Hodge Life Assurance Company Limited

Solvency and Financial Condition Report

For the period ending: 30 September 2022

Our Strategy

On 1st July 2021 Hodge Life Assurance Company Limited ("HLAC") was acquired by RGA Americas which is a subsidiary of Reinsurance Group of America, Incorporated ("RGA"). RGA has a AA- (Very Strong) credit rating and is a financially strong parent.

The Company has ceased marketing new business and it is now focused fully on managing the interests of its existing customers. Our strategy is to combine the businesses of HLAC with the sister company Omnilife into one entity to simplify the way our business is run.

To achieve this, we have started a legal process, called a Part VII transfer, which requires High Court approval to transfer insurance policies from one insurance company to another. We anticipate that the transfer will be approved at the end of March 2023 and be effective from the end of April 2023.

Prior to the sale, the HLAC strategy was focused on the retirement lending and income markets.

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 21st December 2022.

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.

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Directors’ responsibility statement

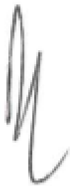
For the 12 month financial period ended 30 September 2022:

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 period to 30 September 2022, 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 30 September 2022 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

21 December 2022

Summary

The Solvency and Financial Condition Report ("SFCR") is an annual report that insurance companies based in the European Union ("EU") are required to produce as part of the Solvency II regime. In the United Kingdom ("UK") responsibility for the regulatory regime is with the UK authority, the Prudential Regulation Authority ("PRA"). The UK regime remains aligned almost entirely with the current Solvency II regime.

This SFCR covers a 12-month period from 30 September 2021 to 30 September 2022.

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 PRA.

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

The contents of the SFCR are prescribed by Solvency II 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 period.
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") sold individual annuity contracts. All business was written in the United Kingdom. The Company's strategy prior to the change in ownership was to match annuity liabilities with lifetime mortgages and reversions, corporate bonds and cash.

On 1st July 2021 the sale of HLAC to Reinsurance Group of America, Incorporated ("RGA") completed. HLAC also stopped marketing new business and withdrew its annuity and equity release products during 2021. Our strategy is to combine the businesses of HLAC with the sister company Omnilife into one entity to simplify the way our business is run.

To achieve this, we have started a legal process, called a Part VII transfer, which requires High Court approval to transfer insurance policies from one insurance company to

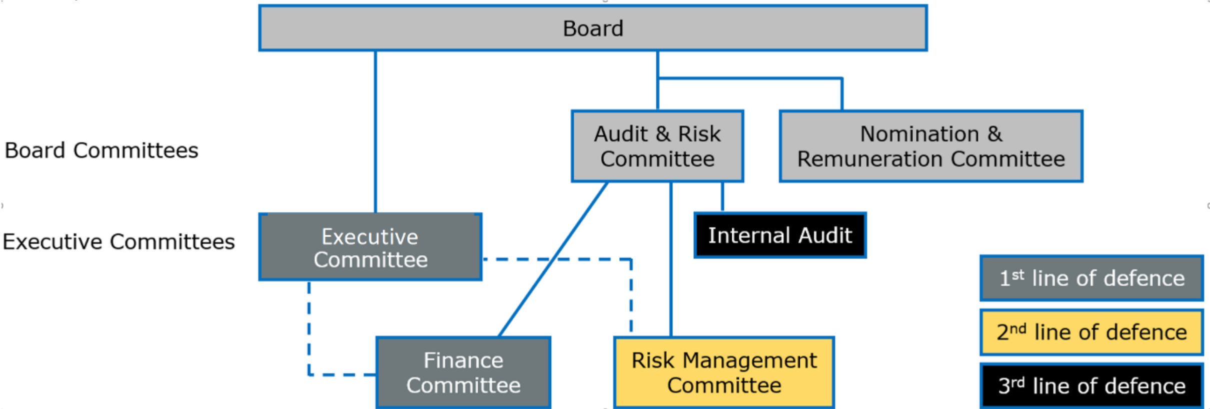
another. On 7th November, we obtained court approval to commence the transfer process and are now communicating the process and its implications to our customers. We anticipate that the transfer will be approved at the end of March 2023 and be effective from the end of April 2023.

The Company has made a pre-tax IFRS loss of £15.4 million for the 12-month period. Adverse interest rate movements on an IFRS basis was the main driver of the loss in the period. This is considered to be a non-recurring item and the underlying level of profit remains strong.

No new business was written in the period. This reflects the withdrawal of the annuity products during 2021.

System of governance

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



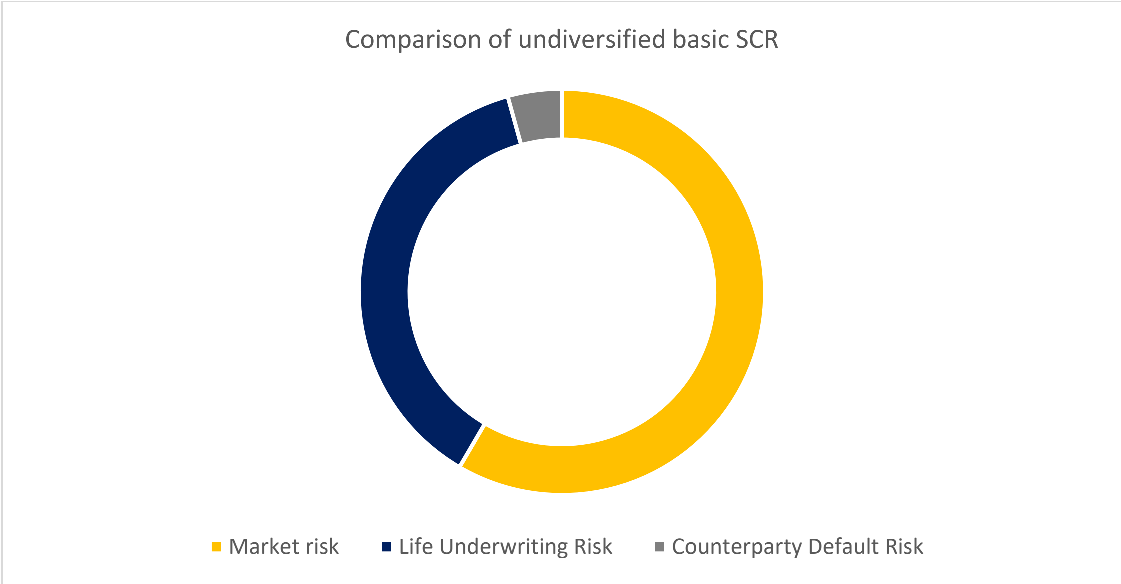
During this reporting period, the governance structure has changed following the sale of the Company and the cessation of new business activities. HLAC now operates a simplified governance model as per the diagram above. See section B.1 for further information.

Risk profile

HLAC has a well-defined business model, which is focused on managing the existing business as it runs off. The Company matches annuity liabilities with lifetime mortgage assets, corporate bonds and cash. All business was 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 Solvency II regulation.



The chart shows that the Company's greatest exposures are to market risk and life underwriting risk. Market risk arises through its investment in lifetime mortgages 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 market risk component is reduced significantly through reinsurance.

Life underwriting risk arises as a result of 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. The Life underwriting risk component is reduced significantly through reinsurance.

The use of reinsurance contributes to the Company's exposure to counterparty default risk.

No new categories of risk exposures have been introduced during the period.

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 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.

30 September 2022 (£000s)	Solvency II valuation	IFRS valuation
Total assets	453,061	449,191
Total liabilities	345,478	344,528
Total equity / Basic own funds	**107,583**	**104,663**

All assets on the Solvency II balance sheet are valued on the same basis as in the financial statements, with the exception of the reinsurance recoverable and the deferred tax asset. This is the key driver of the difference in asset value above. This is explained in further detail in section D.1.

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 various zones that reflect the extent to which the actual level of capital exceeds the SCR and our risk appetite. The highest zone denotes capital that is considered to be distributable. The surplus own funds are a key risk indicator which is regularly reported to the Audit and Risk Committee and Board.

The Company's own funds are almost entirely comprised of ordinary share capital and reconciliation reserves (retained earnings). These items are treated as Tier 1 unrestricted capital items. In addition, the deferred tax asset is treated as Tier 3 own funds, which are capped at a maximum of 15% of the SCR. The Tier 1 capital items are sufficient to cover the SCR and Minimum Capital Requirement ("MCR"). Tier 3 capital is ineligible to cover the MCR.

The table below summarises the Company's capital position as at 30 September 2022.

30 September 2021 (£000s)	2022	2021
Eligible own funds	104,833	117,287[1]
SCR	16,972	21,544
SCR coverage ratio	618%	544%
MCR	4,243	5,745
MCR coverage ratio	2411%	1985%

[1] Note that the eligible own funds for 2021 in last years' SFCR were stated as £117,889k which did not allow for the restriction on tier 3 capital.

The SCR coverage ratio has increased by 74% during the period. The key driver of this increase is the increase in interest rates in the period.

