Solvency and Financial Condition Report

Hodge Life Assurance Company Limited

For year ending 31 October 2019

HODGE

Our Values

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

Hodge Life Assurance Company 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. The Group offers one of the broadest ranges of retirement lending products, meaning that we can offer the right product to suit almost any need.

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 5th February 2020.

Due to the removal of the external audit requirement for the SFCRs of small insurers by the PRA as per Policy Statement 25/18 (effective from 15th November 2018), this SFCR has not been audited.

Hodge Life Assurance Company is defined as a small firm given it falls below the required threshold given its gross written premium and best-estimate liabilities.

However, IFRS results and prior year Solvency II comparatives have been audited.

Contents

Directors' responsibility statement

For the year ended 31 October 2019:

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 2019, 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 2019 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

Managing Director

5 February 2020

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

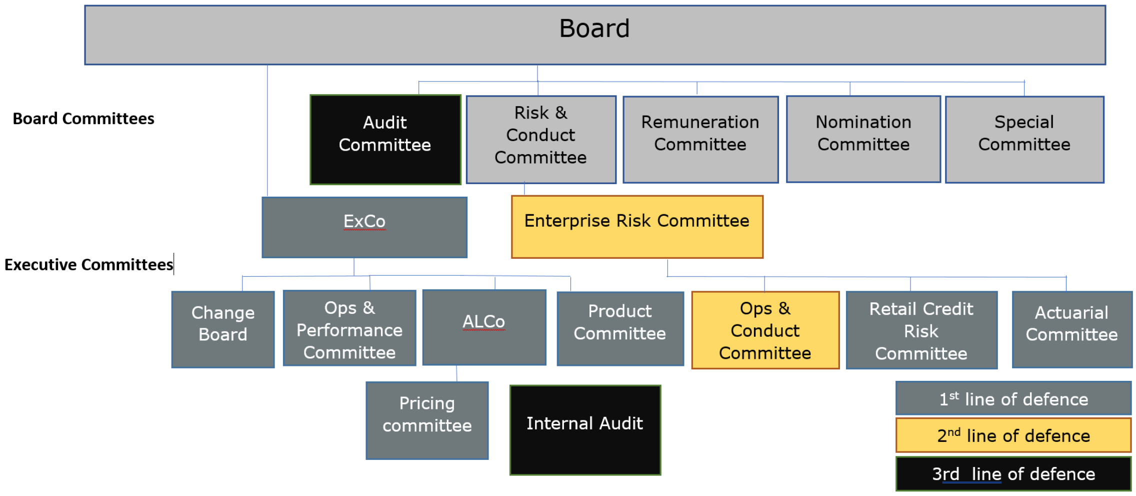
Hodge Life Assurance Company ("HLAC","the Company") only writes individual annuity contracts. All business is written in the United Kingdom. The Company matches pension annuity liabilities with lifetime mortgages and reversions, corporate bonds and cash.

The Company has made a pre-tax profit of £14.4 million for the year up from £6.1m last year. This represents a significant increase, however this includes a number of one-off items which may not recur in future years, most notably the adoption of the Continuous Mortality Investigation's 2018 model of mortality improvement ("CMI_2018") which has had a positive impact on the 2019 results of £4.9 million. However, the underlying level of profit remains strong.

£41.6m of new single premium annuity business was written in the year. This is a slight decrease on prior 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.



