTP under best estimate and stressed conditions.

Use of other adjustments for solvency purposes

The Company did not use the matching adjustment, the volatility adjustment or the transitional measure on interest rates.

Recoverables from reinsurance contracts and other special purpose vehicles

The Company has not entered into any contracts of reinsurance and does not have any transactions with any special purpose vehicles.

Comparison to previous reporting period

The only material change in best estimate assumption was the adoption of the CMI 2017 future mortality improvements model. Section E.2 details the movement in SII surplus over the period.

D.3 Other liabilities

Summary of other liabilities

The table below sets out the valuation of the Company's other liabilities on an IFRS and Solvency II basis as at 31 October 2018. Values are shown in £000s.

<table>
<tr><th>Solvency II description</th><th>Solvency II value</th><th>IFRS description</th><th>IFRS value</th></tr>
<tr><td>R0780 Deferred tax liabilities</td><td>4,240</td><td>Deferred taxation</td><td>4,351</td></tr>
<tr><td>R0790 Derivatives</td><td>12</td><td>Derivative financial instruments</td><td>0</td></tr>
<tr><td>R0820 Insurance and intermediaries payable</td><td>3,420</td><td rowspan="3">Trade and other liabilities</td><td rowspan="3">5,070</td></tr>
<tr><td>R0840 Payables (trade, not insurance)</td><td>1,650</td></tr>
<tr><td>Subtotal</td><td>5,070</td></tr>
</table>

No changes have been made to the recognition and valuation bases used or to estimations during the reporting period.

Deferred tax liabilities

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the IFRS financial statements. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred tax assets and liabilities are measured on a non-discounted basis at the tax rates that are expected to apply when the related asset is realised or liability settled based on the tax rates and laws enacted or substantively enacted at the balance sheet date.

An adjustment is made to the IFRS deferred tax liability for the Solvency balance sheet to take account of the difference between the IFRS and Solvency II valuation of technical provisions.

The difference in deferred tax liability of £0.1m is derived from the difference in technical provisions on the IFRS and Solvency II balance sheets, £0.6m, multiplied by the enacted tax rate as at 31 October 2018, 17%.

No estimates or judgements are used by the Company in the valuation of these liabilities.

There are no unused tax losses.

Derivatives

This is the fair value of the interest rate swaps held by the Company. The fair value is based on counterparty valuations as these instruments are not traded in an active market. This is a 'Level 2' valuation for IFRS purposes as all inputs to the valuation are taken from observable markets.

The derivatives are presented differently in the IFRS balance sheet to the Solvency II balance sheet. In the IFRS statements, all of the Company's derivatives are held as assets. In the Solvency II balance sheet, each swap is valued and presented as an asset or liability depending on whether the value is positive or negative.

No estimates or judgements are used by the Company in the valuation of these liabilities and the valuation under IFRS and Solvency II is the same.

Insurance and intermediaries payables

This balance represents partial funds received in respect of the pipeline of annuity new business. These funds are not recognised as annuity premium income until the annuity is put into payment and are therefore not included in technical provisions.

No estimates or judgements are used by the Company in the valuation of these liabilities and the valuation under IFRS and Solvency II is the same.

Payables (trade, not insurance)

This balance represents amounts owed to other parties. These commitments are short term and therefore no discounting is required.

No estimates or judgements are used by the Company in the valuation of these liabilities and the valuation under IFRS and Solvency II is the same.

D.4 Alternative methods for valuation

Alternative methods of valuation are used for reversionary interests in property and loans and mortgages to individuals as there are no quoted prices or active markets for these asset classes. These methods are described in section D.1.

D.5 Any other information

Policies addressing management of the Company's risks which affect the valuation of assets and liabilities are discussed in section C of this SFCR.

E. Capital management

E.1 Own funds

Objective, policies and processes employed for managing own funds

The Company's risk management framework incorporates explicit risk appetite statements relating to capital. The risk appetite specifies limits and triggers for the ratio of eligible own funds to Solvency Capital Requirements. This SCR coverage ratio is a key risk indicator which is regularly reported to the Risk and Conduct Committee and Board. In the event of a breach of a limit, the Company would consider management actions such as reducing dividends or reducing/stopping new business.