The Company has applied the TMTP in the valuation of technical provisions. The PRA requires firms to carry out a TMTP recalculation at the end of every 24 months or following a material change in risk profile. The Company last recalculated the TMTP at 30 September 2021, following changes to assets and reinsurance. The interest rate movements in 2022 were not sufficiently material or permanent to warrant recalculation. As at 30 September 2022 the value of the TMTP was £30.2m.

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:

	30 September 2022		30 September 2021	
(£000s)	Amounts with TMTP	Amounts without TMTP	Amounts with TMTP	Amounts without TMTP
Basic own funds	107,583	99,287	117,889	103,979
Eligible own funds	104,833	93,623	117,287	100,115
Solvency Capital Requirement (SCR)	16,972	15,978	21,544	21,544
SCR coverage ratio	618%	586%	544%	465%

The Company would have sufficient own funds to meet the SCR without applying the TMTP. The movements are explained in more detail in section D.2.

The Company applies the standard formula for the calculation of the SCR. The Company is not using Undertaking-Specific Parameters ("USPs") to calculate its SCR. The Company does not use simplified calculations in any of its risk modules or sub-modules when calculating the SCR.

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

Given the strong coverage of our SCR, as part of the process of approving the financial statements, the Board has approved a dividend of £22m to be paid to our shareholder. This has been shown as a post-balance sheet event note in the Financial Statements.

A. Business and performance

A.1 Business

Name and legal form of the undertaking

HLAC is a privately owned life assurance company limited by shares, incorporated in the United Kingdom.

The registered office is:
Level 45
22 Bishopsgate
London
EC2N 4BQ

Supervisory authority responsible for financial supervision

HLAC is regulated by the 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

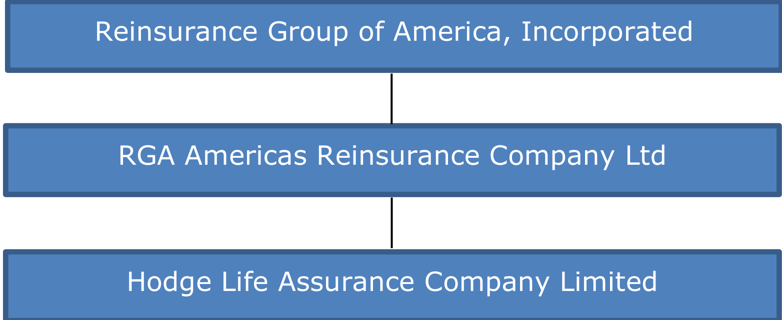
Holders of qualifying holdings in the undertaking and legal structure of the Group

HLAC is wholly owned by RGA Americas Reinsurance Company Ltd, a company incorporated in Bermuda and a fully owned subsidiary of RGA. The ultimate controlling party is RGA, a company incorporated in the State of Missouri and listed on the New York Stock Exchange (NYSE: RGA).

RGA is a global reinsurance group with operations in 26 different countries, serving multinational and domestic clients in more than 80 countries. As at 31 December 2021 RGA had consolidated assets of over $92 billion and in 2021 consolidated net premiums were $12.5 billion.

A simplified RGA group structure is set out below.

RGA Group Structure



Material lines of business and geographical areas

HLAC only sold individual annuity contracts. All business was written in the United Kingdom. The Company matches annuity liabilities (net of reinsurance) with lifetime mortgage assets, fixed income securities and cash.

Significant business or external events over the period

Our strategy is to combine the businesses of HLAC with the sister company Omnilife into one entity to simplify the way our business is run.

To achieve this, we have started a legal process, called a Part VII transfer, which requires High Court approval to transfer insurance policies from one insurance company to another. On 7th November, we obtained court approval to commence the transfer process and are now communicating the process and its implications to our customers. We anticipate that the transfer will be approved at the end of March 2023 and be effective from the end of April 2023.

Summary of business performance over the reporting period

The Company prepares its financial statements in accordance with FRS101.

FRS101 implements the valuation and reporting principles of 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 financial period ended 30 September 2022:

30 September (£000)	2022	2021
Earned premiums	0	19,265
Investment income	3,509	3,329
Movement in investment properties	153	5,470
Unrealised gains/losses on investments	(89,771)	(26,055)
Gross claims and benefits paid	(28,008)	(28,375)
Movement in long term business provision	173,864	10,960
Movement in reinsurance recoveries	(202,273)	189,136
Reinsurance premium	96,206	(251,565)
Reinsurers share of gross claims and benefits	34,672	13,141
Administrative expenses	(3,725)	(5,956)
Loss on asset disposals	0	(9,571)
Profit before taxation	**(15,373)**	**(80,221)**

The Company has made a pre-tax loss of £15.4 million for the 12-month period. Adverse interest rate movements on an IFRS basis were the main driver of the loss in the period. This is considered to be a non-recurring movement and the underlying level of profit remains strong.

The pre-tax loss for 2021 has been restated (previously shown as a £57.4m loss) due to a change in the treatment of the reinsurance and presentational changes. The strategic changes overall contributed to a one-off loss of £67.8m in the year. Actuarial assumption changes, including strengthening expense provisions, created a further loss of £3.1m. Adverse interest rate movements also contributed £11.8m to the income statement loss in the year.

No new business was written in the period. This reflects the withdrawal of the annuity products during 2021.

A.2 Underwriting performance

The Company wrote no new business in the reporting period.

The Company paid out £28.0m in annuity benefits during the period, which was broadly in line with best estimate assumptions.

The long-term business provision relates entirely to annuity business. This decreased by £173.9m from £517.0m to £343.2m. This decrease is predominantly driven by a rise in interest rates in the period.

The total loss for the reporting period before taxation amounted to £15.4m (2021: loss of £80.2m).

A.3 Investment performance

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

Total assets for the period ended 30 September 2022 on the Solvency II basis:

30 September (£000)	2022	2021	Movement
Loans and advances to credit institutions	21,637	67,942	(46,305)
Debt securities and government bonds	149,412	161,958	(12,546)
Investment properties – reversionary interest in properties	0	1,306	(1,306)
Investments (lifetime mortgages)	108,479	158,407	(49,928)
Reinsurance asset	161,676	234,728	(73,052)
Other assets	6,562	3,531	3,031
Deferred tax asset	5,295	3,833	1,462
Total assets	**453,061**	**631,706**	**(178,645)**

Overall, the assets held by the Company decreased by £178.6m:

- Loans and advances to credit institutions reduced by £46.3m, largely driven by the investment of cash deposits into short dated bonds together with the settlement of amounts payable at the previous year end.
- Debt securities reduced by £12.5m despite the additional investments from cash deposits. The reduction was driven by the increase in the market yields on over the year leading to a reduction in the market value.
- Investment properties decreased by £1.3m as the last properties held in respect of the property reversions have been sold
- Investments in lifetime mortgages decreased by £49.9m. This is mainly driven by the increase in the discount rate used to value these assets which is in line with the increase in market rates.
- The Company holds 3 reinsurance treaties as at end of 2022. The majority of the reinsurance asset is driven from the coinsurance treaty.

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.

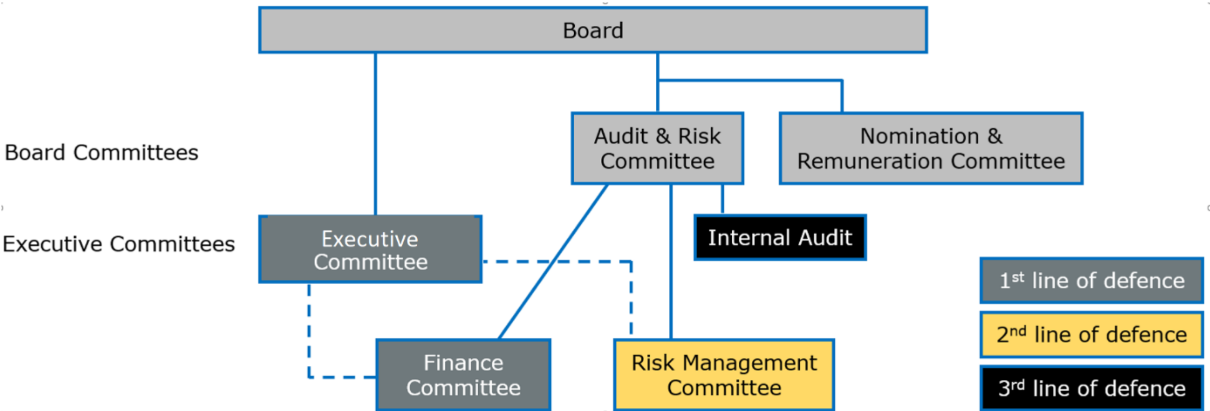
B. System of governance

B.1 General information on the system of governance

Structure of the administrative, management or supervisory body

The HLAC Board comprises two independent non-executive directors, one non-executive director and two executive directors.

The governance structure supports the 'three lines of defence' model. The committee structure extracted from the 'three lines of defence' model, as it currently applies to HLAC, is set out below. The material changes to the governance structure over the reporting period are described later in this section.