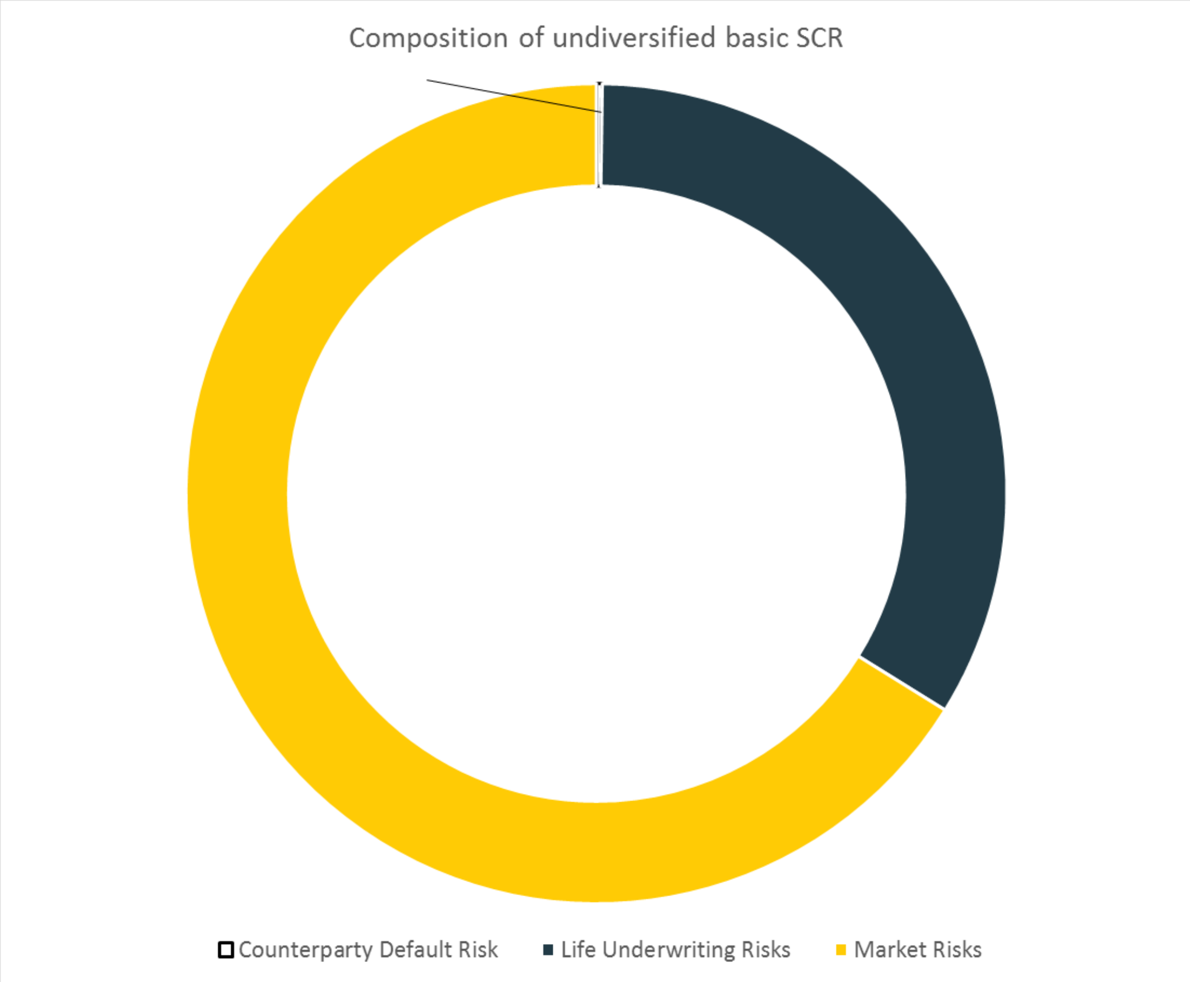
Some of the committees shown above were established formally during the year to support the governance structure. These are the Enterprise Risk Committee, Ops & Conduct Committee, the Product Committee and the Pricing Committee. There has also been a greater split between HLAC and Group governance established. 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 2019 (£000s)	Solvency II valuation	IFRS valuation
Total assets	664,126	663,618
Total liabilities	510,948	507,561
Total equity / Own funds	153,179	156,057

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 reclassification of intercompany balances owing at the valuation date. 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 Black, Red, Amber and Green zones 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 2019.

31 October 2019 (£000s)	2019	2018
Own funds	153,179	143,897
SCR	90,669	78,443
SCR coverage ratio	169%	183%
MCR	22,667	19,611
MCR coverage ratio	676%	734%

The SCR coverage ratio has reduced by 14% in the year. The key driver of this decrease is the fall in interest rates over the year. This has been partially offset by an increase on solvency coverage due to the adoption of the CMI 2018 mortality improvements in the model and a change to per-policy expenses to better reflect the respective costs of administration of the annuity and mortgage books.

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 30 September 2019. As at 31 October 2019 the value of the TMTP was £83.4m.

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 2019		31 October 2018	
(£000s)	Amounts with TMTP	Amounts without TMTP	Amounts with TMTP	Amounts without TMTP
Basic own funds	153,179	83,950	143,897	78,302
Solvency Capital Requirement (SCR)	90,669	93,598	78,443	82,682
SCR coverage ratio	169%	90%	183%	95%

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

The Company has prepared a phasing-in plan as part of the September 2019 recalculation 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.

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%:

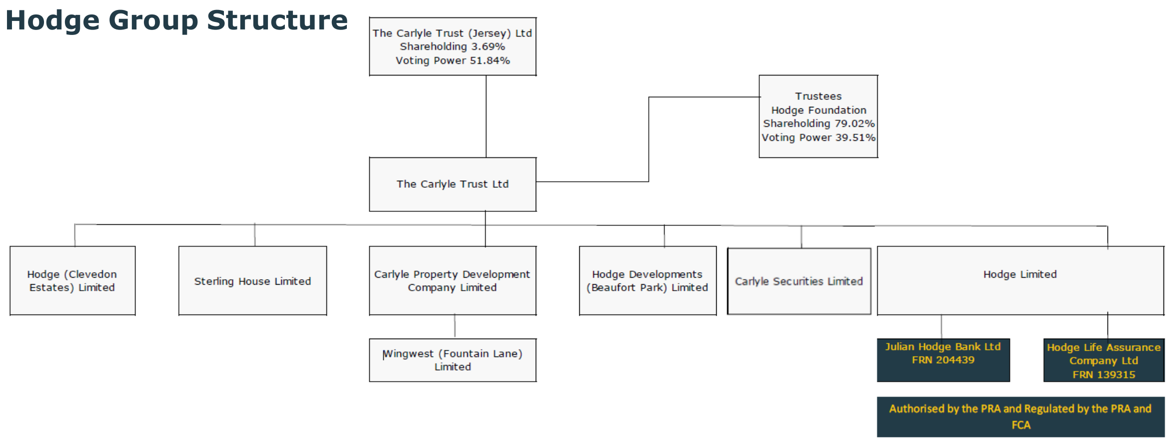
Shareholder	Shareholding	Voting Power
The Jane Hodge Foundation	79.02%	39.51%
The White Lodge Trust	10.36%	5.18%

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

HLAC is primarily 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 2019:



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, reversionary interests in property and fixed income securities and cash.

Significant business or external events over the period

There are no significant or external events to report in the year.

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 2019:

31 October (£000)	2019	2018
Earned premiums	41,646	47,456
Investment income	12,231	10,532
Unrealised gains/losses on investments	56,633	(596)
Gross claims and benefits paid	(26,924)	(24,528)
Movement in long term business provision	(61,768)	(20,028)
Administrative expenses	(7,459)	(6,746)
Profit before taxation	**14,359**	**6,090**

The Company has made a pre-tax profit of £14.4 million for the year, compared to £6.1m last year. This represents a significant increase on prior year, this includes a number of one-off items which may not recur in future years; the adoption of the Continuous Mortality Investigation's 2018 model of mortality improvement ("CMI_2018") which has had a positive impact on the 2019 results of £4.9 million, as well as a change to per-policy expenses to better reflect the respective costs of administration of the annuity and mortgage books. However, the underlying level of profit remains strong.

A.2 Underwriting performance

The Company wrote £41.6m 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. At 31 October 2019, the Company retained 100% of the longevity risk associated with this business.

The Company paid out £26.9m in annuity benefits during the year, which was broadly in line with best estimate assumptions. This increased from £24.5m 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 £61.8m from £437.0m to £498.8m. This increase is partially driven by growth in the portfolio along with the increase in the value of liabilities for existing business due to the low interest rate environment.

Administrative expenses increased from £6.7m to £7.5m. 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 £11.7m (2018: £4.9m).

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 2019:

31 October (£000)	2019	2018
Loans and advances to credit institutions	2,384	16,147
Debt securities & treasury bills	108,181	79,357
Investment properties – reversionary interest in properties	72,810	78,769
Investments (lifetime mortgages)	475,666	415,331
Intangibles	0	1
Other receivables	4,670	547
Prepayments and accrued income	416	460
Derivatives financial instruments	0	144
Total assets	**664,126**	**590,756**

Overall the assets held by the Company increased by £73.4m.

- Loans and advances to credit institutions reduced by £13.7m, largely driven by the disposal of collective investments.
- Debt securities and treasury bills increased by £28.8m. £110.5m of new debt securities and treasury bills were purchased in the period, offset by £81.7m of redemptions.
- Investment properties reduced by £6.0m. This was mainly driven by the run off of the reversion portfolio.
- Investments in lifetime mortgages increased by £60.3m. This is driven by £35.8m of new business written or acquired 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 £7.4m 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.

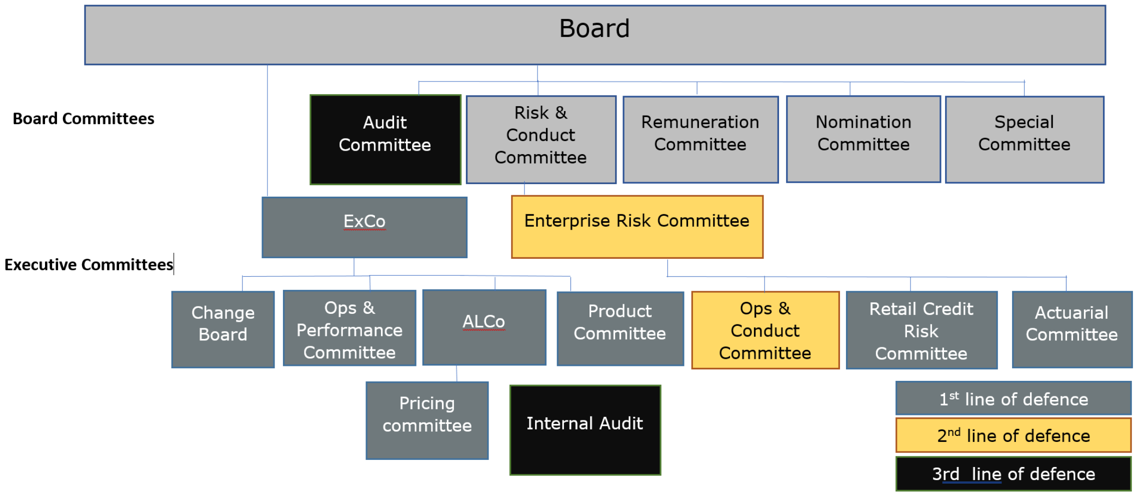
B. System of governance

B.1 General information on the system of governance

Structure of the administrative, management or supervisory body

The HLAC Board comprises six non-executive directors and four 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. The reporting lines for the executive committees are shown in the diagram above.

