COLUMBIA THREADNEEDLE INVESTMENTS
Threadneedle Pensions Limited
Solvency and Financial Condition Report

31 December 2018

Report date: 15 April 2019

Contents

1. Summary

The Solvency and Financial Condition Report ("**SFCR**") is an annual Solvency II disclosure report for Threadneedle Pensions Limited ("**TPEN**") comprising five descriptive sections, and the relevant Solvency II Quantitative Reporting Templates ("**QRTs**").

1.1 Business and performance

TPEN is a subsidiary of Threadneedle Asset Management Holdings Sàrl, a Luxembourg registered company owned by Ameriprise Financial, Inc. ("**Ameriprise**"), the ultimate parent company. Threadneedle Asset Management Holdings Sàrl and all its subsidiaries are referred to as "**the Group**". The Group forms part of Columbia Threadneedle Investments (**"CTI"**), a global brand name of the Columbia and Threadneedle group of companies, which form the asset management segment of Ameriprise.

TPEN is a unit-linked life assurance company which manages assets for UK pension schemes, including defined benefit ("**DB**") and defined contribution ("**DC**") pension schemes (DB in segregated client portfolios under investment management contracts and both DB and DC in insured unit-linked pooled funds under unit-linked insurance contracts). It does not write life assurance protection but earns fees on its assets under management (**"AUM"**) for investment management and related services.

AUM reduced from £6.9 billion (**"bn"**) at 31 December 2017 to £6.6bn at 31 December 2018, reflecting net outflows of £0.2bn and negative investment returns (including foreign exchange impacts and net of investment income) of £0.1bn. TPEN remained profitable, reporting total comprehensive income for the year of £1.7 million (**"m"**) (2017: £2.1m). TPEN's net assets reduced from £24.4m at 31 December 2017 to £21.1m at 31 December 2018 following a £5.0m dividend paid in 2018 and the inclusion of 2018 retained earnings.

On 13 March 2019, the TPEN Board provisionally approved the novation of segregated clients from TPEN to Threadneedle Asset Management Limited (**"TAML"**) in 2019, subject to segregated clients' approval. At 31 December 2018, TPEN's segregated clients represented approximately 46% of AUM. Following the novation of segregated clients, TPEN's AUM, revenue and comprehensive income will reduce but TPEN is expected to remain profitable.

1.2 System of governance

The Board of Directors of TPEN (the **"TPEN Board"**) is responsible for all matters pertaining to TPEN and delegates to the following board committees:

- General Management Committee (**"GMC"**) is responsible for the management, governance and risk management oversight over the day to day business processes which support the TPEN business; and
- Fund Pricing and Dealing Committee (**"FPDC"**) is responsible for the monitoring and reviewing of the pricing of and dealing in funds to ensure that clients and funds are treated equitably.

The TPEN Board is establishing an Audit Committee as a sub-committee of the TPEN Board. The TPEN Audit Committee will meet the requirements of Article 39 of the revised Statutory Audit Directive 2014/56/EU, as transposed domestically by the Prudential Regulation Authority ("**PRA**"). The first TPEN Audit Committee meeting will be held following receipt of regulator's approval of the Chair, who is an independent Non-Executive Director.

Other than changes in the directors of the business, establishment of the TPEN Audit Committee, described in **Section B.1.2**, and the introduction of Senior Managers and Certification Regime (**"SMCR"**) on 10 December 2018, described in **Section B.2.1**, there have been no material changes to the governance structure of TPEN in the year to 31 December 2018.

All of TPEN's activities are outsourced to entities based in the United Kingdom, either to Group companies or to third party service providers. All arrangements are governed by legally binding agreements which outline the functions and activities provided, stipulating the duties and responsibilities of both parties. The arrangements are overseen by the TPEN Board and the GMC in accordance with TPEN's governance arrangements.

TPEN has no employees as its services are performed under contract by other Group companies or service providers. The Group remuneration and recruitment policies cover TPEN's directors as well as the Group employees who provide services to TPEN and ensure that all persons who are involved in running TPEN or have other key functions are at all times fit and proper and remunerated appropriately.

TPEN is part of the Group's risk and control framework which is embedded in the business through a three lines of defence model which comprises business unit functions, risk and compliance, and internal audit as the first, second and third lines of defence respectively.

The primary component of the internal control system operated by TPEN is the Risk and Control Self-Assessment ("**RCSA**") process. The RCSA process is performed by the First Line of Defence and the Second Line of Defence provides independent challenge. RCSA is the process by which TPEN concludes on the status of its risks and control environment.

The Group Finance function is responsible for the statutory and regulatory financial reporting for TPEN including oversight of the actuarial calculations and forms part of the First Line of Defence of the Group.

1.3 Risk profile

The Solvency Capital Requirement (**"SCR"**) is calculated using the Solvency II standard formula and for TPEN was £10.8m at 31 December 2018 (2017: £12.1m) after adjustments for risk diversification and the loss absorbing capacity of deferred taxes. TPEN uses a 12-month projection period when calculating its technical provisions. Refer to **Section 1.4** for further information on projection period.

The largest risk to which TPEN is exposed is operational risk which represents £9.9m (2017: £9.2m) of the SCR. Operational risk is the risk of loss caused by failure in processes, systems, people or external factors. The Pillar 1 operational risk capital requirement is assessed by determining trailing 12 months' expenses (excluding acquisition costs) and applying the factors specified for this risk in the standard formula SCR. Operational risk workshops are held regularly with Subject Matter Experts ("**SMEs**") to identify severe but plausible loss events, discuss the frequency and severity with which these risks apply to TPEN.

Other standard formula SCR risks include credit (counterparty default) risk, insurance risk and market risk:

- credit (counterparty default) risk which represent £0.8m (2017: £2.1m) of the SCR is relatively minor due to the high quality of the clients with which TPEN does business and that TPEN's own funds are primarily invested in high quality liquid assets within a collective investment scheme. The reduction in exposure is largely due to the settlement of the majority of intra-group tax relief debtors in 2018; and
- insurance and market risk which combined constitute £2.1m (2017: £2.4m) of the SCR and are mainly estimated by applying stress scenarios to the projected cashflows of TPEN.

1.4 Valuation for solvency purposes

The valuation of assets and liabilities for Solvency II purposes is the same as under IFRS except for differences in the value of technical provisions for unit-linked contracts and a consequential difference in the deferred tax liability. These differences are set out below:

Table 1: Technical provisions at 31 December

Technical provisions - £'m	2018	2017
Technical provisions per financial statements	3,554.0	3,561.6
Best Estimate Liability	(1.7)	(1.9)
Risk Margin	0.7	0.6
Technical provisions per Solvency II	**3,553.0**	**3,560.3**

The Best Estimate Liability ("**BEL**") is a provision calculated by determining the discounted present value of best estimates of future cashflows of the policies and is an asset due to the profitable nature of the unit-linked insurance contracts. The BEL has reduced from the prior year due to lower year end revenues.