The Board and each committee have Terms of Reference ("TOR") setting out the following:

- Purpose;
- Membership;
- Procedures;
- Duties and responsibilities; and
- Reporting requirements

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 Internal Audit function has been outsourced to RGA Group and its representatives attend the Audit and Risk Committee and have a standing invitation to the Risk Management Committee (where they attend if papers are of interest).

The executive management with the exception of the Compliance and Money Laundering Officer and the Chief Risk Officer ("CRO") act jointly for HLAC and sister company Omnilife.

The CRO role is currently outsourced to Neil Cantle seconded from Milliman LLP, where he is supported by the HLAC/Omnilife risk team. He has a standing invite to the Audit and Risk Committee and Board meetings.

Roles and responsibilities of the Board

The Board has overall responsibility for management of the business of the Company under the Articles of Association within the policy framework specified by RGA. In addition, it reviews and approves strategies as they affect business development, operational and financial planning and implementation as recommended by Management, in consultation with the Board. This includes the definition of high-level objectives and plans and the monitoring of the progress and execution of those plans and operational activities.

The Board is responsible for assessing the regulatory and other risks the Company faces and for taking appropriate action to lessen or mitigate those risks, including establishing systems of internal controls and risk management.

The Board is responsible for approving the policies of the Company, including the adoption of RGA Group policies.

The Board is responsible for ensuring the Company is sufficiently resourced, with respect to both financial and human capital. The Board is responsible for guiding and supporting senior managers in the performance of the functions.

The Board is ultimately accountable and responsible for corporate governance in the Company and for the management of the Company's affairs within the agreed corporate governance framework. Delegating authority to Board committees or to management does not in any way mitigate the discharge by the Board of its duties and responsibilities. To this end the Board is responsible for reporting to the Company's Shareholder and regulators.

Roles and responsibilities of the Audit and Risk Committee

All members of the Audit and Risk Committee are either non-executive directors or independent non-executive directors. The Board Chair is a member of, but does not chair, the Audit and Risk Committee. Executive members of the Board and other senior executives attend as required by the Chair.

The Audit and Risk Committee assists the Board in overseeing financial reporting including overseeing the Company's accounting and financial reporting processes and internal controls and ensuring the integrity of its financial statements. It provides reasonable assurance to the Board that financial disclosures made by management fairly present the Company's financial condition, results, plans and long-term commitments.

The Audit and Risk Committee is responsible for the third line of defence. It oversees the performance of the Company's internal audit function and has direct responsibility for the oversight of the work of the Company's External auditor.

The Audit and Risk Committee assists the Board in overseeing the implementation and effectiveness of the Company's risk management and capital management framework, identifying risks in respect to financial reporting and the solvency of the Company and overseeing sound risk management and business practices within the Company. It also oversees the Company's compliance with legal and regulatory requirements.

Finally, it provides a forum for communications between the Committee, the external auditors, the internal auditors, management and the Board.

Roles and responsibilities of the Nomination and Remuneration Committee

Members of the Nomination and Remuneration Committee are directors of the Company and at least two (including the Chair) must be independent non-executive directors. Other members of the Board, senior executives and internal or external experts may attend as required by the Chair.

The first key function of the Committee is to ensure suitable leadership guides the Company and that the Board collectively have a suitable skillset to enable HLAC to manage its risks appropriately. It reviews the structure, size and composition of the Board and leads the process of identifying and appointing suitable directors.

It also recommends appointments to Board Committees, senior management functions and executive appointments requiring regulatory approval and is responsible for ensuring that there is an appropriate succession plan for executive and senior management positions.

The second key function of the Committee is to consider remuneration policy (within the context of the RGA group) and review and approve the remuneration and other terms of service of executive directors, senior managers and material risk takers. The Board decides fees payable to non-executive directors (but no one may vote on their own remuneration).

The third duty of the committee is to oversee the ongoing evaluation of Board performance and recommend an appropriate director's training plan.

Roles and responsibilities of Executive Committee

A single Executive Committee is in place to manage the affairs of HLAC and Omnilife. The committee consists of executive management and manages the HLAC Business and executes the Company's strategy in line with the will of the Board. It is chaired by the CEO.

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.

It is responsible for the first line of defence for the company and is responsible for oversight and control of the company's outsourcing (to both other companies with in the RGA Group and to third parties). It is also responsible for oversight of the transitional activities required as part of the change of control. It receives escalations from Finance Committee or Risk Management Committee (where appropriate).

Roles and responsibilities of the Risk Management Committee

A single Risk Management Committee is in place to oversee the affairs of HLAC and Omnilife. The committee consists of second line executive management chaired by the Head of Risk whilst the CRO is responsible for the second line of defence of the business.

It is responsible for developing and implementing a robust enterprise-wide risk management framework and reviewing the aggregated risk profile of the company. It

ensures that significant risks are identified, understood, assessed, and managed. It also monitors and co-ordinates the activities of compliance throughout the Company.

Roles and responsibilities of the Finance Committee

A single Finance Committee is in place to oversee the affairs of HLAC and Omnilife. The committee is an executive management chaired by the Chief Financial Officer ("CFO") and is responsible for providing the necessary assistance, implementation, and maintenance to the Board to maintain its legal and fiduciary obligations with respect to matters involving financial reporting and Capital, Liquidity or Asset-liability management. It is also responsible for judgements used in actuarial valuation.

Main roles and responsibilities of key functions

Risk function: The risk function is headed by the CRO. 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 Company;
- Provision of regular risk reporting to the Audit and Risk Committee;
- 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.
- Production of the Company's Own Risk and Solvency Assessment ("ORSA").

To ensure independence of the second line risk function, the risk team reports to the Audit and Risk Committee and has direct access to the Chair of that committee.

The CRO also has responsibility for identifying and managing risks from climate change.

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

- Management of financial crime and risks
- Completion of regulatory horizon scanning;
- Ensuring all staff receive regulatory training on a regular basis;
- Undertaking a risk based programme of oversight activities to assess the effectiveness of the management of regulatory risks;
- Provision of regulatory advice to support business management ensure regulatory compliance; and
- Supporting the promotion, training and embedding of the risk management framework.

Internal audit function: The Company outsources its internal audit function to RGA Group. 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

There were limited changes at a Board level, but more significant changes at the executive level and below with the HLAC staff integrating with the Omnilife staff to create a joint management structure. HLAC added Stephen Grigg as the Chief Actuary, a Senior Management Function, Georgina Shield and Russ Taplin as certified staff and a number of other Omnilife team members took on responsibility for HLAC as well as Omnilife.

Deian Jones, Sam Gunter, Dominic Badham and Lloyd Jones all took on equivalent roles for Omnilife in addition to their HLAC responsibilities.

At a Board level, there were no changes for HLAC to directors or committees from those noted in the previous SFCR[1].

- **Deian Jones*** continues to hold SMF01 (CEO)
- **David Gulland** continues to hold SMF9/12/13 Chair of Board, Nomination and Remuneration committee
- **Rebecca Hall** continues to hold SMF 10/11 Chair of Audit and Risk Committee
- **Sam Gunter*** continues to hold SMF02 as Chief Finance Officer (but relinquished SMF20 Chief Actuary on the approval of Stephen Grigg)
- **Hamish Galloway*** was appointed SMF 7 (Group Entity SM) and appointed to the Board as a non-executive director representing the shareholder

For other senior management roles:

- **Neil Cantle** has continued to hold SMF04 (CRO)
- **Bernie Goldberg** has continued to hold SMF16/17 Compliance and AML
- **Paul Smith*** has continued to hold SMF5 Internal Audit
- **Stephen Grigg*** was appointed SMF20 Chief Actuary

The company certified four roles

- **Dominic Badham*** as Head of Risk and chair of the Risk Management Committee
- **Georgina Shield*** as Product Governance Manager
- **Lloyd Jones*** as Senior Capital Management Actuary
- **Russ Taplin*** as Business Manager[2]

As noted above, staff marked with a * perform the same role for Omnilife[3] and at executive level, all committees now cover Omnilife and HLAC jointly.

Remuneration policy

The Remuneration policy is regularly reviewed by the Nomination and Remuneration Committee and approved by the Board. The remuneration framework is applicable to employees who are substantially working for HLAC or are Senior Managers or Certified staff registered to HLAC and remunerated for that role. The policy sets out the principles and framework for HLAC employee remuneration, which is transparent to all staff, with clear communication of the reward structure and the processes used for decision-making. It is applied consistently to all employees, with no ‘special arrangements’ inconsistent

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[1] Formal approvals for David Gulland, Rebecca Hall and Hamish Galloway and Bernie Goldberg were received after the 30 September 2021 year end but their roles were noted in the previous SFCR.

[2] Russ Taplin left the company in November 2022

[3] Sam Gunter acts as CFO for both entities but is not an executive director for Omnilife

with this policy; and provides employees with total compensation that is competitive with relevant market medians.

HLAC staff are employed by RGA UK Services Limited and are entitled to remuneration and benefits consistent with other employees of RGA.