Minutes of executive 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 have attended the Audit Committee and the Risk and Conduct Committee. PwC has used in-house experts when auditing complex, technical areas such as Actuarial, Treasury and IT. The function will be outsourced to Deloitte from 2020.

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. It also holds regular discussions with the Company's shareholder to ensure a clear understanding of its views and requirements.

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. 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 including a chair of the Audit Committee appointed by the Board. The Chair of the Board is excluded from membership of this committee. 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.

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 executive appointments requiring regulatory approval. It is also responsible in ensuring 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 Executive Committee ("ExCo")

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. It monitors financial performance, risk indicators, operational resilience and change programmes to ensure each business and function is able to make the requisite contribution to the strategic plan and budget

Roles and responsibilities of the Change Board

The committee consists of executive management chaired by the Chief Technology Officer ("CTO") and is responsible for ensuring the change programme is aligned with strategy and business plans and to monitor programme delivery, budget and resources.

Roles and responsibilities of the Enterprise Risk Committee

The committee consists of executive management chaired by the Group Chief Risk Officer ("CRO") 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 Operational & Conduct Risk Committee

The committee consists of executive management chaired by the CRO and assists the development and implementation of a risk management framework to manage the operational and conduct risk profile, and to ensure the adequacy of the internal control environment.

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

The committee consists of executive management chaired by the CFO and implements the policies of the Board with respect to market risks including 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 Pricing Committee

The committee consists of executive management chaired by the Chief Actuary and assists in the pricing of products having regard to competitor rates, new business appetite and proposed investment volumes.

Roles and responsibilities of the Retail Credit Committee

The committee consists of executive management chaired by the Managing Director-Mortgages 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 chaired by the Chief Actuary 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 Product Committee

The committee consists of executive management chaired by the Chief Marketing Officer and is responsible for developing new product ideas and significant changes to existing products. The committee is responsible for ensuring product governance is adhered to and customer need is demonstrated.

Roles and responsibilities of the Operations and Performance Committee

The committee consists of executive management chaired by the Chief Operating Officer to provide operational governance across the firm. This governance covers a range of key activities inclusive of oversight of internal and outsourced operations, Operational Resilience and forward-looking operational impacts to the business.

Main roles and responsibilities of key functions

Risk function: The risk function is headed by the Group Chief Risk Officer. 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 to be headed by the Head of Compliance who will report to the CRO (role currently covered by the CRO directly). 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 outsourced its internal audit function to PwC in 2019 with Deloitte to take over this role in 2020. 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

During this reporting period, the governance structure has seen increased separation from JHB and HLAC, in particular with the formation of two independent Risk and Conduct Committees to oversee the activities of HLAC and JHB respectively, with separate Chairs for each. Some other committees are still run together for efficiency purposes but now have separate agenda & papers.

Graeme Hughes has been appointed as a Senior Independent Director after spending most of his career at Nationwide Building Society, most recently as group distribution director.

David Gulland has been appointed as Chair of HLAC Risk & Conduct Committee and a Non-Executive Director ("NED") bringing his significant insurance and actuarial expertise to the Board.

Four new executive committees were formally established to support ExCo and the Risk and Conduct Committee, namely the Enterprise Risk Committee, the Ops & Performance Committee, the Product Committee and the Pricing Committee.

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

At Hodge, our people are the key to our success and the achievement of our five-year plan, taking us to 2023. Our people deserve to be rewarded and recognised fairly, responsibly and competitively in return for their contribution to Hodge's long-term success. Variable remuneration awards are non-contractual. We offer two Group Reward Plans within the Hodge Group. They are:

Leadership Reward Plan	Aims to recognise Executive Directors, Members of Executive Committee and a group of emerging leaders for long term contribution to the success of the 2023 plan. The scheme duration covers financial year 2019/20 through to 2022/2023 with payments due in December 2023 and December 2024, subject to both financial performance and a series of non-financial qualitative measures. The Remuneration Committee determines any payments under this scheme.
Annual Reward Plan	This annual scheme is open to all employees subject to eligibility rules. The scheme payments reflect Hodge Group financial performance with Remuneration Committee determining any non-financial factors that could lead to adjustments. The scheme also recognises exceptional individual performance up to 5% of salary.