The Risk Margin is an additional technical provision determined as the cost of providing additional own funds to support the SCR under a hypothetical transfer of the insurance liabilities to a third party. The Risk Margin increased largely due to a higher operational risk capital requirement.

Basic Own Funds (total equity in the financial statements with Solvency II adjustments) reduced from £25.4m at 31 December 2017 to £21.9m at 31 December 2018. The table below shows the reconciliation from total equity in the financial statements to Basic Own Funds calculated under Solvency II:

Table 2: Basic Own Funds at 31 December

Basic Own Funds - £'m	2018	2017
Total equity in financial statements	21.1	24.4
Items not recognised in the financial statements:		
Best Estimate Liability (S.02.01.02)	1.7	1.9
Risk Margin (S.02.01.02)	(0.7)	(0.6)
Deferred Tax Liability relating to Technical Provisions	(0.2)	(0.3)
Solvency II – Basic Own Funds	**21.9**	**25.4**

Total equity in financial statements represents TPEN's paid up share capital and retained earnings and reduced from £24.4m at 31 December 2017 to £21.1m at 31 December 2018 following a dividend of £5.0m paid in July 2018 and partially offset by the inclusion of retained earnings of £1.7m.

Deferred Tax Liability relating to Technical Provisions reduced due to a lower size of the BEL and a change in methodology where the deferred tax liability is calculated based on the difference between the BEL and the Risk Margin (previously it was calculated on the BEL).

A projection period of 12 months is used for calculating technical provisions (and when determining how these technical provisions would alter under relevant SCR stresses) and is set by the TPEN Board with reference to the notice period TPEN could give to unilaterally terminate policies and the length of time required to wind down the business.

The use of a short projection period rather than a long projection period is a simplification that the TPEN Board considers is proportionate, since it satisfies the requirements set out in Article 56 of the Commission Delegated Regulation EU 2015/35. The PRA has indicated to TPEN its non-objection to the use by TPEN of such a simplification for the calculation of its technical provisions, subject to the TPEN Board carrying out a review and assessment, at least annually, of:

- whether the proportionality requirements of Article 56 continue to be met; and
- whether the TPEN Board's capital management policy needs to be adjusted to ensure it reflects the TPEN Board's capital risk appetite, in terms of SCR coverage, on both a long and short projection basis.

The TPEN Board has reviewed the impact of both long and short projection period and determined that a short projection period remains appropriate as technical provisions are higher than under a long projection period. The TPEN Board considers the use of a short projection period to be a simplification that is proportionate and satisfies the requirements set out in Article 56. The Capital Management Policy has been adjusted appropriately.

1.5 Capital management

At 31 December 2018, the Solvency Coverage Ratio (Basic Own Funds / SCR) was 204% (2017: 209%). Basic Own Funds were £21.9m (2017: £25.4m) compared to the SCR of £10.8m (2017: £12.1m) after adjustments for risk diversification and the loss absorbing capacity of deferred taxes. All of TPEN's own funds are deemed to have loss absorbing characteristics allowing them to be categorised as Tier 1 capital and hence contribute to Basic Own Funds available to meet the SCR and MCR. The Minimum Capital Requirement ("**MCR**") was £4.8m (2017: £5.5m) resulting in a capital surplus (Basic Own Funds *less* MCR) of £17.1m (2017:

£19.9m). TPEN's policy is that sufficient own funds will be maintained to meet regulatory requirements with adequate surplus in line with operating and strategic objectives. TPEN was compliant with the MCR and SCR over the reporting period. TPEN holds regular board meetings at least quarterly at which regulatory capital requirements are monitored by comparing capital requirements to own funds.

A Business and Performance

A.1 Business

A.1.1 Name and legal form of the undertaking

Threadneedle Pensions Limited is incorporated in England and Wales and is a private company limited by shares. The address of the registered office is:

Cannon Place
78 Cannon Street
London
EC4N 6AG

This Solvency and Financial Condition Report covers TPEN on a standalone basis.

A.1.2 Name of the Supervisory Authority responsible for the financial supervision of the undertaking and group

The supervisory authorities of TPEN are the Prudential Regulation Authority ("**PRA**") and the Financial Conduct Authority ("**FCA**"). They can be contacted at:

Prudential Regulation Authority
Bank of England
20 Moorgate
London
EC2R 6DA

Financial Conduct Authority
12 Endeavour Square
London
E20 1JN

A.1.3 External auditor of the undertaking

The independent auditors of TPEN are:

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London
SE1 2RT

A.1.4 Holders of qualifying holdings in the undertaking

The direct and indirect holders of qualifying holdings in TPEN at any time during the reporting period and at the end of the financial year were:

a) Threadneedle Asset Management Holdings Limited ("**TAMHL**") is a company incorporated in England and Wales which is the immediate parent company of TPEN. At the reporting date, TAMHL owned 100% of the voting shares of TPEN and was able to exercise 100% of the voting power at any general meeting;

b) Threadneedle Asset Management Holdings Sàrl ("**TAMH Sàrl**") is a Luxembourg registered company which is the European holding company of the Group. At the reporting date, TAMH Sàrl owned 100% of the shares of Threadneedle Asset Management Holdings Limited, via a number of other holding companies, and was able to exercise 100% of the voting power at any general meeting; and

c) Ameriprise Financial, Inc. is the ultimate parent company incorporated in the United States. At the reporting date, Ameriprise owned 100% of the voting shares of TAMH Sàrl, via another holding company Ameriprise International Holdings GmbH, and was able to exercise 100% of the voting power at any general meeting.

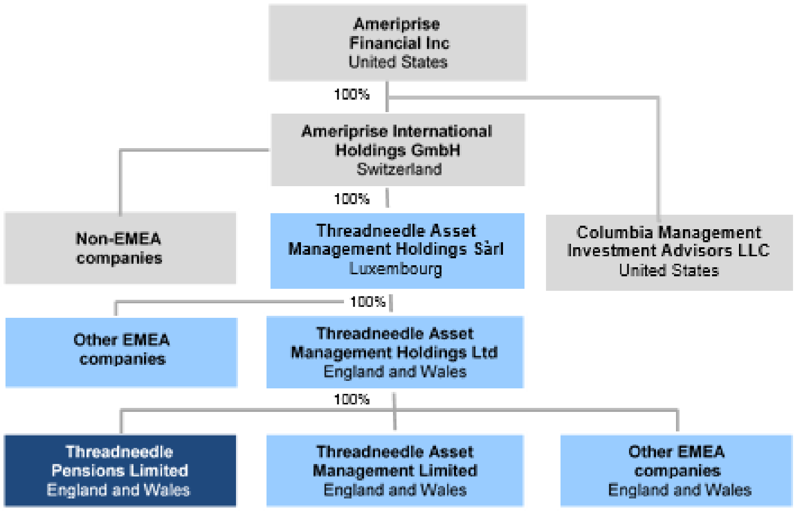
A.1.5 Legal structure of the group

CTI is the global asset management group of Ameriprise, a leading US-based financial services provider. The EMEA business of Columbia Threadneedle Investments comprises TAMH Sàrl and its subsidiaries. TPEN is a wholly owned subsidiary of TAMHL which is, via a number of other holding companies, a wholly owned subsidiary of TAMH Sàrl, the Luxembourg registered holding company for the Group.