The Company's business plan and strategy is subject to an annual review process and approval by Board. This annual review incorporates a projection of expected SCR coverage over a 5-year planning horizon which also forms a key part of the ORSA process and report. The Company aims to remain within its capital risk appetite over the length of the business planning horizon.

The Company's Risk Management Framework for managing its own funds is designed to achieve the following objectives:

- Provide appropriate security for policyholders and meet all regulatory capital requirements;
- Ensure sufficient liquidity to meet obligations to policyholders and other creditors;
- To meet the dividend expectations of shareholders as set by the Company's dividend policy.

As at 31 October 2018 the ratio of eligible own funds to Solvency Capital Requirements was 183%.

Own funds by tier

The Company's own funds are entirely comprised of ordinary share capital and reconciliation reserves (retained earnings). These items are treated as Tier 1 unrestricted capital items. The entirety of own funds is therefore eligible to cover the Solvency Capital Requirement and Minimum Capital Requirement. The table below summarises the component parts the excess of assets over liabilities.

Decomposition of the excess of assets over liabilities	31 October 2018 (£000s)	31 October 2017 (£000s)
Reconciliation reserve	137,097	148,034
Other basic own fund items	6,800	6,800
Excess of assets over liabilities	**143,897**	**154,834**

No own fund items are subject to transitional arrangements under Articles 308b(9) and 308b(10) of Directive 2009/138/EC.

There are no restrictions affecting the availability and transferability of own funds within the undertaking.

Other basic own funds remained constant in the period.

Recognising that the Company's own funds are a substantial proportion of the reconciliation reserve, the Company manages the sensitivity of its own funds. Section C.7 sets out the sensitivity of own funds to the Company's key risks.

Section E2 provides a summary of changes in own funds and SCR in the year.

Differences between equity as shown in financial statements and excess of assets over liabilities for solvency purposes

Reconciliation of valuation differences	31 October 2018 (£000s)	31 October 2017 (£000s)
Called-up share capital	6,800	6,800
Profit and loss account	137,568	148,616
Total Equity per financial statements	**144,386**	**155,416**
Difference in the valuation of technical provisions	(600)	(759)
Difference in the valuation of other liabilities	111	177
Excess of assets over liabilities for solvency purposes	**143,897**	**154,834**

Called-up share capital of £6.8m comprises 27.2m (2017: 27.2m) ordinary shares of £0.25 each.

The differences in equity between the financial statements and the own funds for solvency purposes are driven by differences in the valuation of technical provisions.

The difference in the valuation of other liabilities relates to the deferred tax impact of the adjustment to technical provisions.

These differences are explained in more detail in section D.2.

Material changes in own funds management

There were no material changes in own funds management in the period.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

The table below sets out the SCR and MCR for the Company as at 31 October 2018 and 31 October 2017.

£000s	31 October 2018	31 October 2017
Solvency Capital Requirement	78,443	76,680
Minimum Capital Requirement	19,611	19,170

Solvency Capital Requirement

As at 31 October 2018 the ratio of eligible own funds to Solvency Capital Requirement was 183%.

The Company applies the standard formula for the calculation of the Solvency Capital Requirement. The Company is not using undertaking-specific parameters (USPs) to calculate its Solvency Capital Requirement. This Company does not use simplified calculations in any of its risk modules or sub-modules when calculating the Solvency Capital Requirement. The Company does not have any investments in securitisations and does not have any off balance sheet items. The Solvency Capital Requirement is subject to supervisory approval.

The table below shows the amount of Solvency Capital Requirement split by risk module.

Risk Module (£000s)	31 October 2018	31 October 2017
Market risk	65,695	67,035
Life underwriting risk	35,541	33,769
Counterparty default risk	375	1,566
Diversification benefit	(19,358)	(19,622)
Basic Solvency Capital Requirement	**82,253**	**82,748**
Operational risk	2,389	1,834
Loss-absorbing capacity of deferred taxes	(6,199)	(7,902)
Solvency Capital Requirement	**78,443**	**76,680**

The below table provides a summary of changes in capital in the year, including own funds:

£000s	Own funds	SCR	Surplus
Opening position as at 31 October 2017	154,834	(76,680)	78,154
Unwind of discount rate	11,676	2,368	14,044
Demographic experience (including assumption changes)	(1,164)	4,770	3,606
Economic variances (including assumption changes)	(535)	(1,878)	(2,413)
New business	(11,204)	(5,276)	(16,480)
Movements in risk margin and TMTP	4,701	0	4,701
Dividend	(15,972)	0	(15,972)
Other movements	1,561	(1,747)	(186)
Closing position as at 31 October 2018	**143,897**	**(78,443)**	**65,454**

Unwind of discount rate

Capital generated from the unwind of the discount rate on in force business generated an increase in surplus of £14.0m.