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

There were no 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 Managers and Certification Regime (SMCR) 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 Managers and Certification Regime (SMCR)

As part of the PRA Rulebook Capital Requirements Regulation 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 SMCR regulation as at 9th December 2019. These have been allocated to individuals within the Company using the fit and proper requirements highlighted above. This has no material impact to the allocation of functions but will increase the scope of prescribed responsibilities to be allocated within HLAC.

SMR reference	Description
SMF1	The Chief Executive function
SMF2	Chief Finance function
SMF3	Executive Director
SMF4	Chief Risk Officer function
SMF7	Group Entity Senior Manager function
SMF9	Chairman function
SMF10	Chairman of Risk Committee function
SMF11	Chairman of Audit Committee function
SMF12	Chairman of Remuneration Committee function
SMF13	Chair of Nomination Committee Function
SMF14	Senior Independent Director
SMF16	Compliance Oversight Function
SMF17	Money Laundering Reporting Function
SMF20	Chief Actuary function
SMF24	Chief Operations Officer

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 objectives. It includes both qualitative statements and a quantitative calibration setting out target capitalisation 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.

RMF component	Description
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 Enterprise 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 Ops & Conduct 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 the ORSA as well as the ongoing development of the Company's risk appetite.
Risk reporting	Risk reporting against policy requirements, risk appetite limits and triggers and risk exposures is in place through the reports provided to: • The Enterprise 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 and risk function. The ORSA report and processes are also subject to periodic internal audit review. The Board is the ultimate owner of the ORSA.

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.
- The Board approves annual and interim ORSA reports

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.
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.

Control	Summary
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 outsourced its Internal Audit function to PwC in 2019, with Deloitte to take over this role from 2020. 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 three 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 and Executive Director of HLAC.

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 Managers and Certification Regime (SMCR).

The Chief Actuary reports into the Managing Director of HLAC.

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:
- Servicing and Origination of Mortgages is outsourced to JHB and HLAC pays a fee for each of these.
- 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 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 Enterprise 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 is currently exploring the option of transferring some of this risk to a third party via a longevity swap in 2020 which would change the risk profile of the business.

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.

The Company has significant 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.

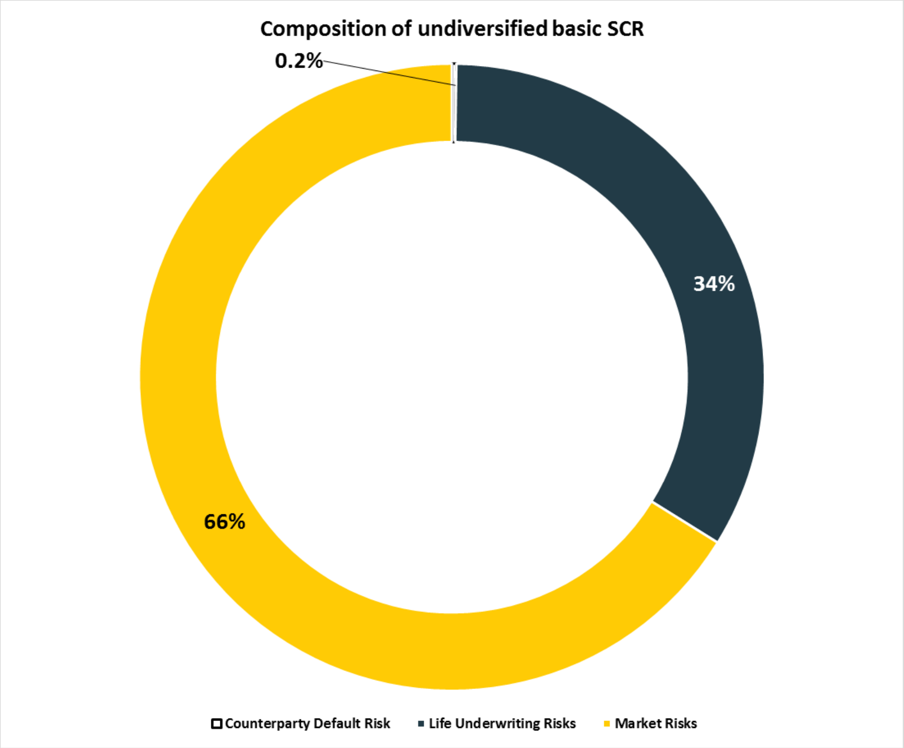
The Company's treasury credit risk policy limits the overall exposure to credit default risk and counterparty risk through debt securities, money market funds and deposits with credit institutions.

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 2019 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 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, property risks associated with lifetime mortgages and reversions and the second order impact of interest rates on SCR coverage ratio (driven primarily by the increased Risk Margin following an interest rate fall).

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 but is planning to explore this during 2020.

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. The business is managed based on the Solvency II Pillar I SCR coverage ratio.