TAMH Sàrl owns 100% of the non-UK companies of the Group as well as via UK intermediate holding companies, 100% of the voting shares of TPEN and the other UK companies of the Group. Outsourced services are provided to TPEN by TAMHL (one of the UK intermediate holding companies), TAML (one of the other UK companies) and service providers as set out in **Section B.7**.

The schematic below sets out a simplified summary of the Group structure and excludes a number of UK intermediate holding companies and related parties. The percentages refer to voting control.

Figure 1: Simplified Group Structure



A.1.6 Material lines of business and geographical areas

TPEN is a unit-linked life assurance company which manages assets for UK pension schemes. It manages assets for both DB and DC pension schemes in segregated client portfolios (DB only) and insured unit-linked pooled funds (both DB and DC). The assets in segregated client portfolios are managed under investment management contracts and are not included on the balance sheet of TPEN. The assets in the insured unit-linked pooled funds are managed under unit-linked life insurance contracts and are shown on the balance sheet under "*Assets held for unit-linked contracts*". TPEN does not, as part of its asset management activity, write life assurance protection.

Three of the unit-linked pooled funds invest via reinsurance contracts in unit-linked pooled funds managed on a passive basis by a third-party asset manager (the "**guest funds**"). *Reinsurance recoverables* from unit-linked pooled funds represents the amount that has been contracted out to other institutions under a contract of reinsurance. These third-party invested assets are valued at fair value based on current market value of the underlying assets and are shown on the balance sheet under "reinsurers' share of technical provisions".

All of TPEN's business is carried out in the United Kingdom.

A.1.7 Significant business events during the reporting period

AUM from both DB and DC schemes decreased from £6.9bn at 31 December 2017 to £6.6bn at 31 December 2018 for both unit-linked and segregated client portfolios, reflecting net outflows of £0.2bn and negative investment returns (including foreign exchange impacts and net of investment income) of £0.1bn. TPEN remained profitable, reporting total comprehensive income for the year of £1.7m (2017: £2.1m). TPEN's net assets reduced from £24.4m at 31 December 2017 to £21.1m at 31 December 2018 following a £5m dividend paid in 2018 and the inclusion of 2018 retained earnings.

A.2 Underwriting performance

A.2.1 Underwriting performance

Unit-linked life insurance contracts are classified as investment contracts under IFRS and are reported on TPEN's balance sheet. The balance sheet value of the assets held for unit-linked contracts (which are carried at market value) is always equal to the balance sheet value of the liabilities under the unit-linked contracts before the deduction of the technical provision, set out in **Section D.2.1**.

Client inflows (funds received from unit-linked policyholders to be invested on their behalf) are described as "premiums" in this report because they relate to insurance contracts. Premiums are recorded as an increase in both the assets and liabilities shown on the balance sheet. Client outflows (previously invested funds repaid to policyholders) are described as "claims" and are recorded as a reduction in assets and liabilities.

The technical provision for unit-linked contracts per IFRS at 31 December 2018 was £3.6bn (2017: £3.6bn). Investment returns on the financial investments were offset by the net client outflows of £101.1m (2017: £44.9m net inflows) shown in table below.

Table 3: Unit-linked pooled fund flows in year to 31 December

Net flows - unit linked pooled funds - £'m	2018	2017
Premiums earned (client inflows)	400.8	394.6
Claims incurred (client outflows)	(501.9)	(349.7)
Net flows (premiums earned *less* claims incurred)	**(101.1)**	**44.9**

A.3 Investment Performance

A.3.1 Income and expenses arising from investments by asset class

Assets held for unit-linked contracts (including reinsurance recoveries) reduced by £7.6m to £3,554.0m (2017: £3,561.6m) as positive investment income was offset by unrealised losses on investments and net outflows as shown in the table below:

Table 4: Investment performance at 31 December

Investment performance - £'m	2018	2017
Opening balance – AUM held (1 January)	3,561.6	3,174.4
Investment income	237.8	271.2
Unrealised gains / (loss) on investments	(126.5)	87.2
Premiums earned (client inflows)	400.8	394.6
Claims incurred (client outflows)	(501.9)	(349.7)
Fund charge rebates[1]	-	2.0
Fund expenses[2]	(17.8)	(18.1)
Closing balance – AUM held (31 December)	**3,554.0**	**3,561.6**

[1] Relates to rebating of the Annual Management Charge ("**AMC**") charged by the underlying funds that TPEN funds invest in. The underlying funds moved to zero AMC share classes at the end of 2017 resulting in a zero figure in 2018.
[2] Fund expenses at 31 December 2018 excludes £0.5m of withholding tax credits.

Fund expenses of £17.8m (2017: £18.1m) relate to the costs of buying and selling the financial assets in the unit-linked pooled funds and property fund expenses that fluctuate depending on property vacancy levels, the levels of letting activity, property management fees, repairs required and ground rent charges.

The table below shows the £7.6m reduction in the value of assets held for unit-linked contracts between 31 December 2017 and 31 December 2018 by asset type:

Table 5: Increase in asset value at 31 December

Asset type - £'m	2018	2017	Increase/ (Decrease)
Reinsurance recoverable unit-linked	39.6	68.4	(28.8)
Equity	968.3	1,109.7	(141.4)
Property	1,923.6	1,856.9	66.7
Fixed interest	393.5	383.9	9.6
Cash and cash equivalents	278.6	191.0	87.6
Other assets	17.3	17.4	(0.1)
Property liabilities	(45.4)	(43.3)	(2.1)
Ground/head lease liabilities	(21.5)	(22.4)	0.9
Asset value	**3,554.0**	**3,561.6**	**(7.6)**

This reduction in asset value of £7.6m is driven by decreases in both equity assets and reinsurance recoverables due to client outflows and investment returns, partially offset by an increase in property assets due to property income and market appreciation and an increase in cash and cash equivalents held in the property fund.

TPEN earns fees on its AUM for investment management and related services. A fixed percentage of net revenue (revenue less direct costs) is paid to Group companies under the Group transfer pricing framework. These expenses include the provision of investment management and related services which are not identifiable separately by asset class.

A.3.2 Information about any gains and losses recognised directly in equity over the reporting period

There were no gains or losses recognised directly in equity during the 12 months to 31 December 2018 (2017: nil).

A.3.3 Information about any investments in securitisation over the reporting period

TPEN did not hold any investments in securitisations in its non-unit-linked pooled funds over the reporting period and at 31 December 2018 (2017: Nil). TPEN held one securitisation in its unit-linked pooled funds (less than 0.01% of assets by market value) over the reporting period and at 31 December 2018 (2017: one exposure, less than 0.01% of assets by market value).