Executive Directors and employees

The Nomination and Remuneration Committee reviews the ongoing appropriateness and relevance of the Remuneration Policy, in the context of the wider RGA group.
In respect of Executive Directors, Senior Management Function Holders and Material Risk Takers (as defined by PRA/FCA Rules), where those individuals are working substantially for HLAC the responsibilities of the Nomination and Remuneration Committee include:

- Ensuring that remuneration features transparent goals and objectives which are aligned to the strategy and risk of the company;
- Ensuring that remuneration provides appropriate incentives to remain in the employment of the Company and to reward their individual contributions to the success of the Company;
- Being aware and input to the design of any performance-related pay schemes operated by the RGA group in which they participate;
- Ensuring that remuneration gives due regard to the comments and recommendations of current regulatory guidance;
- Being aware of and input to any major changes in employee benefit structures affecting these individuals, including pension arrangements

The Nomination and Remuneration Committee also supports the Board in overseeing the design of the remuneration policy and remuneration practices, their implementation and operation, in the context of the wider RGA group.

The objective of the Remuneration Policy is to provide total compensation that is in line with market rate and structured and calibrated so as to attract, retain, motivate and reward its employees to deliver enhanced performance in the eyes of customers and / or members.

Executive directors and employees are remunerated as follows:

- Basic salary: Salaries are reviewed each year and increases may be granted, though not automatically implemented, based on comparable market rates for each job and individual performance.
- Pension contributions: All employees are automatically enrolled into the RGA defined contribution pension arrangement, to which the Company contributes. Employees can also make additional contributions.
- Other benefits: Life cover, income protection insurance and medical insurance.
- Annual bonus: A discretionary annual bonus may be paid which is based on a combination of RGA, Segment, Local, Company and personal performance relative to objectives. A common structure is in place for employees, managers and the CEO in order to ensure alignment of this incentive throughout the Company.
- Long Term Incentive Plan: A discretionary long-term incentive may be paid which is determined in a similar way to the annual bonus. This element is held for a minimum period of three years before it can be paid to incentivise management to take a long term view, which is in line with the regulations.

In reviewing and approving remuneration arrangements, the Nomination and Remuneration Committee gives due regard to the comments and recommendations of current regulatory guidance. No executive director shall vote on any decisions as to his or her own remuneration.

Non-Executive Directors

The remuneration of non-executive directors is a matter for the Board but advice about appropriate payments via benchmarking is provided by the Nomination and Remuneration Committee. All independent non-executive directors are paid a fixed fee, with Board and Committee Chairs receiving an additional fee for their extra work. RGA Group staff serving as non-executive directors are not separately remunerated for their Board roles.

B.2 Fit and proper requirements

In order for HLAC to ensure the fitness and propriety of all its staff, and in particular its Senior Managers and Certified Personnel, the following processes are in place:

- Recruitment process;
- Initial training and supervision;
- Ongoing training and competence management;
- Annual fitness and propriety checks; and

The extent to which the above processes are applied will be determined by the intended roles and responsibilities of a specific individual. For example, more comprehensive fitness and propriety processes will be undertaken for individuals that currently are or are intended to become Senior Managers or Certified Persons.

The Company via the Compliance Function has maintained suitably documented fitness and propriety procedures for staff both prior and post the change of ownership.

The HR function was outsourced by the company to Hodge Group prior to the change of control and is now fully outsourced to RGA.

Roles that fell within the scope of the Senior Managers and Certification Regime (“SMCR”) were subject to the following pre-employment checks by Hodge Group 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
- Adverse media check
- Right to work checks

For those in the senior manager regime, a full induction and L&D plan was required, as well as governance arrangements and recommendations as to why person is competent, fit and proper.

A very similar process is in place within RGA and has been followed for those appointed to HLAC roles since the change of control. RGA HR have conducted their own checks to ensure that HLAC staff recruited by Hodge Group meet required standards and maintain the records demonstrating a robust recruitment process was followed.

Ongoing suitability of staff and annual fitness and proprietary checks

All employees are subject to annual performance reviews.

Line managers are responsible for co-ordinating and monitoring a training and development programme appropriate to each member of staff. This includes meeting CPD requirements and undertaking mandatory learning on Compliance and data privacy issues.

Where any issues or instances of inadequate performance are identified, the relevant manager, in conjunction with the HR function, is responsible for determining the required action to be undertaken.

Employees are encouraged to feedback their views and opinions as to the performance and behaviour of their respective managers during the performance review process. Performance reviews are linked to employee remuneration in the following ways:

- Managers have direct input into their team's salary increases, which involves both quality of work and financial performance metrics;
- The manager's annual salary review reflects whether they have completed their team's performance review process; and
- Annual bonuses are also directly linked to performance and are not payable to any employee who is undergoing formal disciplinary process.

An annual fitness and propriety self-declaration form is required to be completed by all Senior Managers and Certified Personnel.

Senior Managers and Certified Personnel are notified of their duty to inform HLAC of any changes in circumstances that differ from any original answers provided in either the annual self-declaration forms or Controlled Function application forms.

Records are maintained of all fitness and propriety checks and the allocation of prescribed responsibilities within a central database. Any issues identified following the above checks will be presented by the HR function to the relevant manager(s) to determine the extent of the issues and decide what action, if any, should be taken.

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.

Senior Managers and Certification Regime (SMCR)

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

The table below summarises the controlled functions and responsibilities prescribed under SMCR regulation. These have been allocated to individuals within the Company using the fit and proper requirements highlighted above.

SMR ref	Description	Holder	Prescribed responsibilities Held
SMF1	The Chief Executive function	Deian Jones	A Responsibility for the firm's performance of its obligations under the senior management regime B Responsibility for the firm's performance of its obligations under the employee certification regime B-1 Responsibility for the firm's obligations in relation to conduct rules for: (a) training and (b) reporting C Responsibility for compliance with the requirements of the regulatory system about the management responsibilities map G Responsibility for monitoring the effective implementation of policies and procedures for the induction, training and professional development of all persons performing designated senior management functions on behalf of the firm other than members of the governing body. H Responsibility for overseeing the adoption of the firm's culture in the day-to-day management of the firm. T Responsibility for the development and maintenance of the firm's business model by the governing body U Responsibility for the firm's performance of its obligations under Fitness and Propriety (in the PRA Rulebook) in respect of its notified non-executive directors X Responsibility for the firm's performance of its obligations under the Outsourcing part of the PRA Rulebook
SMF24	Chief Operations Officer		
SMF2	Chief Finance function	Sam Gunter	O Management of the allocation and maintenance of capital, funding and liquidity Q The production and integrity of the firm's financial information and its regulatory reporting in respect of its regulated activities
SMF20	Chief Actuary function	Stephen Grigg	
SMF3	Executive Director	Deian Jones Sam Gunter	
SMF4	Chief Risk Officer function	Neil Cantle	T-2 Responsibility for the firms ORSA
SMF7	Group Entity Senior Manager function	Hamish Galloway	
SMF9	Chairman function	David Gulland	F Responsibility for: (a) leading the development of; and

SMF12 **SMF13**	Chair of Remuneration Committee function Chair of Nomination Committee Function		(b) monitoring the effective implementation of; policies and procedures for the induction, training and professional development of all members of the firm's governing body I Responsibility for leading the development of the firm's culture by the governing body as a whole. M Responsibility for overseeing the development of, and implementation of the firm's remuneration policies and practices in accordance with SYSC 19D (Remuneration Code)
SMF10 **SMF11**	Chair of Risk Committee function Chair of Audit Committee function	Rebecca Hall	N Responsibility for the independence, autonomy and effectiveness of the firm's policies and procedures on whistleblowing, including the procedures for protection of staff who raise concerns from detrimental treatment
SMF16 **SMF17**	Compliance Oversight Function Money Laundering Reporting Function	Bernie Goldberg	D Overall responsibility for the firm's policies and procedures for countering the risk that the firm might be used to further financial crime

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 implementation of strategy and for the management of risks across the organisation and comprises executive committees, management and staff.
- The second line of defence is responsible for providing independent oversight and challenge of activities and risk decisions taken by the first line and provides guidance on risks relevant to the strategy. The Risk function is not customer facing and has no responsibility for business targets or performance.
- The third line of defence provides independent and objective assurance on the design and effectiveness of the Company's governance, risk management and controls processes.
  The Company outsources its third line of defence to a group function

The Risk Management Framework ("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 and is articulated within the risk strategy document.
Risk management policies and procedures	A number of policies and procedures are in place that set out a more detailed, granular expression of the risk exposures that are acceptable to the Company for each risk type. These aim to communicate the appetite for each risk to relevant members of staff, including any board-level limits and triggers set out within the risk appetite. These limits and triggers will be supported, where appropriate, by more granular limits / measures for monitoring by the relevant executive committee and management.
Risk management cycle	The risk management cycle comprises a number of processes to support the identification, assessment, management, monitoring and reporting of risks against risk appetite. Some of the key processes within the risk management cycle include: • Risk register: The risk register acts as a central record of the key risk types faced by the business and enables comparison of risk exposures for each risk type through the use of standardised risk rating methodology. It is senior management's responsibility to identify the key risks to which the business is exposed, whether internal or external, and to ensure that those risks are managed effectively. The risk function is responsible for the co-ordination, completion and review of the consolidated risk register, and for provision of oversight and challenge on senior management's assessment. • Risk assessments: Risk assessments include consideration of both current and emerging risks. The risk function provides regular oversight and challenge in respect of the departmental risk assessment and ensures that risks are escalated in accordance with the RMF. Emerging risks are considered by the Risk Management 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 Management 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 Risk by each operational area on a quarterly basis. A summary of this is reported to the Risk Management 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

RMF component	Description
	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 Risk Management Committee to enable it to monitor and manage risks in accordance with the terms of reference; and • The Audit and Risk Committee 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 into 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 Chief Risk Officer has overall responsibility for the ORSA process and the ORSA report. The actuarial team carries out the calculations and the risk function drafts the report.