Interest rate derivatives are used to mitigate the risk of interest rates to the SCR coverage ratio.

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 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 Risk and Compliance function.

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 2019 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 2019 was 169%.

The tables below set out the sensitivity of results to changes in assumptions as at 31 October 2019 and 31 October 2018.

Sensitivities (31 October 2018)	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%

Sensitivities (31 October 2019)	Impact on own funds (£000s)	Impact on SCR (£000s)	Impact on SCR coverage ratio (%)
1% fall in interest rates	8,502	16,417	-17%
10% fall in property values	(11,519)	(1,528)	-10%
10% decrease in mortality (annuities only)	(21,819)	529	-25%

The sensitivity of the coverage ratio to interest rates has reduced in the year as a result of the purchase of long-term gilts to manage our solvency interest rate risk. The property sensitivity has reduced slightly in line with run off of the reversion portfolio. The longevity sensitivity has slightly increased in line with growth of the annuity book.

Assumptions

- 1% fall in interest rates: this sensitivity reduces the discount rate used for assets and liabilities by 1%. 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 above regulatory minima in each of the risk scenarios above.

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 2019:

31 October 2019 (£000)	Solvency II	IFRS
Loans and advances to credit institutions	2,384	5,935
Debt securities & treasury bills	108,181	108,181
Investment properties – reversionary interest in properties	72,810	72,810
Investments	475,666	475,666
Other receivables	4,670	612
Prepayments and accrued income	416	416
Total assets	**664,126**	**663,618**

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 intercompany balances owing at the valuation date and funds owed from a custodian.

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
R0200 Deposits other than cash equivalents	146	Loans and advances to credit institutions	**5,935**
R0410 Cash and cash equivalents	2,238		
Subtotal	**2,384**		
R0150 Corporate bonds	69,145	Debt securities & treasury bills	**108,181**
R0140 Government bonds	39,036		
Subtotal	**108,181**		
R0080 Property (other than for own use)	**72,810**	Reversionary interest in properties	**72,810**
R0250 Loans and mortgages to individuals	**475,666**	Investments	**475,666**
R0380 Receivables (trade, not insurance)	4,670	Other receivables	612
R0360 Insurance and intermediaries receivables	416	Prepayments and accrued income	416
Subtotal	**5,086**	Subtotal	**1,027**
	664,126	**Total**	**663,618**

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 intercompany balances owing at the valuation date and funds owed from a custodian.

Fair value estimation

Fair value is the price that would be received on selling 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 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 2018 model for mortality improvements.

Expenses: Assumptions for future policy expense levels are based on the Company's recent expense analyses and 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 2019.

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.

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 2018 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, with an additional non-inflating fee element to represent the cost of administration under an intercompany arrangement in place.

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 2019.

Valuation of Receivables (trade, not insurance)

Receivables are the balances owed to the Company by other parties including amounts owed from other companies into the Group. 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.

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 2019. Values are shown in £000s.

Solvency II description	Solvency II value	IFRS description	IFRS value
R0670 Best estimate liabilities	490,144	Provisions for long term business – liabilities arising from insurance contracts	**498,727**
R0680 Risk margin	12,136		
Subtotal	**502,280**		

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 £502.3m as at 31 October 2019. 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 £83.4m 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 2018 model for mortality improvements which has been adopted for 31 October 2019 reporting. The CMI 2017 model was used in prior year.

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. These have been updated during 2019 to more accurately reflect the respective administration cost of annuities and mortgages following the servicing arrangement in place with JHB.

Discount rate: The discount rate applied to the annuities uses the risk-free yield curve for GBP published by EIOPA for 31 October 2019.

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 2019 the value of the TMTP was £83.4m.

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 September 2019 given the interest rate stress experienced across 2019.

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	502,280	585,688	83,408
Deferred tax	(2,929)	11,250	14,179
Basic own funds	153,179	83,950	(69,229)
Eligible own funds to meet Solvency Capital Requirement	153,179	83,950	(69,229)
Solvency Capital Requirement (SCR)	90,669	93,598	2,929
Eligible own funds to meet Minimum Capital Requirement	153,197	83,950	(69,229)
Minimum Capital Requirement (MCR)	22,667	23,399	732
SCR coverage ratio	169%	90%	(79)%

Without the TMTP, basic own funds would be expected to reduce by £69.2m to £84.0m after allowing for the effects on deferred taxation. The SCR would be expected to increase by £2.9m to £93.6m 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, as part of the recalculation as at September 2019, 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

Material changes to the best estimate assumptions in the year were the adoption of the CMI 2018 model and an update to expense assumptions to reflect an intercompany charging agreement within the Groups. 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 2019. Values are shown in £000s.