A.4 Performance of Other Activities

A.4.1 Summary of other material income and expenses

In addition to the investments shown in the balance sheet, TPEN also manages segregated client portfolios (included within the £6.6bn of AUM reported in **Section A.1.7**), the nature of which does not meet the criteria for inclusion in the balance sheet of TPEN.

The market value of these individual client portfolios decreased from £3.3bn at 31 December 2017 to £3.0bn at 31 December 2018 driven by net outflows of £0.2bn (2017: inflows of £3.1bn) and adverse market returns of £0.1bn (2017: favourable market returns of £1.2bn). Fees received for investment management services for these segregated client portfolios were £6.6m (2017: £7.2m).

TPEN's Statement of Comprehensive Income includes the following:

- income for the provision of specialist investment and other technical services relating to the management of the unit-linked investment contracts and the segregated client portfolios;
- direct product costs relating to these services (for example transfer agency costs);
- costs for distribution and investment management services supplied by other Group companies in line with the Group transfer pricing framework under which TPEN retains a fixed proportion of gross profit (revenue less direct costs); and
- allocated costs for other Group services.

In 2018, investment management fees (for both unit-linked and segregated client portfolios) and related services earned by TPEN were £23.9m (2017: £22.8m), compared to investment management costs of £10.4m (2017: £10.1m), distribution costs of £7.9m (2017: £7.1m) and other costs (including tax) of £3.9m (2017: £3.5m), resulting in a net profit after tax of £1.7m (2017: £2.1m).

A.5 Other material information

In March 2017 the UK invoked article 50 of the Treaty of Lisbon in serving its relevant notice to leave the European Union on March 30, 2019 (commonly known as "Brexit"). Having voted to leave the EU, the UK and others will need to negotiate the terms of multiple new relationships and this will take some time. The full impact of Brexit remains uncertain as there is a significant degree of uncertainty about how negotiations relating to the UK's withdrawal and new trade agreements will be conducted, as well as the potential consequences and precise timeframe for Brexit. The TPEN Board will continue to monitor the potential impacts of Brexit on TPEN's business.

On 13 March 2019, the TPEN Board provisionally approved the novation of segregated clients from TPEN to TAML in 2019, subject to segregated clients' approval. Of the total AUM of £6.6bn at 31 December 2018, TPEN managed £3.0bn of AUM for segregated clients which represented approximately 46% of AUM. Following the novation of segregated clients, TPEN's AUM, revenue and comprehensive income will reduce but TPEN is expected to remain profitable.

There is no other material information regarding business and performance.

B. System of Governance

B.1 General Information on the system of governance

B.1.1 Role and responsibilities of the administrative, management or supervisory body

Board of Directors

The TPEN Board bears ultimate legal responsibility for all matters pertaining to TPEN including the following main roles and responsibilities:

- client service;
- compliance;
- financial and capital position;
- health and safety;
- internal audit;
- investment management performance;
- oversight of service providers; and
- risk management.

The Board is responsible for the Own Risk and Solvency Assessment ("**ORSA**") (see **Section B.3.2**), as well as for implementing and managing TPEN's Enterprise Risk Management Framework (see **Section B.3.1**). The above information is presented to the TPEN Board by the head of the relevant functions including the TPEN Chief Actuary, Head of Finance EMEA and Asia, EMEA Chief Risk Officer / Global Head of Investment Risk, Head of Operational Risk EMEA, and Head of Compliance EMEA.

The Board is composed of six Directors:

- William Truscott (Chair), Chief Executive Officer, CTI;
- Michelle Scrimgeour, Chief Executive Officer, CTI EMEA (refer to **Section B.1.2**);
- Peter Stone, Head of Finance EMEA and Asia;
- Andrew Nicoll, Global Head of Insurance;
- Ann Roughead, Independent Non-Executive Director; and
- Kathleen Shailer neé Cates, Independent Non-Executive Director.

The Board meets at least quarterly and the quorum is two. All TPEN Board and board committee meetings are formally minuted. The TPEN Board delegates the following to two board committees:

Table 6: TPEN Board Committees

Committee	Purpose
TPEN General Management Committee ("**GMC**")	The purpose of the GMC is to provide management, governance and risk management oversight over the day to day business process which supports the TPEN business. The GMC membership is drawn from the Group functions which provide the day-to-day management of the TPEN business ensuring there is sufficient coordination, knowledge and experience to be able to challenge the performance and results, including but not limited to any outsourced arrangements. The GMC is chaired by a Board member and reports to the EMEA Risk and Controls Committee ("**EMEA RCC**").
Fund Pricing and Dealing Committee ("**FPDC**")	FPDC is a CTI EMEA Group committee, the purpose of which is to monitor and review pricing activities, and to review the pricing of, and dealing in funds to ensure that clients and funds are treated equitably. To remove any potential conflicts of interest, where a matter is escalated that concerns the pricing or valuation of funds that fall within the scope of the FPDC (e.g. fair value adjustments to TPEN Funds), FPDC members that are authorised Fund Managers are not permitted to approve any instructions.

The TPEN Board is establishing an Audit Committee as a sub-committee of the TPEN Board. The TPEN Audit Committee will meet the requirements of Article 39 of the revised Statutory Audit Directive 2014/56/EU, as transposed domestically by the PRA. The first TPEN Audit Committee meeting will be held following receipt of regulator's approval of the Chair, who is an independent Non-Executive Director.

Table 7: Audit Committee

Committee	Purpose
TPEN Audit Committee	The primary purpose of this committee is to provide advice to assist the Board in carrying out its responsibilities as they relate to the statutory audit, financial reports and effectiveness of the Company's internal quality controls, risk management systems and internal audit function.

The roles and responsibilities of these committees in relation to TPEN are outlined in the respective terms of reference. The Board approves the board committees' terms of reference and any changes thereto.

The Board has assessed the system of governance and has concluded that it effectively provides for the sound and prudent management of the business, which is proportionate to the nature, scale and complexity of the operations of TPEN. This includes the governance of outsourced activities described further in **Section B.7**. The internal audit function performs an independent evaluation of the adequacy and effectiveness of the internal control system and other elements of the internal control system.

As a subsidiary of TAMH Sàrl, TPEN is a part of the EMEA Governance Framework and matters relating to TPEN are discussed at the EMEA RCC, the EMEA Business Management Committee ("**EMEA BMC**") and the TAMH Sàrl Audit and Risk Committee.

Three of the four key internal control functions (i.e. risk management, internal audit, and compliance) are outsourced by TPEN to the Group and the fourth (actuarial) is outsourced to a third party (refer to **Section B.6**). Oversight of these service providers is performed by the Board or the GMC (where the Board has delegated authority to it) which ensures that these functions perform to the level required (based on direct attendance by these internal control functions at either the Board or the GMC).