The ORSA report is reviewed by the Risk Management 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.
- Regular stress and scenario testing is undertaken which reflects the risks identified in the ORSA.
- The risks identified in the ORSA are used to set risk appetite buffers and help define our capital and liquidity monitoring. Quarterly Risk reporting confirms that 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 outsourced investment management function, where front office is clearly separated from back office operations.
Physical security	Access to the premises is controlled at group level through electronic security passes, a manned reception desk and intruder alarms.
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.

Control	Summary
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.
Operational Resilience	The company has an Operational Resilience framework to ensure that its important business service of paying annuities can continue in the face of disruption regardless of its source.
Experience investigations	These are performed annually for key assumptions used in the actuarial valuation to assess their on-going appropriateness. This forms an integral part of the actuarial control cycle.
Horizon scanning	Regular horizon scanning is co-ordinated by the compliance function to ensure that any updates or changes to regulatory or legal requirements are identified and assessed in a timely manner.
Board reporting	A business performance report is presented at every Board meeting explaining the sources of profit in the month and the financial impact of emerging experience. This acts as an early warning signal for adverse experience.
Internal audit	Regular reviews are performed to ensure that HLAC's internal controls remain adequate. Internal audit reports therefore serve as a trigger to review any net risk assessments where control failings or issues have been identified.
Model governance	Significant models are subject to the application of robust controls, including their development, production and validation through a change control process. The Risk management 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 Internal Audit Function reports directly to the Audit and Risk Committee, the membership of which consists of non-executive directors and independent non-executive directors. On this basis, the Internal Audit Function is considered independent from all other business functions and, therefore, is able to provide objective opinions on the adequacy and effectiveness of The Company's Risk Management System and Internal Control Framework over the audit cycle. The Audit and Risk Committee oversees and provides challenge to the Internal Audit Function to satisfy itself that the Risk Management System and Internal Control Framework are adequate and operating effectively.

The Internal Audit Function is internally outsourced to its parent group, RGA. The Internal Audit Function is responsible for conducting all Internal Audit reviews and, in conjunction with the Audit and Risk Committee, developing a rolling Internal Audit Plan.

The areas to be reviewed under the Internal Audit Plan are determined based on the risks to the business, based on those detailed within the Risk Register together with Internal Audit's own judgement, with every activity of the Company within the scope of Internal Audit reviews. The Internal Audit Plan is reviewed and approved by the Audit and Risk Committee at least annually. The Internal Audit Function is required to provide the Audit and Risk Committee with quarterly updates against the plan and submit an individual report (including agreed action points to address each issue) on completion of each Internal Audit review. The Internal Audit Function and / or the Audit and Risk Committee may, at its discretion, amend the Internal Audit Plan, where there have been significant changes to the Company's risk profile.

The Audit and Risk Committee reviews all agreed actions and challenges the suitability of these as necessary. The Internal Audit Function monitors and reports to the Audit and Risk Committee on management's progress with implementing agreed recommendations on a timely basis and in line with the agreed due dates. Any agreed actions are highlighted to the Audit and Risk Committee.

The CEO, the Compliance Function Holder and the CRO normally attend Audit and Risk Committee meetings, so that they may understand and assist to address any identified issues, weaknesses and failures. They may also be invited to contribute to (although not determine) the Internal Audit Plan development process.

The Audit and Risk Committee provides to the Board, on a regular basis, reports outlining its progress against the Internal Audit Plan and also the key findings, risks and issues identified as a result of both Internal Audit reviews and reviews carried out by the external auditor.

B.6 Actuarial function

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

The Chief Actuary is a Fellow of the Institute and Faculty of Actuaries, holds a Chief Actuary (Life) Practising Certificate and is a Controlled Function Holder under the SMCR.

The Chief Actuary reports into the CEO 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
- Consider the fair treatment of policyholders

B.7 Outsourcing policy

HLAC remains ultimately responsible for any activity that is outsourced. The Outsourcing & Related Party Transactions Policy, which has been approved by the Board, describes the principles and policies the Company follows in making a decision to outsource an activity and in subsequently monitoring it. In making a business case for outsourcing, the Company uses a risk-based approach and conducts due diligence before agreeing a contract. The arrangements include suitable monitoring and reporting requirements, details of the provider's business continuity planning and an exit strategy.

The Company outsources:

- Investment management to RGA Capital Limited and RGA Enterprises Services Company
- IT support to RGA UK Services Limited and RGA Enterprises Services Company.
- The provision of non-IT corporate services to RGA UK Services Limited and RGA Enterprises Services Company, including HR, Finance, Policy Administration and Facilities.
- Internal Audit (as noted in B.5) to RGA Inc.
- The administration of the in-payment annuities to EQ (Equiniti).

RGA Enterprises Services Company is US-based and the other outsourced service providers are UK-based.

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

This section describes the nature of the risks which the Company has underwritten and the guiding principles which it has followed and intends to follow in future in reinsuring or covering those risks.

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 Risk Management Committee is responsible for the adequacy of the risk management framework.

Risk profile

HLAC was purchased by the RGA Group on 1 July 2021, has ceased writing new business, has proposed to the regulator that it should be formally closed to new business and has taken a number of actions to reduce HLAC's risks.

Prior to closure, it was pursuing an organic growth strategy, focused on the retirement sector. The Company wrote business in the UK only and matched 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. It is also exposed to the risk that matching assets perform less well than expected.

The Company had been active in the equity release sector since 1965, and has developed significant skill and expertise in managing the risks involved in this asset class. The key risk associated with equity release is the 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. There are also prepayment risks where higher lapses or deaths than expected could reduce expected returns. The Company has significant experience of the entire lifecycle of this product, including the sale of property after the death of the borrowers.

The Company seeks to reduce risks from changes in interest rates by matching cashflows from its asset portfolio with the required payments to annuitants and reduces liquidity risks by maintaining minimum liquid 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 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. The Company's operational resilience framework sets out the Company's important business service (paying annuities) as well as setting out its impact tolerances and levels of intolerable harm for recovery of these services in the event of disruption.

Longevity risks were hedged by a longevity swap arrangement entered into prior to the change of ownership and has been further hedged by additional reinsurance arrangements since.

The Investment Policy Statement sets out the strategic asset allocation. The risks from asset value shocks including from equity release mortgages have been hedged via a reinsurance arrangement with RGA group.

With reinsurance significantly reducing HLAC's risk from both underwriting and market shocks, HLAC has a significantly lower SCR and greater surplus than it had prior to its purchase by RGA. The reinsurance has created a large exposure to a single counterparty, RGA. The risk associated with this counterparty exposure is actively managed as discussed below.

Climate change risks can crystallise as investment risks or insurance risks. Considerations of climate change are embedded in individual risk policies and the ORSA considers specific scenarios where climate change risks could emerge across several risk types.

Use of reinsurance

The Company uses reinsurance agreements to manage its exposures to longevity and market risks. Other than the pre-existing external treaty, reinsurance to other companies within the RGA Group was chosen as the primary method to manage the Company's risk profile in order to retain value within the group.

Retention is set at levels that balance the target profit within the RGA Group, the minimisation of volatility and the management of capital to protect the overall solvency position of the Company. The Company must have recourse to sufficient funds to be able to recover its SCR coverage ratio within timescales required for undertakings in difficulty in the event of a reinsurer failure.

Therefore, arrangements with the potential for a significant exposure to a single entity are collateralised so that the Company would be able to continue to meet 100% of SCR if the reinsurer were to become insolvent or could swiftly restore its solvency to that level with pre-defined management actions within the timescales required for undertakings in difficulty.

There are three reinsurance arrangements in place

- An external longevity swap covering guaranteed pension annuities originated prior to 1/7/2019. The Company pays a fixed leg in return for the reinsurer paying an amount equal to 95% of the actual annuity payments the Company must make on this business.

- A 100% co-insurance arrangement covering 49% of the Company's guaranteed pension annuity business. This covers all policies written after 1/1/2016 (where they do not benefit from the TMTP) and a proportion of those written prior to that date.

- A stop-loss arrangement covering 41% of the Company's annuity business. This covers business written prior to 1/1/2016. The treaty operates by defining a notional Subject Asset Portfolio ("SAP") which is compared to the SII Liabilities covered by the treaty. HLAC is protected against losses in the SAP up to a maximum lifetime benefit of 50% of the initial Solvency II Liabilities. Profits accruing in the SAP are shared between the Company and the reinsurer.