Solvency II description	Solvency II value	IFRS description	IFRS value
R0780 Deferred tax liabilities	**2,929**	Deferred taxation	**3,604**
R0790 Derivatives	**28**	Derivative financial instruments	**28**
R0820 Insurance and intermediaries payable	548	Trade and other liabilities	**5,203**
R0840 Payables (trade, not insurance)	5,163		
Subtotal	**5,711**		

The differences in trade and other liabilities and payables are due to the reclassification of intercompany balances owing at the valuation date. These differences are also present in the breakdown of assets (see section D.1).

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 £0.7m is derived from the difference in technical provisions on the IFRS and Solvency II balance sheets, £3.6m, multiplied by the tax rate as at 31 October 2019, 19%.

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.

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 including amounts owed from other companies in the Group. These commitments are short term and therefore no discounting is required.

The difference between Solvency II and IFRS is due to the reclassification of intercompany balances owing at the valuation date as described above.

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

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 trigger, 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 2019 the ratio of eligible own funds to Solvency Capital Requirements was 169%.

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 2019 (£000s)	31 October 2018 (£000s)
Reconciliation reserve	146,379	137,097
Other basic own fund items	6,800	6,800
Excess of assets over liabilities	**153,179**	**143,897**

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 2019 (£000s)	31 October 2018 (£000s)
Called-up share capital	6,800	6,800
Profit and loss account	149,257	137,568
Total Equity per financial statements	**156,082**	**144,386**
Difference in the valuation of technical provisions	(3,550)	(600)
Difference in the valuation of other liabilities	675	111
Excess of assets over liabilities for solvency purposes	**153,179**	**143,897**

Called-up share capital of £6.8m comprises 27.2m (2018: 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 2019 and 31 October 2018.

£000s	31 October 2019	31 October 2018
Solvency Capital Requirement	90,669	78,443
Minimum Capital Requirement	22,667	19,611

Solvency Capital Requirement

As at 31 October 2019 the ratio of eligible own funds to Solvency Capital Requirement was 169%.

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 2019	31 October 2018
Market risk	74,354	65,695
Life underwriting risk	42,982	35,541
Counterparty default risk	291	375
Diversification benefit	(22,806)	(19,358)
Basic Solvency Capital Requirement	**94,821**	**82,253**
Operational risk	2,206	2,389
Loss-absorbing capacity of deferred taxes	(6,358)	(6,199)
Solvency Capital Requirement	**90,669**	**78,443**

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 2018	143,897	(78,443)	65,455
Unwind of discount rate	14,216	2,235	16,452
Demographic experience (including assumption changes)	9,321	7,919	17,240
Economic variances (including assumption changes)	5,340	(16,199)	(10,859)
New business	(11,429)	(5,986)	(17,416)
Movements in risk margin and TMTP	(7,022)	0	(7,022)
Other movements	(1,144)	(196)	(1,340)
Closing position as at 31 October 2019	**153,179**	**(90,669)**	**62,510**

Unwind of discount rate

Capital generated from the unwind of the discount rate on in force business generated an increase in surplus of £16.4m.

Demographic experience variances

Actuarial assumptions have been reviewed over the year to reflect demographic experience of the book. Updates were made to base mortality, mortality improvements and expense assumptions. Coupled with experience variances in the year, this contributed to a £17.2m 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 £10.9m, largely driven by the fall in interest rates over the year.

New business

Writing new business has reduced surplus by £17.4m in the year.

Movements in risk margin and TMTP

The PRA has given HLAC permission to recalculate the TMTP as at 30 September 2019. This generated £10.0m of surplus. Other movements in risk margin and TMTP run off reduced surplus by £17.0m.

Other movements

Other movements include tax and other items not categorised elsewhere.

Minimum Capital Requirement

As at 31 October 2019 the ratio of eligible own funds to Minimum Capital Requirement was 676%.

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

Input (£000s)	31 October 2019	31 October 2018
Linear MCR (2.1% of best estimate liabilities)	10,548	9,189
SCR	90,669	78,443
MCR cap (45% of SCR)	40,801	35,299
MCR floor (25% of SCR)	22,667	19,611
Absolute floor of MCR	3,288	3,251
Minimum Capital Requirement	**22,667**	**19,611**

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.
GWP	Gross Written Premium. Amount of premium received in the reporting period.
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 2019 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	2020-02-06
R0090	Reporting reference date	2019-10-31
R0100	Regular/Ad-hoc submission	Regular reporting
R0110	Currency used for reporting	GBP
R0120	Accounting standards	The undertaking is using IFRS
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	
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	181,136
R0080	*Property (other than for own use)*	72,810
R0090	*Holdings in related undertakings, including participations*	
R0100	*Equities*	
R0110	*Equities - listed*	
R0120	*Equities - unlisted*	
R0130	*Bonds*	108,181
R0140	*Government Bonds*	39,036
R0150	*Corporate Bonds*	69,145
R0160	*Structured notes*	
R0170	*Collateralised securities*	
R0180	*Collective Investments Undertakings*	0
R0190	*Derivatives*	0
R0200	*Deposits other than cash equivalents*	146
R0210	*Other investments*	
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	475,666
R0240	*Loans on policies*	
R0250	*Loans and mortgages to individuals*	475,666
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	416
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	4,670
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	2,238
R0420	Any other assets, not elsewhere shown	
R0500	**Total assets**	664,126