B.1.2 Material changes in the system of governance that have taken place over the reporting period

On 25 February 2019, CTI EMEA announced the resignation of Michelle Scrimgeour (EMEA Chief Executive Officer). Michelle will continue to fulfil her regulatory responsibilities and to work with the regional leadership team to ensure a smooth transition.

The following Director resignations and appointments took place in the period:

- Peter Stone appointed on 19 September 2018.
- Mark Burgess resigned on 19 September 2018; and
- Don Jordison resigned on 1 May 2018.

B.1.3 Remuneration policy for the administrative, management or supervisory body and employees

TPEN has no employees as its services are performed under contract by other Group companies or service providers. The Group Remuneration Policy covers TPEN's directors as well as the Group employees who provide services to TPEN.

B.1.3.1 Principles of the Group remuneration policy

The Group's remuneration policies and practices are an integral part of arrangements that support the work, culture and commitment to serving the Group's clients.

The remuneration policies and practices are based on those of Ameriprise and are consistent with applicable regulatory requirements including Solvency II, UCITS, AIFMD and MiFID.

The Group remuneration policy is based on the following principles:

- remuneration programmes must be aligned with the Group and Ameriprise strategy, objectives, values and long-term interests;
- the remuneration opportunity and rewards must be competitive enough to attract and retain the key talent who can help the Group achieve consistently superior results for its clients and stakeholders;
- there should be a strong linkage between remuneration and both financial and non-financial performance, while also supporting the Group's culture and values;
- remuneration decisions must be made on a well-informed basis based on the employee's experience, responsibilities, and performance, while also considering external market and internal comparability;
- remuneration programmes must be operated in full compliance with all applicable legal, tax, and regulatory requirements. No alternative remuneration arrangements will be established that might circumvent local legislation and regulatory requirements; and
- remuneration programmes must be consistent with and promote sound and effective risk management and not induce imprudent risk taking or impair the safety and soundness of the Group. This includes the need for remuneration programmes to avoid introducing or incentivising conflicts of interest or potential mis-selling.

With regards to fixed remuneration the Group is committed to ensuring that:

- salaries remain competitive within the labour market, by conducting an annual pay review and benchmarking salaries against other employers from an independent third party;
- salary adjustments consider individual performance, that individuals are not discriminated against because of gender, marital or civil partnership status, race, religion or belief, sexual orientation, age, disability, gender reassignment, pregnancy and maternity, or because they work part time or on a fixed term contract;
- each employee is paid at the level of at least the national minimum wage, and that;
- each employee's annual fixed remuneration is adequate without having to rely on incentive payments.

B.1.3.2 Share options, shares or variable components of remuneration

With regard to variable compensation, all permanent employees are eligible to participate in the Group's incentive arrangements which are entirely discretionary in nature and may be amended or withdrawn by the Group in its absolute discretion at any time. The incentive schemes applicable to each role and business may be varied from time to time.

The amounts of any individual incentive awards made by the Group are discretionary and based on business and individual performance against financial and non-financial criteria.

Awards are made according to the individual employee's performance against their Goals and Leadership scores, market remuneration levels for comparable roles, internal comparators and the funding available to fund total Incentive awards, further influenced by the employee's adherence to and delivery of the Group's risk and regulatory compliance responsibilities.

Incentive awards due immediately and not deferred are normally paid in cash but may be delivered in other instruments. Incentive awards that are deferred may be delivered in cash or other instruments, including shares or options over shares in Ameriprise, as required from time to time by Group practice or by regulatory requirement, either Group-wide or applied to specific individuals.

Incentive deferral rates, deferral instruments, and deferral periods comply with the deferral requirements of the regulation applicable to their roles; incentive deferral is also applied to senior and higher paid employees outside this group as a matter of good practice.

B.1.3.3 Supplementary pension or early retirement schemes for the members of the administrative, management or supervisory body and other key function holders

The Group's remuneration policy does not include any supplementary pension or early retirement schemes for members of the Board or other key function holders. The Group offers all staff the choice of making contributions into a DC scheme which the Group will match up to a limit. The Group operates a DB scheme which closed to new joiners in 2005.

B.1.4 Material transactions during the reporting period with shareholders, with persons who exercise a significant influence on the undertaking and with members of the administrative, management or supervisory body

There were no material transactions in the reporting period.

B.2 Fit and Proper requirements

B.2.1 Requirements for skills, knowledge and expertise

In December 2018, SMCR replaced the Senior Insurance Managers Regime ("**SIMR**"). Under SMCR, TPEN is required to assess the fitness and propriety of certain employees who could pose a risk of significant harm to the firm or any of its customers as part of the Certification Regime.

TPEN must ensure that individuals performing any of the following roles are assessed as fit and proper prior to their commencement:

- Senior Managers;
- Independent Non-Executive Directors; and
- Certified Persons.

TPEN ensures that all persons who run the undertaking or have other key functions (collectively known as "key functions") are at all times fit and proper persons. The Group's recruitment policy covers the TPEN directors as well as the Group employees who provide services to TPEN.

In deciding whether a person is fit and proper, the Group satisfies itself that the person:

a. has the personal characteristics (including being of good repute and integrity);
b. possesses the level of competence, knowledge and experience;
c. has the qualifications; and
d. has undergone or is undergoing all training, required to enable such person to perform their key function effectively and in accordance with any relevant regulatory requirements, including those under the regulatory system, and to enable sound and prudent management of the Group's business including TPEN.

The Group considers the person's past business conduct and whether the person performs their key functions in accordance with the relevant conduct standards. The Group obtains the fullest information in relation to the person that it is lawfully able to request under the Police Act 1997 and related subordinated legislation of the UK or any part of the UK or under equivalent overseas legislation.

The Group takes reasonable steps to obtain appropriate references covering the past six years and will request that the organisation giving the reference discloses all matters of which they are aware that they reasonably consider to be relevant to the assessment of that person's fitness and propriety.

The Group ensures that such persons are fit and proper through the recruitment process and on an on-going basis. They are recruited giving due regard to interview requirements, referencing, relevant skills, personal and professional background and other checks as required and relevant to the role to be undertaken. They are assessed on an on-going basis which is recorded formally twice yearly through appraisals.

The Group ensures that such persons have the necessary skills, knowledge and expertise required by assessing their professional qualifications, knowledge and experience. Some of the general checks conducted at recruitment include an educational background check and a professional qualifications / membership check.

The Group reviews the current skill set of such persons against the skills required to perform the role and may undertake the following activities as necessary; a skills gap analysis; skills mapping document; and a learning and development plan.

TPEN Board Competency is reviewed on an annual basis to ensure that the Board has sufficient knowledge and information in order to provide effective review and challenge.

B.2.2 Fitness and propriety of persons

The FCA's Fit and Proper test for Approved Persons and Specified Significant Harm Functions (known as **"FIT"**) provides guidance to firms as to how they should interpret fitness and propriety in practice. When assessing an individual's fitness and propriety, the FCA has identified three key considerations:

- honesty, integrity and reputation;
- competence and capability; and
- financial soundness.