The internal reinsurance arrangements are structured so that in the event of a default by the external reinsurer, the within group reinsurance arrangements would automatically

cover the Company's potential losses. The Company is therefore only exposed to a default of the Group.

In recognition of the material exposure to a single counterparty the Company sets its target capital at a level to ensure it could recover its SCR coverage ratio to over 100% within timescales required for undertakings in difficulty in the event of a reinsurer failure.

Prudent person principle

The Company selects and manages its investments in accordance with the 'prudent person principle', by following guidelines set out in its Investment Policy Statement, which has been agreed by the Board.

The guidelines include the following constraints

- **Interest rate risk**: The interest rate risk of the Company is described primarily by the effective duration. When applicable, the intent is to closely match the cash flows of the assets and best estimate liabilities to keep interest rate risk low with surplus assets invested to minimise the risks to surplus in excess of risk appetite from interest rate risk. A limit of +/- 2.5 years duration mismatch is applied.
- **Credit risk:** Credit risk is managed by diversification across fixed income sectors and by prudent issuer and ratings limitations.
- **Liquidity risk**: Maintaining sufficient liquidity is of utmost importance. Liquid Assets are defined in the asset class range and limits table. The overall liquidity is managed and monitored jointly by the Hodge Life CFO, RGA Treasury and RGA Investments. Liquid resource requirements are defined in the HLAC liquidity risk management policy.
- **Asset Class:** The investment policy restricts the proportion that can be invested in various asset classes. The investment policy lists permitted assets as liquid assets, government securities, credit securities and a limited array of structured securities including Equity Release Mortgages.

No foreign currency investment is permitted and no purchases are allowed to assets below investment grade. Limits are applied to maximum investments in each class to control exposures and a maximum holding to a single security of 5% is applied to control investment risk.

The Investment Policy Statement is implemented by our Investment Manager and any inadvertent breaches of the Policy are reported to the Audit & Risk Committee who are required to agree the proposed remedial action.

Risk exposures

The resulting risk profile as given by the standard formula SCR for HLAC as at 30 September 2022 (together with a comparison to 30 September 2021) is shown below.

SCR (£000's)	Sep-21	Sep-22	Difference
Life underwriting			
Longevity level	7,071	4,127	(2,944)
Expense	8,529	5,118	(3,411)
Sum of stresses	**15,600**	**9,245**	**(6,355)**
Market			
Property level	327	0	(327)
Interest up	1,565	6,421	4,856
Spread	10,734	9,522	(1,212)
Counterparty	2,084	982	(1,102)
Concentration	750	460	(290)
Sum of stresses	**15,460**	**17,385**	**1,925**
Diversification benefit within *life*	(3,235)	(1,911)	1,324
Diversification benefit within *market*	(2,337)	(4,909)	(2,572)
Diversification benefit between *life* and *market*	(6,208)	(4,375)	1,833
Total Diversification benefit	**(11,780)**	**(11,195)**	**585**
BSCR	19,280	15,436	(3,844)
Operational risk	2,264	1,536	(728)
SCR before LACDT	**21,544**	**16,972**	**(4,572)**
Loss absorbing capacity of deferred tax (LACDT)	0	0	0
SCR after LACDT	**21,544**	**16,972**	**(4,572)**

The net of reinsurance risk exposure under the standard formula SCR is most driven by market risks. The market risks relate to retained corporate bond holdings, LTMs and interest rate risk. The life underwriting risk is driven by retained longevity and expense risks from the annuity business the Company has written. The counterparty default risk primarily relates to deposits with credit institutions rather than reinsurance.

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. Reverse stress tests are also included which assess the impact at greater severities. These events have been set through the Company's own analysis of historic risk events.

This stress testing of extreme events at the 1 in 200 year level has identified that the Company is most exposed to falls in interest rates (primarily driven by the impact of SCR change), longevity risk from the annuity business, and spread risk on corporate bonds.

Section C.7 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 in reserving for these contracts. The Company is exposed to the risk that actual experience of mortality rates is lower than these assumptions.

The Company has entered into a longevity swap, a coinsurance treaty and a stop-loss treaty. These materially reduce the longevity risk.

The Company still has some residual longevity risk from the retained elements as well as the impact of increased longevity on the costs of managing policies.

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.

Expense risk

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

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

Expense risks are not mitigated by any of the reinsurance treaties.

C.2 Market risk

The Company is exposed to market risk through its holdings of lifetime mortgages, and debt securities. It is also exposed to interest rate risk via the valuation interest rate of annuities.

Climate change effects have the potential to also lead to market risks crystalising in several of the subcategories below as well as in other areas such as counterparty default or insurance risks.

Section D.1 sets out the valuation of the Company’s assets.

Property risk

The Company is 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.

Property risks are mitigated by the stop-loss reinsurance arrangement.

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 positions: IFRS surplus, Solvency II Pillar I surplus and surplus in excess of Risk Appetite. The capital resources and required/targeted capital differ between these measures and will move differently as interest rates change. The business is managed primarily based on surplus in excess of Risk Appetite.

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 debt securities is mitigated through the Company's investment policy. The exposure is also mitigated by the stop loss reinsurance arrangement.

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 was 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 investment policy.

Other market risks

The Company does not have any direct exposure to equity risk or currency risk. HLAC has an indirect exposure to currency risk through the collateral it holds against the risk of counterparty defaults.

C.3 Counterparty default risk

Counterparty default risk is the risk that the Company cannot recover the value of its assets if the counterparty defaults.

It is exposed to counterparty default risk from the reinsurance arrangements with its parent. This is mitigated through collateral arrangements and by its risk appetite targets and limits.

The Company is not directly exposed to counterparty risks from the external longevity swap due to a step-in clause in the internal reinsurance.

The Company is also exposed to counterparty default risk associated with deposits with credit institutions. The exposure to counterparty default risk on deposits is controlled through the Company's investment 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 asset repositioning post RGA acquisition reduced the Company's exposure to illiquid assets and provided a much larger portfolio of assets that could be liquidated if needed.

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 company makes extensive use of outsourcing and controls operational risks in these areas through use of strong third parties and oversight of outsourced activities.

The risk policy defines the types of operational risk faced, the level of risk appetite and the processes in place to identify, assess, manage, monitor and report operational risks and events.

The Company has an operational resilience framework to ensure that it can maintain its important business service of paying annuities in the event of adverse 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 low levels of conduct risk.

Regular conduct risk training is completed for all staff members, with more in-depth training for individuals whose role warrants it. 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 functions.

C.7 Any other information

The Solvency II balance sheet at 30 September 2022 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 30 September 2022 was 618%.

The tables below set out the sensitivity of results to changes in assumptions as at 30 September 2021 and 30 September 2022.

Sensitivities (30 September 2021)	Impact on own funds (£000s)	Impact on SCR (£000s)	Impact on SCR coverage ratio (%)
1% fall in interest rates	(1,932)	2,908	-69%
10% fall in property values	(2,264)	(659)	5%
10% decrease in mortality (annuities only)	(4,916)	389	-32%

Sensitivities (30 September 2022)	Impact on own funds (£000s)	Impact on SCR (£000s)	Impact on SCR coverage ratio (%)
1% fall in interest rates	2,399	1,132	-25%
10% fall in property values	(1,303)	78	-10%
10% decrease in mortality (annuities only)	(2,735)	409	-31%

For the key sensitivities, the absolute size of each of the stresses are much smaller for the Company. This is largely the result of the increase in market yields which has resulted in the reduction in the value of both assets and liabilities over the year.

However, with the relatively small SCR as at 30 September 2022, the impact on SCR coverage ratio can appear large for some stresses. This should be considered in the context of the SCR coverage ratio of 618%.

Assumptions

- 1% fall in interest rates: this sensitivity reduces the discount rate used for assets and liabilities by 1%. Asset and liability values increase in an interest rate down stress. Larger asset and increased liability value offset each other to some extent. A fall in interest rates would not automatically see the offset in TMTP, as to recover the loss, HLAC would need to get PRA approval to recalculate the TMTP.
- 10% fall in property values: this sensitivity allows for a change in lifetime mortgage 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, in reality 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. An offsetting impact is modelled through an increase in value of the reinsurance arrangement. The increased value of liabilities results in a larger impact of certain 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 30 September 2022:

30 September 2022 (£000)	Solvency II	IFRS
Loans and advances to credit institutions	21,637	21,637
Debt securities & government bonds	149,412	149,412
Investments	108,479	108,479
Other assets	6,562	6,562
Reinsurance asset	161,676	156,833
Deferred tax asset	5,295	6,268
Total assets	**453,061**	**449,191**

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

Most assets on the Solvency II balance sheet are valued on the same basis as in the financial statements, with the exception of reinsurance assets, and deferred tax.

The reinsurance agreement follows a different valuation of technical provisions as discussed in section D.2. below. The differences in reinsurance valuations are due to differences in liability measurement under Solvency II and IFRS. In particular the higher discount rate (due to the allowance of an illiquidity premium) on the IFRS liabilities has contributed to the reinsurance asset being lower under IFRS than Solvency II.

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 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 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 over a 12 month period.

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 regional 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. The long term care element is allowed for by applying a higher percentage of the mortality table.