		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)	502,280
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)*	502,280
R0660	*TP calculated as a whole*	
R0670	*Best Estimate*	490,144
R0680	*Risk margin*	12,136
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	2,929
R0790	Derivatives	28
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	548
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	5,163
R0850	Subordinated liabilities	
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	
R0880	Any other liabilities, not elsewhere shown	
R0900	**Total liabilities**	510,948
R1000	**Excess of assets over liabilities**	153,179

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

	Life	Other life insurance	Total
		C0240	C0300
	Premiums written		
R1410	*Gross*	41,646	41,646
R1420	*Reinsurers' share*		
R1500	*Net*	41,646	41,646
	Premiums earned		
R1510	*Gross*	41,646	41,646
R1520	*Reinsurers' share*		
R1600	*Net*	41,646	41,646
	Claims incurred		
R1610	*Gross*	26,924	26,924
R1620	*Reinsurers' share*		
R1700	*Net*	26,924	26,924
	Changes in other technical provisions		
R1710	*Gross*	61,768	61,768
R1720	*Reinsurers' share*		
R1800	*Net*	61,768	61,768
R1900	**Expenses incurred**	7,459	7,459
R2500	**Other expenses**		
R2600	**Total expenses**	7,459	7,459

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*	41,646						41,646
R1420	*Reinsurers' share*							
R1500	*Net*	41,646						41,646
	Premiums earned							
R1510	*Gross*	41,646						41,646
R1520	*Reinsurers' share*							
R1600	*Net*	41,646						41,646
	Claims incurred							
R1610	*Gross*	26,924						26,924
R1620	*Reinsurers' share*							
R1700	*Net*	26,924						26,924
	Changes in other technical provisions							
R1710	*Gross*	61,768						61,768
R1720	*Reinsurers' share*							
R1800	*Net*	61,768						61,768
R1900	**Expenses incurred**	7,459						7,459
R2500	**Other expenses**							
R2600	**Total expenses**	7.459						7,459

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**		539,670		539,670
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		539,670		539,670
R0100	**Risk margin**	46,018			46,018
	Amount of the transitional on Technical Provisions				
R0110	Technical Provisions calculated as a whole				
R0120	Best estimate		-49,526		-49,526
R0130	Risk margin	-33,882			-33,882
R0200	**Technical provisions - total**	502,280			502,280

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**	502,280	83,408
R0020	**Basic own funds**	153,179	-69,229
R0050	**Eligible own funds to meet Solvency Capital Requirement**	153,179	-69,229
R0090	**Solvency Capital Requirement**	90,669	2,929
R0100	**Eligible own funds to meet Minimum Capital Requirement**	153,179	-69,229
R0110	**Minimum Capital Requirement**	22,667	732

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	146,379	146,379			
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**	153,179	153,179			
	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	153,179	153,179			
R0510	Total available own funds to meet the MCR	153,179	153,179			
R0540	Total eligible own funds to meet the SCR	153,179	153,179			
R0550	Total eligible own funds to meet the MCR	153,179	153,179			
R0580	**SCR**	90,669				
R0600	**MCR**	22,667				
R0620	**Ratio of Eligible own funds to SCR**	169%				
R0640	**Ratio of Eligible own funds to MCR**	676%				
	Reconciliation reserve	C0060				
R0700	Excess of assets over liabilities	153,179				
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**	146,379				
	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	74,354		
R0020	Counterparty default risk	291		
R0030	Life underwriting risk	42,982		
R0040	Health underwriting risk			
R0050	Non-life underwriting risk			
R0060	Diversification	-22,806		
R0070	Intangible asset risk			
R0100	**Basic Solvency Capital Requirement**	94,821		
	Calculation of Solvency Capital Requirement			
R0130	Operational risk	2,206		
R0140	Loss-absorbing capacity of technical provisions			
R0150	Loss-absorbing capacity of deferred taxes	-6,358		
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC			
R0200	**Solvency Capital Requirement excluding capital add-on**	90,669		
R0210	Capital add-ons already set			
R0220	**Solvency capital requirement**	90,669		
	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				
				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	10,548			
				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			502,280	
R0250	Total capital at risk for all life (re)insurance obligations				
	Overall MCR calculation	C0070			
R0300	Linear MCR	10,548			
R0310	SCR	90,669			
R0320	MCR cap	40,801			
R0330	MCR floor	22,667			
R0340	Combined MCR	22,667			
R0350	Absolute floor of the MCR	3,251			
R0400	**Minimum Capital Requirement**	22,667			