The Group conducts a variety of checks to assess fitness and propriety of such persons at the commencement of their assessment including; (where relevant):

- FCA register search;
- credit checks;
- identity checks;
- financial sanctions and AML check;
- UK Directorship search;
- six years' employment history;
- international adverse media check;
- social media checks;
- criminal history check; and
- standard disclosure checks.

The Group conducts ongoing fitness and propriety assessment of such persons which includes, where relevant, repeat screening, annual training and competence assessment, and annual refresh of responsibility statements.

B.3 Risk Management Framework including Own Risk and Solvency Assessment

B.3.1 Risk Management Framework, implementation and integration

Ameriprise has implemented a comprehensive Enterprise Risk Management ("**ERM**") programme for all subsidiaries and operations, including TPEN. TPEN maintains its own Operational Risk Management policy that sets out its operational risk strategy, framework components and roles and responsibilities. This policy is closely aligned to that of CTI. The objective of this policy is to establish an effective and sustainable operational risk framework and governance practices across TPEN and CTI, which can be understood and adhered to by all staff.

The framework is designed to manage operational risk exposures that have been agreed by the GMC and the TPEN Board, which has the ultimate responsibility for determining the nature and level of risks assumed by CTI. The Board is also ultimately responsible for implementing and managing TPEN's risk management framework.

Key components of the Operational Risk Framework include, RCSAs, monitoring of Internal Risk Events ("**REV**") and the tracking and reporting of Key Risk Indicators ("**KRI**"). The

Operational Risk team produces regular management information which provides a summary and analysis of the key risks, KRI trends and new events in the reporting period and is reported to the GMC and TPEN Board on a quarterly basis.

TPEN is part of the Group's risk and control framework which comprises of strategies, processes and reporting procedures necessary to identify, measure, monitor, manage and report on a continuous basis the risks to which TPEN is or could be exposed and their interdependencies.

The Group operates a three lines of defence model:

Table 8: Three Lines of Defence model

Line of Defence	Roles and Responsibilities
First Line: Business Units	Undertake day-to-day risk management
	Comply with risk management framework policies and procedures
	Apply internal management controls and improvement actions
Second Line: Risk & Compliance	Oversee and challenge risk management in First Line of Defence
	Provide guidance and direction to First Line of Defence
	Continuous development and proactive communication of the risk management framework
Third Line: Internal Audit	Independent perspective and challenge process
	Review and oversee the First and Second Lines of Defence

Further information on the roles and responsibilities of each line of defence is set out below:

- the First Line of Defence comprises Group business units are responsible for the day-to-day risk management including the application of RCSA and REVs procedures and also for the development of KRI's and appetite thresholds. TPEN has a designated 'Risk Liaison Officer' who is the point of focus and co-ordination for this activity.

- the Second Line of Defence comprises the committees and functions that are in place to provide oversight of the effective operation of the internal control framework. The Operational Risk team prepares a quarterly report for the TPEN Board which presents a forward-looking assessment covering TPEN's key risks and is informed by the KRIs, RCSA risks, and internal risk events. The risk report also considers issues raised by both Internal and External Audit, Compliance and third parties. It is used to help determine whether action is required to mitigate risk exposures and whether risks are being mitigated on a timely basis. Emerging risks are also reported to the Board as part of this process.

  The Second Line of Defence are key contributors to the ORSA and capital management processes (See **Section B.3.2**). Operational risk workshops determine severe but plausible loss events based on the identified key operational risks. The internal loss data is used, together with external loss data to estimate the size and frequency of such events. This information is then used to help determine the appropriate capital to be retained in TPEN to protect against the impact of such events.

- the Third Line of Defence (Internal Audit) prepares a separate report to the TPEN Board on a quarterly basis. The report summaries the audit activity and results for the quarter and provides details of any open/overdue audit issues. Additionally, the report provides a tracking and status update of the audit plan.

B.3.2 Own Risk and Solvency Assessment ("ORSA")

The TPEN Board is responsible for the ORSA process which includes the following:

- review and confirmation of key risks by the GMC and TPEN Board;
- identification of operational risks for discussion at operational risk workshops;
- operational risk workshops held with SMEs from the First and Second Lines of Defence to identify and quantify severe but plausible loss events based on the identified key operational risks and considering internal and external loss data;
- calculation of market, insurance and credit risk scenarios by SMEs including the Chief Actuary;

- define and implement stress testing scenarios;
- refine capital requirements if appropriate; and
- extensive review of results of process by internal SMEs.

The ORSA process involves SMEs and senior management across TPEN and the Group:

- the Regulatory Capital Management team co-ordinates the process;
- the Finance team provides balance sheet and other financial figures;
- the Chief Actuary assists in estimation of the Pillar 2 market and insurance risk capital requirements;
- the Counterparty Credit Risk team assists in the estimation of the Pillar 2 credit risk capital requirement;
- SMEs drive the determination of appropriate loss event scenarios and the Operational Risk team input and challenge; and
- the GMC, EMEA RCC, TAMH Sàrl Audit and Risk Committee and TPEN Board review and approve the results.

The ORSA process is conducted on an ongoing basis throughout the year, the results of the ORSA are reviewed and approved by the TPEN Board at least annually. However, in exceptional circumstances the TPEN Board will consider re-performing the ORSA on an ad-hoc basis. A new assessment may be required following a significant change in risk profile. Events include:

- an acquisition or divesture of a business;
- significant change in market conditions; or
- significant change to type or level of new business.

To ensure that the risk and capital implications of business decisions are constantly monitored, a monthly report is prepared and submitted to the RCC which includes three of the four executive directors of TPEN, and a quarterly update is given to the TPEN Board for approval. In this way the solvency impact of the proposed novation of segregated clients was reviewed and considered by the Board.

The Board determines the solvency needs of TPEN in the following way:

- the results of the ORSA process and the SCR calculation are compared to the relevant capital resources of TPEN to arrive at two surplus calculations, one under the SCR and the other under Pillar 2 internal assessment;
- the capital calculation with the lower surplus is used as the solvency requirement; and
- capital management activities are monitored to ensure that Own Funds remain in excess of 125% of the capital requirement, as calculated under a short projection period.

B.4 Internal control system

B.4.1 Internal control system

The primary component of the internal control system operated by TPEN is the RCSA process by which TPEN concludes on the status of its risks and control environment and is assessed in terms of inherent and residual risk. The RCSA process is performed by the First Line of Defence and the Second Line of Defence provides independent challenge. As described in **Section B.3.1** above, relevant breaches of controls are reported to the TPEN Board and an assessment is made whether further action is required.

The Group provides financial services to TPEN. The Group's finance responsibilities include maintaining the books and records of TPEN and the production of the statutory and regulatory financial reporting. The Group Finance function is part of the First Line of Defence of the Group and so follows the RCSA process including identifying and documenting the risks and mitigating controls relating to its business processes including the production of financial information. Finance's RCSA is subject to review by and guidance from the Second Line of Defence.