Demographic experience variances

Actuarial assumptions have been reviewed over the year to reflect demographic experience of the book. These included base mortality, mortality improvements and voluntary prepayment rates. Coupled with experience variances in the year, this contributed to a £3.6m increase in surplus.

Economic variances

Actuarial economic assumptions have been reviewed over the year to reflect recent property price experience. Coupled with variances in interest rates, property growth and expense inflation, this contributed to a reduction of surplus of £2.4m.

New business

Writing new business has reduced surplus by £16.5m in the year.

Movements in risk margin and TMTP

The PRA has given HLAC permission to recalculate the TMTP as at 31 December 2017. This generated £11.1m of surplus. Movements in risk margin and TMTP run off reduced surplus by £6.4m.

Dividend

The £16.0m dividend was part of a restructure of the Hodge Limited group of companies to provide greater clarity and oversight over the activities of the Company.

Other movements

Other movements include tax and other items not categorised elsewhere.

Minimum Capital Requirement

As at 31 October 2018 the ratio of eligible own funds to Minimum Capital Requirement was 734%.

The table below sets out the inputs used to calculate the Minimum Capital Requirement.

Input (£000s)	31 October 2018	31 October 2017
Linear MCR (2.1% of best estimate liabilities)	9,189	8,557
SCR	78,443	76,680
MCR cap (45% of SCR)	35,299	34,506
MCR floor (25% of SCR)	19,611	19,170
Absolute floor of MCR	3,251	3,332
Minimum Capital Requirement	**19,611**	**19,170**

The amount of the Minimum Capital Requirement for the Company is driven by the MCR floor of 25% of the Solvency Capital Requirement.

E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

The Company did not use the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement.

E.4 Differences between the standard formula and any internal model used

The Company used the standard formula and did not use an internal model for the calculation of the Solvency Capital Requirement.

E.5 Non-compliance with the Minimum Capital Requirements and non-compliance with the Solvency Capital Requirement

There was no breach of the Minimum Capital Requirements or Solvency Capital Requirements during the reporting period.

E.6 Any other information

None

Appendix A – Glossary of terms

BEL	Best Estimate Liability. The present value of annuity payments.
DTL	Deferred Tax Liability. Tax charges that are payable in future periods.
EIOPA	European Insurance and Occupational Pensions Authority. European regulator that sets the Solvency II regulations.
FRS101	Financial Reporting Standard 101 Reduced Disclosure Framework. FRS101 was adopted by the Group from October 2016 as the basis for its financial statements.
IFRS	International Financial Reporting Standards. Under FRS101 the Company is exempt from certain disclosure requirements of IFRS.
LACDT	Loss absorbing capacity of deferred tax. A reduction to capital requirements (SCR) to allow for tax losses that may arise as a result of a shock.
NNEG	No Negative Equity Guarantee. A feature of lifetime mortgages where the borrower will not owe more than the value of their house.
ORSA	Own Risk and Solvency Assessment. An internal assessment of risk and capital requirements.
QRT	Quantitative Reporting Templates. Quarterly solvency returns submitted to the PRA.
Risk free rate	The base discount rate set by EIOPA and used in the actuarial valuation.
Risk margin	Part of technical provisions under solvency II. Ensures the technical provisions are sufficient such that another insurer could take over and meet obligations. Takes account of insurance risks and operational risk.
SCR	Solvency Capital Requirement. The risk based capital assessment under Solvency II. Can be set either by standard formula or internal model.
SFCR	Solvency and Financial Condition Report. Annual report to the PRA. Contains a narrative and form based submission.
SII	Solvency II regime effective from 1 January 2016.
Technical provisions	The Solvency II insurance contract liabilities. The sum of best estimate liability (BEL), risk margin and transitional items.
TMTP	Transitional Measures on Technical Provisions. Allows the ‘cost’ of moving to Solvency II to be phased in over 16 years.