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 a percentage of loan balance to represent the cost of administration.

Discount rate: The discount rate applied to the lifetime mortgage cash flows comprises two parts: a risk-free curve and an allowance for illiquidity based on current market rates for new business at different loan-to-value points. The risk-free yield curve is the GBP curve published by PRA for 30 September 2022.

Valuation of Receivables (trade, not insurance)

Receivables are the balances owed to the Company by other parties. These are short term receivables and are therefore not discounted. Differences between IFRS and Solvency II are due to the reclassification of balances owing under servicing agreements with JHB at the valuation date.

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

Valuation of Insurance and intermediaries receivables

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.

Deferred tax asset

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 and the reinsurance recoverable.

The difference in deferred tax asset of £1.0m is derived from the difference in technical provisions and reinsurance recoverable on the IFRS and Solvency II balance sheets, £3.9m, multiplied by the enacted tax rate of 25% given these differences will unwind over the very long term.

The Company has tested the recoverability of net deferred tax assets against profit projections for the Company and the wider RGA group.

Reinsurance

The differences in reinsurance valuations are due to differences in liability measurement under Solvency II and IFRS, and the accounting treatment of the reinsurance agreement. This is discussed in section D.2 alongside the corresponding technical provisions.

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 30 September 2021. Values are shown in £000s.

<table>
<tr><th>Solvency II description</th><th>Solvency II value</th><th>IFRS description</th><th>IFRS value</th></tr>
<tr><td>R0670 Best estimate liabilities</td><td>341,425</td><td rowspan="3">Provisions for long term business – liabilities arising from insurance contracts</td><td rowspan="3">343,177</td></tr>
<tr><td>R0680 Risk margin</td><td>2,703</td></tr>
<tr><td>Subtotal</td><td>344,128</td></tr>
</table>

The above table shows best estimate and risk margin net of TMTP. 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 TMTP. This amount was £30.2m as described in the following section.
- The Company did not use the transitional measures on interest rates.

No simplifications have been used in the calculation of the best-estimate liabilities or risk margin.

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 does 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.

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

Discount rate: The discount rate applied to the annuities uses the risk-free yield curve for GBP published by PRA for 30 September 2022.

Valuation of risk margin for solvency purposes

The risk margin calculation is calculated by projecting the 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. This risk is, to a large degree, mitigated by the reinsurance arrangements.

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 TMTP in the valuation of technical provisions. As at 30 September 2022 the value of the TMTP was £30.2m.

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 or if there has been a material change in risk profile. The last recalculation was performed as at 30 September 2021.

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.

30 September 2022 (£000s	Amounts with TMTP	Amounts without TMTP	Impact of removing the TMTP
Technical provisions	344,128	374,317	30,189
Reinsurance recoverables	161,676	180,804	19,128
Deferred tax	5,295	8,060	2,765
Basic own funds	107,583	99,287	(8,296)
Eligible own funds to meet Solvency Capital Requirement	104,833	93,623	(11,210)
Solvency Capital Requirement (SCR)	16,972	15,978	(994)
SCR coverage ratio	618%	586%	(32)%
Eligible own funds to meet Minimum Capital Requirement	102,288	91,227	(11,061)
Minimum Capital Requirement (MCR)	4,243	4,063	(180)
MCR coverage ratio	2411%	2245%	(166)%

Without the TMTP, basic own funds would be expected to reduce by £8.3m to £93.6m. The loss of own funds is of smaller than the TMTP at the valuation date of £30.2m.

The stop loss reinsurance treaty provides protection for a proportion of the assets and technical provisions underlying the TMTP. If the TMTP were removed, the stop loss would absorb a proportion of the solvency loss.

We have assumed that a deferred tax asset could be set up against the residual loss of own funds.

The Company would have enough own funds to meet the SCR without applying the TMTP.

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 measures the value of the reinsurance recoverables using an actuarial valuation.

Please note the reinsurance recoverables are presented on the asset side of the balance sheet for Solvency II purposes in form S.02.01 (see section D.1).

Longevity swap

The value of the reinsurance recoverable is calculated by discounting the value of future expected cash flows using best estimate assumptions, consistent with the gross liabilities above. The present value of the cashflows comprises the expected cashflows receivable from the counterparty (i.e. the “floating” leg), net of the expected cashflows payable by

the Company (e.g. the "fixed" leg) and reinsurance fees. The Solvency II value of the reinsurance recoverable is £(4.3)m.

The credit default adjustment applied to the reinsurance recoverable is zero on the Solvency II base balance sheet since the reinsurance recoverable is a liability on a best estimate basis. This adjustment becomes non-zero in stressed positions where the reinsurance recoverable becomes an asset.

Coinsurance

The value of the reinsurance recoverable is calculated by discounting the value of future expected cash flows using best estimate assumptions, consistent with the gross liabilities above. The present value of the cashflows comprises the expected cashflows receivable from the counterparty. The Solvency II value of the reinsurance recoverable is £169.9m.

The credit default adjustment applied to the reinsurance recoverable is zero on the Solvency II base balance sheet since the reinsurance recoverable is fully collateralised from outset.

Stop loss

The value of the reinsurance recoverable is calculated with reference to the Solvency II valuation of the assets and gross liabilities covered by the stop loss. If the stop loss is in surplus, the reinsurance recoverable will represent profit share due to the counterparty. If the stop loss is in deficit the recoverable will represent the amount due from the counterparty. The Solvency II value of the reinsurance recoverable is £(3.9)m.

The credit default adjustment applied to the reinsurance recoverable is zero on the Solvency II base balance sheet since the reinsurance recoverable is a liability on a best estimate basis. This adjustment becomes non-zero in stressed positions where the reinsurance recoverable becomes an asset.

Comparison to previous reporting period

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 30 September 2022. Values are shown in £000s.

<table>
<tr><th>Solvency II description</th><th>Solvency II value</th><th>IFRS description</th><th>IFRS value</th></tr>
<tr><td>R0820 Insurance and intermediaries payable</td><td>533</td><td rowspan="3">Other liabilities</td><td rowspan="3">1,351</td></tr>
<tr><td>R0840 Payables (trade, not insurance)</td><td>818</td></tr>
<tr><td>Subtotal</td><td>1,351</td></tr>
</table>

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

Insurance and intermediaries payables

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

Payables (trade, not insurance)

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

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

D.4 Alternative methods for valuation

Alternative methods of valuation are used for 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 a limit and target for the excess of own funds over the Solvency Capital Requirement. The capital risk appetite is a key risk indicator which is regularly reported to the Audit & Risk Committee and Board. In the event of a breach of a limit, the Company would consider management actions such as reducing dividends.

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 the business 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 at 30 September 2022 the ratio of eligible own funds to Solvency Capital Requirements was 618%.

Own funds by tier

The Company’s own funds are almost entirely comprised of ordinary share capital and reconciliation reserves (retained earnings). These items are treated as Tier 1 unrestricted capital items. The deferred tax asset is treated as a Tier 3 capital item. The Tier 1 capital items are sufficient to cover the SCR and MCR. The table below summarises the component parts the excess of assets over liabilities.

Decomposition of the excess of assets over liabilities	30 September 2022 (£000s)	30 September 2021 (£000s)
Reconciliation reserve	95,488	107,256
Deferred tax assets	5,295	3,833
Other basic own fund items	6,800	6,800
Excess of assets over liabilities	**107,583**	**117,889**

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, however, the eligibility of Tier 3 assets to cover the SCR and MCR is subject to restriction.

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 E.2 provides a summary of changes in own funds and SCR in the reporting period.

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

Reconciliation of valuation differences	30 September 2022 (£000s)	30 September 2021 (£000s)
Called-up share capital	6,800	6,800
Deferred tax assets	6,268	4,557
Profit and loss account	91,595	104,373
Total Equity per financial statements	**104,663**	**115,730**
Difference in the valuation of assets	3,870	(6,584)
Difference in the valuation of technical provisions	(951)	8,743
Difference in the valuation of other liabilities	0	0
Excess of assets over liabilities for solvency purposes	**107,583**	**117,889**

Called-up share capital of £6.8m comprises 27.2m (2020: 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 assets and technical provisions.

The difference in the valuation of assets primarily relates to the valuation of the reinsurance recoverable and deferred tax. This is explained in more detail in section D.1.

The difference in the valuation of technical provisions is due to:

- Differences in the assumptions used to value the insurance liabilities under IFRS and the best estimate liabilities under Solvency II.
- The IFRS methodology not including the Solvency II concepts of the risk margin or transitional measures.

These differences in the valuation of technical provisions and other liabilities 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 30 September 2022 and 30 September 2021.

£000s	30 September 2022	30 September 2021
Solvency Capital Requirement	16,972	21,544
Minimum Capital Requirement	4,243	5,745

Solvency Capital Requirement

As at 30 September 2022 the ratio of eligible own funds to SCR was 618%.

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

The major change during the period is the decrease in life underwriting risk, driven largely by increase in the liability discount rate reducing the exposure. The investment of cash deposits has reduced the counterparty exposure to banks, with a consequent increase in market risk.