The financial statements are subject to rigorous controls in the production and review leading to finalisation and the actuarial provisioning calculations are prepared by the Chief Actuary and reviewed by the finance function and the Board.

B.4.2 Implementation of the compliance function

TPEN's compliance arrangements are provided by the Group. The Group's compliance responsibilities include advising the Board and the GMC on compliance with the rules and other laws, regulations and administrative provisions adopted in accordance with the Solvency II directive and an assessment of the possible impact of any changes in the legal environment on the operations of TPEN and the identification and assessment of compliance risk.

The Group's Compliance function is established as an independent Second Line of Defence and meets its responsibilities by:

- providing policy advice, guidance and training to assist TPEN in managing its compliance responsibilities, including money laundering;
- oversight of compliance arrangements to assess whether TPEN has appropriate systems, procedures and controls in place;
- working with Approved Persons (Senior Managers) and Key Persons to ensure that they are aware of and that they perform their responsibilities and to ensure there are effective governance arrangements within management processes;
- oversight of regulatory risks including successful liaison with regulators and the management of regulatory risk mitigation programmes;
- ensuring that appropriate remedial action is taken where issues have been identified;
- ensuring that portfolios are being managed in accordance with the respective investment management contracts, investment guidelines, prospectus and any relevant regulatory requirements; and
- monitoring investment activities in relation to the Group's Market Abuse, Best Execution and Conflicts of Interest regulatory requirements, including monitoring trading patterns and electronic communications in relation to investment and deadline activities to prevent and detect potentially suspicious or fraudulent activities or behaviours.

The Group has updated a range of policies and procedures in order to maintain compliance with the principles of SMCR. Compliance plays an important second line of defence role in many of the processes involved. The following is a non-exhaustive list of processes that compliance performs a key role in:

- recruitment of Senior Managers (Fitness & Propriety assessments, handovers, regulatory form applications);
- Conduct Rule breach assessments;
- regulatory references;
- Senior Manager Handover; and
- regulatory notifications.

B.5 Internal audit function

B.5.1 Implementation of the internal audit function

The Group provides TPEN with an effective internal audit function which includes an evaluation of the adequacy and effectiveness of the internal control system and other elements of the system of governance and is objective and independent from the operational functions. The Head of Internal Audit fulfils the SMF5 role under the SMCR regime. The accountabilities of the SMF5 are documented within the Statement of Responsibility.

The Group's Internal Audit function acts as the Third Line of Defence. It is responsible for the independent assessment of, and providing advice on, the control environment structure and risk implications of TPEN's business activities, which is achieved through:

- delivery of an annual risk-based audit plan, as approved by the TAMH Sàrl Audit and Risk Committee and the TPEN Board;
- completion of ad hoc reviews and investigations; and
- building relationships with Senior Management and the wider business in order to act in an advisory capacity to promote good governance and risk management.

Any relevant findings and recommendations are reported to the TPEN Board.

B.5.2 Independence of the internal audit function

The internal audit function of the Group is managed by the Head of Internal Audit who is an employee of the Group, has no responsibility for any other function across the business and has direct reporting lines to the General Auditor of Ameriprise and the Chairman of TAMH Sàrl Audit and Risk Committee. This reporting structure ensures the continual independence of the internal audit function.

B.6 Actuarial function

B.6.1 Actuarial function

Actuarial services (from the Chief Actuary) are provided to TPEN by Nematrian Limited (which sub-contracts the relevant activities to Barnett Waddingham). The Chief Actuary is a Fellow of the Institute and Faculty of Actuaries and has complied continuously with the specific professional obligations this requires. He holds a Practising Certificate and fulfils the SMF20 function under the SMCR regime.

The Chief Actuary's responsibilities as part of the First Line of Defence include:

- determining a half yearly Solvency II balance sheet for TPEN;
- advising on Solvency II reporting;
- preparing half yearly Market and Insurance risk updates; and
- summarising the methods, assumptions and data used for the above.

The Chief Actuary's responsibilities as part of the Second Line of Defence include:

- reviewing TPEN's underwriting policy (effectively for TPEN the types of business it is prepared to write and on what terms) and reinsurance arrangements;
- contributing to the effectiveness of the risk-management system referred to in Article 44 of the Solvency II Directive; and
- providing guidance in relation to the production of the ORSA.

The full accountabilities of the Chief Actuary are documented within the Statement of Responsibility. To fulfil these responsibilities the Chief Actuary liaises extensively with the Group Finance function and produces an annual report (and a half-yearly update) which he submits and presents to the Board setting out the tasks that he has undertaken and their results, and any relevant recommendations.

B.7 Outsourcing

B.7.1 Outsourcing policy

TPEN's operational structures are aimed at supporting the strategic objectives and operations of TPEN and can be adapted to changes in strategic objectives, operations or the business environment within an appropriate period of time if required.

TPEN's activities are outsourced to different service providers, all of which are domiciled in the UK:

- third-party providers who also provide outsource services to other Group companies;

- third-party providers exclusive to TPEN within the Group; or
- other companies within the Group ("intra-group" arrangements).

All arrangements are governed by legally binding agreements which outline the functions and activities provided; stipulating the duties and responsibilities of both parties. Operational controls are in place monitoring the management and delivery of outsourced activities. The arrangements are overseen on TPEN's behalf by the TPEN Board and the GMC in accordance with TPEN's governance arrangements.

The TPEN Board retains ultimate responsibility for discharging TPEN's obligations, notwithstanding that activities may be outsourced.

B.7.2 Outsourcing services

The table below sets out TPEN's service providers and details of the services provided:

Table 9: Service providers

Service provider	Service(s) provided
Threadneedle Asset Management Limited	• Investment management and distribution services for TPEN unit-linked pooled funds and segregated client portfolios.
Threadneedle Asset Management Holdings Limited	Group support services including: • Financial services / financial statements / accounting; • Internal Audit; • Tax and Treasury services; • IT security and support; • Investment risk management; • Operational & enterprise risk management; • Human resources; and • Legal affairs / Compliance
Link Fund Administrators Limited	• Policy Administrator (Transfer Agency)
Citibank NA, London Branch	• Fund Accounting and Custody
Nematrian Limited[1]	• Actuarial services

[1] Nematrian has sub-delegated actuarial support to Barnett Waddingham.

TPEN does not consider sub-delegates of service providers (for example, TAML sub-contracts property fund management to another Group company) to be key arrangements of TPEN. However, the TPEN Board and GMC are kept apprised of sub-delegated activities as required.

Outsourcing impacts the risk profile of TPEN and TPEN has identified a need to hold Pillar 2 capital against the risks associated with some of its outsourced services. The impact of legal agreements between TPEN and the service provider is considered when determining the operational risk capital requirement. Refer to **Section C.5**.