Appendix B – Quantitative reporting templates ("QRTs")

The sections to follow set out the annual QRTs for Hodge Life Assurance Company Limited as at 31 October 2017 that we are required to disclose as part of our SFCR in line with Solvency II regulations.

We note that values are shown in thousands of pounds.

List of reported templates

S.01.02.01	Basic information - General
S.02.01.02	Balance sheet
S.05.01.02	Premiums, claims and expenses by line of business
S.05.02.01	Premiums, claims and expenses by country
S.12.01.02	Life and Health SLT Technical Provisions
S.22.01.21	Impact of long term guarantees measures and transitional measures
S.23.01.01	Own Funds
S.25.01.21	Solvency Capital Requirement - for undertakings on Standard Formula
S.28.01.01	Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

Note: We are not required to disclose form S.01.02.01 however this has been included to provide useful information.

S.01.02.01 – Basic information - General

	General information	C0010
R0010	Undertaking name	Hodge Life Assurance Company Limited
R0020	Undertaking identification code	549300VD6I2MUPVFYL37
R0030	Type of code of undertaking	LEI
R0040	Type of undertaking	Life undertakings
R0050	Country of authorisation	GB
R0070	Language of reporting	en
R0080	Reporting submission date	2019-02-06
R0090	Reporting reference date	2018-10-31
R0100	Regular/Ad-hoc submission	Regular reporting
R0110	Currency used for reporting	GBP
R0120	Accounting standards	The undertaking is using FRS101
R0130	Method of Calculation of the SCR	Standard formula
R0140	Use of undertaking specific parameters	No use of undertaking specific parameters
R0150	Ring-fenced funds	Not reporting activity by RFF
R0170	Matching adjustment	No use of matching adjustment
R0180	Volatility adjustment	No use of volatility adjustment
R0190	Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
R0200	Transitional measure on technical provisions	Use of transitional measure on technical provisions
R0210	Initial submission or re-submission	Initial submission

S.02.01.02 – Balance sheet

		Solvency II value
	Assets	C0010
R0010	Goodwill	
R0020	Deferred acquisition costs	
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	1
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	173,327
R0080	*Property (other than for own use)*	78,769
R0090	*Holdings in related undertakings, including participations*	
R0100	*Equities*	
R0110	*Equities - listed*	
R0120	*Equities - unlisted*	
R0130	*Bonds*	79,357
R0140	*Government Bonds*	23,955
R0150	*Corporate Bonds*	55,402
R0160	*Structured notes*	
R0170	*Collateralised securities*	
R0180	*Collective Investments Undertakings*	14,022
R0190	*Derivatives*	156
R0200	*Deposits other than cash equivalents*	1,022
R0210	*Other investments*	
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	415,331
R0240	*Loans on policies*	
R0250	*Loans and mortgages to individuals*	415,331
R0260	*Other loans and mortgages*	
R0270	Reinsurance recoverables from:	
R0280	*Non-life and health similar to non-life*	
R0290	*Non-life excluding health*	
R0300	*Health similar to non-life*	
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	
R0320	*Health similar to life*	
R0330	*Life excluding health and index-linked and unit-linked*	
R0340	*Life index-linked and unit-linked*	
R0350	Deposits to cedants	
R0360	Insurance and intermediaries receivables	460
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	794
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	
R0410	Cash and cash equivalents	856
R0420	Any other assets, not elsewhere shown	
R0500	**Total assets**	590,768

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	
R0520	*Technical provisions - non-life (excluding health)*	
R0530	*TP calculated as a whole*	
R0540	*Best Estimate*	
R0550	*Risk margin*	
R0560	*Technical provisions - health (similar to non-life)*	
R0570	*TP calculated as a whole*	
R0580	*Best Estimate*	
R0590	*Risk margin*	
R0600	Technical provisions - life (excluding index-linked and unit-linked)	437,549
R0610	*Technical provisions - health (similar to life)*	
R0620	*TP calculated as a whole*	
R0630	*Best Estimate*	
R0640	*Risk margin*	
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	437,549
R0660	*TP calculated as a whole*	
R0670	*Best Estimate*	429,201
R0680	*Risk margin*	8,348
R0690	Technical provisions - index-linked and unit-linked	
R0700	*TP calculated as a whole*	
R0710	*Best Estimate*	
R0720	*Risk margin*	
R0730	Other technical provisions	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	4,240
R0790	Derivatives	12
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	3,420
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	1,650
R0850	Subordinated liabilities	
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	
R0880	Any other liabilities, not elsewhere shown	
R0900	**Total liabilities**	446,871
R1000	**Excess of assets over liabilities**	143,897