The table below shows the amount of SCR split by risk module.

Risk Module (£000s)	30 September 2022	30 September 2021
Market risk	11,494	11,038
Life underwriting risk	7,334	12,365
Counterparty default risk	982	2,084
Diversification benefit	(4,375)	(6,208)
Basic Solvency Capital Requirement	**15,436**	**19,280**
Operational risk	1,536	2,264
Loss-absorbing capacity of deferred taxes	0	0
Solvency Capital Requirement	**16,972**	**21,544**

Minimum Capital Requirement

As at 30 September 2022 the ratio of eligible own funds to MCR was 2411%.

The table below sets out the inputs used to calculate the MCR.

Input (£000s)	30 September 2022	30 September 2021
Linear MCR (2.1% of best estimate liabilities)	3,831	5,745
SCR	16,972	21,544
MCR cap (45% of SCR)	7,637	9,695
MCR floor (25% of SCR)	4,243	5,386
Absolute floor of MCR	3,126	3,338
Minimum Capital Requirement	**4,243**	**5,745**

The amount of the MCR for the Company is driven by the best estimate liabilities.

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 SCR.

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 SCR.

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

Given the strong coverage of our SCR, as part of the process of approving the financial statements, the Board has approved a dividend of £22m to be paid to our shareholder. This has been shown as a post-balance sheet event note in the Financial Statements.

Appendix A – Glossary of terms

AMSB	Administrative, Management or Supervisory Body
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CRO	Chief Risk Officer
EPIFP	Expected Profit Included in Future Premiums
EU	European Union
FCA	Financial Conduct Authority
FRS101	Financial Reporting Standard 101 Reduced Disclosure Framework. FRS101 was adopted by the Group from October 2016 as the basis for its financial statements.
GDPR	General Data Protection Regulation
HLAC	Hodge Life Assurance Company
IFRS	International Financial Reporting Standards. Under FRS101 the Company is exempt from certain disclosure requirements of IFRS.
LACDT	Loss absorbing capacity of deferred tax. A reduction to capital requirements (SCR) to allow for tax losses that may arise as a result of a shock.
MCR	Minimum Capital Requirement
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.
PRA	Prudential Regulation Authority
QRT	Quantitative Reporting Templates. Quarterly solvency returns submitted to the PRA.
RGA	Reinsurance Group of America, Incorporated
Risk free rate	The base discount rate set by the PRA 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.
RMF	Risk Management Framework
SAP	Subject Asset Portfolio
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.

SMCR	Senior Managers and Certification Regime
SMF	Senior Manager Function
Technical provisions	The Solvency II insurance contract liabilities. The sum of best estimate liability, risk margin and transitional items.
TOR	Terms of Reference
TMTP	Transitional Measures on Technical Provisions. Allows the ‘cost’ of moving to Solvency II to be phased in over 16 years.
UK	United Kingdom
USPs	Undertaking-Specific Parameters

Appendix B – Quantitative reporting templates ("QRTs")

The sections to follow set out the annual QRTs for Hodge Life Assurance Company Limited as at 30 September 2022 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.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

S.02.01.02 – Balance sheet

		Solvency II value
	Assets	C0010
R0010	Goodwill	
R0020	Deferred acquisition costs	
R0030	Intangible assets	
R0040	Deferred tax assets	5,295
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)	149,412
R0080	*Property (other than for own use)*	
R0090	*Holdings in related undertakings, including participations*	
R0100	*Equities*	
R0110	*Equities - listed*	
R0120	*Equities - unlisted*	
R0130	*Bonds*	149,412
R0140	*Government Bonds*	45,041
R0150	*Corporate Bonds*	104,371
R0160	*Structured notes*	
R0170	*Collateralised securities*	
R0180	*Collective Investments Undertakings*	
R0190	*Derivatives*	
R0200	*Deposits other than cash equivalents*	
R0210	*Other investments*	
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	108,479
R0240	*Loans on policies*	
R0250	*Loans and mortgages to individuals*	108,479
R0260	*Other loans and mortgages*	
R0270	Reinsurance recoverables from:	161,676
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*	161,676
R0320	*Health similar to life*	
R0330	*Life excluding health and index-linked and unit-linked*	161,676
R0340	*Life index-linked and unit-linked*	
R0350	Deposits to cedants	
R0360	Insurance and intermediaries receivables	6,155
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	407
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	21,637
R0420	Any other assets, not elsewhere shown	
R0500	**Total assets**	**453,061**

		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)	344,128
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)*	344,128
R0660	*TP calculated as a whole*	
R0670	*Best Estimate*	341,425
R0680	*Risk margin*	2,703
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	
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	533
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	818
R0850	Subordinated liabilities	
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	
R0880	Any other liabilities, not elsewhere shown	
R0900	**Total liabilities**	**345,478**
R1000	**Excess of assets over liabilities**	**107,583**

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

	Life	Other life insurance	Total
		C0240	C0300
	Premiums written		
R1410	*Gross*		
R1420	*Reinsurers' share*		
R1500	*Net*		
	Premiums earned		
R1510	*Gross*		
R1520	*Reinsurers' share*		
R1600	*Net*		
	Claims incurred		
R1610	*Gross*	28,008	28,008
R1620	*Reinsurers' share*	16,137	16,137
R1700	*Net*	11,871	11,871
	Changes in other technical provisions		
R1710	*Gross*		
R1720	*Reinsurers' share*		
R1800	*Net*		
R1900	**Expenses incurred**	3,725	3,725
R2500	**Other expenses**		
R2600	**Total expenses**	3,725	3,725

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*							
R1420	*Reinsurers' share*							
R1500	*Net*							
	Premiums earned							
R1510	*Gross*							
R1520	*Reinsurers' share*							
R1600	*Net*							
	Claims incurred							
R1610	*Gross*	28,008						28,008
R1620	*Reinsurers' share*	16,137						16,137
R1700	*Net*	11,871						11,871
	Changes in other technical provisions							
R1710	*Gross*							
R1720	*Reinsurers' share*							
R1800	*Net*							
R1900	**Expenses incurred**	3,725						3,725
R2500	**Other expenses**							
R2600	**Total expenses**	3,725						3,725

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**		368,708		368,708
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default		161,676		161,676
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re		207,031		207,031
R0100	**Risk margin**	5,642			5,642
	Amount of the transitional on Technical Provisions				
R0110	Technical Provisions calculated as a whole				
R0120	Best estimate		(27,283)		(27,283)
R0130	Risk margin	(2,938)			(2,938)
R0200	**Technical provisions - total**	344,128			344,128
R0210	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**	182,452			182,452

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**	344,128	30,190
R0020	**Basic own funds**	107,583	(8,296)
R0050	**Eligible own funds to meet Solvency Capital Requirement**	104,833	(11,210)
R0090	**Solvency Capital Requirement**	16,972	(994)
R0100	**Eligible own funds to meet Minimum Capital Requirement**	102,288	(11,061)
R0110	**Minimum Capital Requirement**	4,243	(248)

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	95,488	95,488			
R0140	Subordinated liabilities					
R0160	An amount equal to the value of net deferred tax assets	5,295				5,295
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**	107,583	102,288			5,295
	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	107,583	102,288			5,295
R0510	Total available own funds to meet the MCR	102,288	102,288			
R0540	Total eligible own funds to meet the SCR	104,833	102,288			2,546
R0550	Total eligible own funds to meet the MCR	102,288	102,288			
R0580	**SCR**	16,972				
R0600	**MCR**	4,243				
R0620	**Ratio of Eligible own funds to SCR**	618%				
R0640	**Ratio of Eligible own funds to MCR**	2411%				
	Reconciliation reserve	C0060				
R0700	Excess of assets over liabilities	107,583				
R0710	Own shares (held directly and indirectly)					
R0720	Foreseeable s, distributions and charges					
R0730	Other basic own fund items	12,095				
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds					
R0760	**Reconciliation reserve**	95,488				
	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	11,494		
R0020	Counterparty default risk	982		
R0030	Life underwriting risk	7,334		
R0040	Health underwriting risk			
R0050	Non-life underwriting risk			
R0060	Diversification	(4,375)		
R0070	Intangible asset risk			
R0100	**Basic Solvency Capital Requirement**	15,436		
		C0100		
	Calculation of Solvency Capital Requirement			
R0130	Operational risk	1,536		
R0140	Loss-absorbing capacity of technical provisions			
R0150	Loss-absorbing capacity of deferred taxes			
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC			
R0200	**Solvency Capital Requirement excluding capital add-on**	16,972		
R0210	Capital add-ons already set			
R0220	**Solvency capital requirement**	16,972		
	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 life insurance and reinsurance obligations	C0040			
R0200	MCR_L Result	3,831			
				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			182,452	
R0250	Total capital at risk for all life (re)insurance obligations				
	Overall MCR calculation	C0070			
R0300	Linear MCR	3,831			
R0310	SCR	16,972			
R0320	MCR cap	7,637			
R0330	MCR floor	4,243			
R0340	Combined MCR	4,243			
R0350	Absolute floor of the MCR	3,126			
R0400	**Minimum Capital Requirement**	4,243			