S.05.01.02 – Premiums, claims and expenses by line of business

	Life	Other life insurance	Total
		C0240	C0300
	Premiums written		
R1410	*Gross*	47,456	47,456
R1420	*Reinsurers' share*		
R1500	*Net*	47,456	47,456
	Premiums earned		
R1510	*Gross*	47,456	47,456
R1520	*Reinsurers' share*		
R1600	*Net*	47,456	47,456
	Claims incurred		
R1610	*Gross*	24,528	24,528
R1620	*Reinsurers' share*		
R1700	*Net*	24,528	24,528
	Changes in other technical provisions		
R1710	*Gross*	20,028	20,028
R1720	*Reinsurers' share*		
R1800	*Net*	20,028	20,028
R1900	**Expenses incurred**	6,746	6,746
R2500	**Other expenses**		
R2600	**Total expenses**	6,746	6,746

S.05.02.01 – Premiums, claims and expenses by country

		C0150	C0160	C0170	C0180	C0190	C0200	C0210
R1400	**Life**	**Home Country**	**Top 5 countries (by amount of gross premiums written) - life obligations**					**Total Top 5 and home country**
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
	Premiums written							
R1410	*Gross*	47,456						47,456
R1420	*Reinsurers' share*							
R1500	*Net*	47,456						47,456
	Premiums earned							
R1510	*Gross*	47,456						47,456
R1520	*Reinsurers' share*							
R1600	*Net*	47,456						47,456
	Claims incurred							
R1610	*Gross*	24,528						24,528
R1620	*Reinsurers' share*							
R1700	*Net*	24,528						24,528
	Changes in other technical provisions							
R1710	*Gross*	20,028						20,028
R1720	*Reinsurers' share*							
R1800	*Net*	20,028						20,028
R1900	**Expenses incurred**	6,746						6,746
R2500	**Other expenses**							
R2600	**Total expenses**	6,746						6,746

S.12.01.02 – Life and Health SLT Technical Provisions

		Other life insurance			
			Contracts without options and guarantees	Contracts with options or guarantees	Total (Life other than health insurance, incl Unit-linked)
		C0060	C0070	C0080	C0150
R0010	**Technical provisions calculated as a whole**				
R0020	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole				
	Technical provisions calculated as a sum of BE and RM				
	Best estimate				
R0030	**Gross Best Estimate**		478,544		478,544
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default				
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re		478,544		478,544
R0100	**Risk margin**	38,035			38,035
	Amount of the transitional on Technical Provisions				
R0110	Technical Provisions calculated as a whole				
R0120	Best estimate		-49,343		-49,343
R0130	Risk margin	-29,687			-29,687
R0200	**Technical provisions - total**	437,549			437,549

S.22.01.21 – Impact of long term guarantees measures and transitionals

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions
		C0010	C0030
R0010	**Technical provisions**	437,549	79,030
R0020	**Basic own funds**	143,897	-65,595
R0050	**Eligible own funds to meet Solvency Capital Requirement**	143,897	-65,595
R0090	**Solvency Capital Requirement**	78,443	4,239
R0100	**Eligible own funds to meet Minimum Capital Requirement**	143,897	-65,595
R0110	**Minimum Capital Requirement**	19,611	1,060

S.23.01.01 – Own funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	6,800	6,800			
R0030	Share premium account related to ordinary share capital					
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings					
R0050	Subordinated mutual member accounts					
R0070	Surplus funds					
R0090	Preference shares					
R0110	Share premium account related to preference shares					
R0130	Reconciliation reserve	137,097	137,097			
R0140	Subordinated liabilities					
R0160	An amount equal to the value of net deferred tax assets					
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above					
	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
R0220	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
	Deductions					
R0230	Deductions for participations in financial and credit institutions					
R0290	**Total basic own funds after deductions**	143,897	143,897			
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand					
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand					
R0320	Unpaid and uncalled preference shares callable on demand					
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand					
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC					
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC					
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC					
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC					
R0390	Other ancillary own funds					
R0400	**Total ancillary own funds**					
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	143,897	143,897			
R0510	Total available own funds to meet the MCR	143,897	143,897			
R0540	Total eligible own funds to meet the SCR	143,897	143,897			
R0550	Total eligible own funds to meet the MCR	143,897	143,897			
R0580	**SCR**	78,443				
R0600	**MCR**	19,611				
R0620	**Ratio of Eligible own funds to SCR**	183%				
R0640	**Ratio of Eligible own funds to MCR**	734%				
	Reconciliation reserve	C0060				
R0700	Excess of assets over liabilities	143,897				
R0710	Own shares (held directly and indirectly)					
R0720	Foreseeable dividends, distributions and charges					
R0730	Other basic own fund items	6,800				
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds					
R0760	**Reconciliation reserve**	137,097				
	Expected profits					
R0770	Expected profits included in future premiums (EPIFP) - Life business					
R0780	Expected profits included in future premiums (EPIFP) - Non- life business					
R0790	**Total Expected profits included in future premiums (EPIFP)**					

S.25.01.21 – Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0040	C0080	C0090
R0010	Market risk	65,695		
R0020	Counterparty default risk	375		
R0030	Life underwriting risk	35,541		
R0040	Health underwriting risk			
R0050	Non-life underwriting risk			
R0060	Diversification	-19,358		
R0070	Intangible asset risk			
R0100	**Basic Solvency Capital Requirement**	82,253		
	Calculation of Solvency Capital Requirement			
R0130	Operational risk	2,389		
R0140	Loss-absorbing capacity of technical provisions			
R0150	Loss-absorbing capacity of deferred taxes	-6,199		
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC			
R0200	**Solvency Capital Requirement excluding capital add-on**	78,443		
R0210	Capital add-ons already set			
R0220	**Solvency capital requirement**	78,443		
	Other information on SCR			
R0400	Capital requirement for duration-based equity risk sub-module			
R0410	Total amount of Notional Solvency Capital Requirements for remaining part			
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds			
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios			
R0440	Diversification effects due to RFF nSCR aggregation for article 304			

S.28.01.01 – Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

	Linear formula component for non-life insurance and reinsurance obligations	C0010			
R0010	MCR_{NL} Result	0.00			
				Net (of reinsurance/SPV) best estimate and TP calculated as a whole	**Net (of reinsurance) written premiums in the last 12 months**
				C0020	C0030
R0020	Medical expense insurance and proportional reinsurance				
R0030	Income protection insurance and proportional reinsurance				
R0040	Workers' compensation insurance and proportional reinsurance				
R0050	Motor vehicle liability insurance and proportional reinsurance				
R0060	Other motor insurance and proportional reinsurance				
R0070	Marine, aviation and transport insurance and proportional reinsurance				
R0080	Fire and other damage to property insurance and proportional reinsurance				
R0090	General liability insurance and proportional reinsurance				
R0100	Credit and suretyship insurance and proportional reinsurance				
R0110	Legal expenses insurance and proportional reinsurance				
R0120	Assistance and proportional reinsurance				
R0130	Miscellaneous financial loss insurance and proportional reinsurance				
R0140	Non-proportional health reinsurance				
R0150	Non-proportional casualty reinsurance				
R0160	Non-proportional marine, aviation and transport reinsurance				
R0170	Non-proportional property reinsurance				
	Linear formula component for life insurance and reinsurance obligations	C0040			
R0200	MCR_L Result	9,189			
				Net (of reinsurance/SPV) best estimate and TP calculated as a whole	**Net (of reinsurance/SPV) total capital at risk**
				C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits				
R0220	Obligations with profit participation - future discretionary benefits				
R0230	Index-linked and unit-linked insurance obligations				
R0240	Other life (re)insurance and health (re)insurance obligations			437,549	
R0250	Total capital at risk for all life (re)insurance obligations				
	Overall MCR calculation	C0070			
R0300	Linear MCR	9,189			
R0310	SCR	78,443			
R0320	MCR cap	35,299			
R0330	MCR floor	19,611			
R0340	Combined MCR	19,611			
R0350	Absolute floor of the MCR	3,251			
R0400	**Minimum Capital Requirement**	19,611			