The following key functions are outsourced:

- Investment Management and Distribution services;
- Policy Administrator, Fund Accounting and Custody;
- Risk Management;
- Compliance;
- Internal audit;
- Finance; and
- Chief Actuary.

Information Technology security and support, human resources and legal affairs provided by TAMHL are not key functions of TPEN, however these functions are considered as part of the oversight of TAMHL, TAML, Link Fund Administrators Limited, Citi and Nematrian Limited.

B.7.3 Outsourcing selection and management

Third party service provider relationships are managed in accordance with Group policies including the selection process (for example, risk-rating vendors based on several factors which informs the required level of due diligence), required contractual and service level documentation and resilience and exit planning.

Intra-group outsourcing arrangements are covered by formal legal agreements between the legal entities involved. These define, inter alia, the services to be provided, the remuneration for the services, and contractual protections for both parties including indemnification provisions. The documentation may be somewhat less extensive than in the case of a third-party outsource relationship given the higher level of oversight that is applied intra-group (e.g. TPEN Executive Directors are on the EMEA BMC, and on boards of other Group legal entities). The TPEN Board and GMC receive specific reports which cover the performance and service delivery of material outsource service providers, including issues impacting TPEN from intra-group outsourcing arrangements.

The selection process includes consideration to ensure that the intra-group entities providing the services have the requisite skills and knowledge to do so, and that the fees charged to TPEN for the services are appropriate. It is also made clear to policyholders that services may be provided by Group companies.

B.8 Other material information

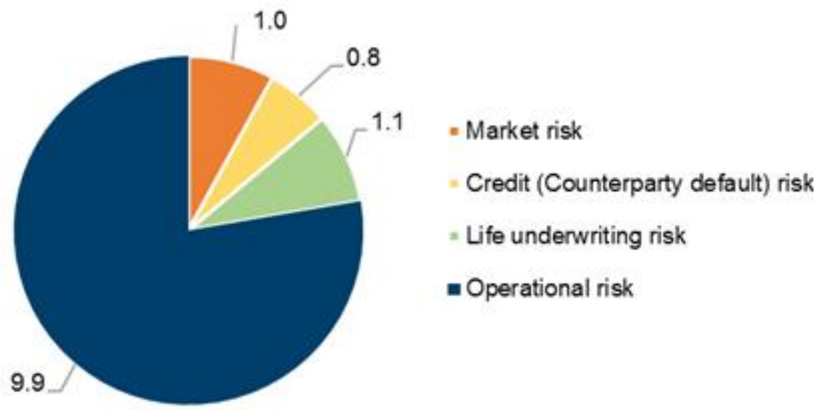
TPEN has no further material information to disclose.

C. Risk profile

The largest risk to which TPEN is exposed is operational risk which represented 92% of the SCR at 31 December 2018 as shown in the chart below. Operational risk is the risk of loss caused by failure in processes, systems, people or external factors. It is described in this section together with other categories of risk.

The standard formula SCR for TPEN at 31 December 2018 is £10.8m (2017: £12.1m) after adjustments for risk diversification and the loss absorbing capacity of deferred taxes. An overview of the SCR by risk type is set out below:

Figure 2: Solvency Capital Requirement at 31 December 2018



Note: The total SCR of £10.8m is after the deduction of £0.8m of diversification between risk types and £1.2m for the loss absorbing capacity of deferred taxes. Refer to **Section E.2** for further information.

Prudent person principle

The Prudent Person principle requires that TPEN's assets are prudently invested taking account of the capital and liquidity requirements of the business. TPEN invests the majority of its Own Funds in the Threadneedle Sterling Fund (the "**Sterling Fund**") which was specifically chosen because of the high credit ratings of the constituents of the fund.

C.1 Underwriting risk

C.1.1 Material underwriting risks and changes over reporting period

Two of the life underwriting sub-modules in the SCR are relevant to TPEN i.e. lapse risk and expense risk:

- lapse risk reflects the risk that profitable unit-linked investment contracts will be withdrawn at a faster rate than expected and that non-profitable contracts are not withdrawn.
- expense risk reflects the risks that expenses will be higher than expected and the future rate of inflation on these expenses will be higher than expected.

These underwriting risks are estimated by applying stress scenarios defined in the standard formula to the projected cash flows of TPEN. For lapse risk, these involve stresses described in Section C.1.3. For expense risk, the stress involves a one-off increase in certain types of expenses together with higher ongoing increases in these expenses.

The estimated risks are relatively small compared to operational risk because the projection period over which the cashflows are assessed is defined by the TPEN Board to be equal to 12 months. The use of a short projection period is a simplification that the TPEN Board considers is proportionate, since it satisfies the requirements set out in Article 56 of the Commission delegated regulation (EU) 2015/35.

This is based on the following:

(1) the notice period of policyholder contracts that TPEN would need to give to unilaterally terminate contracts are three months; and

(2) the length of time to wind down the business is set with reference to the Group's Internal Capital Adequacy Assessment Process includes a detailed wind down analysis which

winds down the Group over a period of 12 months and this is also deemed to be an appropriate period for TPEN.

There were no material changes over the reporting period to the risks TPEN is exposed to and no material changes in measurement technique.

C.1.2 Assessment of and risk mitigation techniques used for underwriting risks

Client flows, and expense risks are monitored by the Board at quarterly meetings. The following risk mitigation techniques are used to assess lapse risk and expense risk respectively:

- the client service teams work closely with key clients to increase client retention; and
- the Group performs an extensive annual budgeting process across all its functions. Actual expenses are then compared against budget throughout the year and used to highlight areas for more detailed review. The fee-related nature of the majority of the expenses payable means that whilst changes in actual experience can reduce profitability, TPEN is protected from making a loss, in all but the most extreme scenarios.

Over the reporting period there was no material change to the potential impact of lapse risk, which continued to be the main underwriting risk.

C.1.3 Risk sensitivity for underwriting risk

The most material underwriting risk to TPEN is lapse risk. Three different lapse stresses are considered as part of the calculation of the SCR for underwriting risk:

- a 50% increase in lapse rates,
- a 50% decrease in lapse rates; and
- a mass lapse of profitable business.

The mass lapse stress amount is 70% for segregated client business and 40% for pooled fund business. The results of these lapse stresses give an indication of the sensitivity of the SCR to different lapse rates. The most onerous lapse rate stress, the mass lapse stress, is included in the SCR. The mass lapse stress contributes approximately £1m to the SCR (before diversification effects and allowance for loss absorbing capacity of deferred taxes).

The following risk sensitivities were assessed to measure the potential impact of lapse and expense stresses to the SCR and the solvency coverage ratio (Basic Own Funds / SCR):

- direct expenses increase by 10%; and
- lapse rates increase by 100%.

The table below sets out the impact of these scenarios on TPEN’s capital surplus (Basic Own Funds *less* SCR) at 31 December 2018:

Table 10: Underwriting risk - risk sensitivities

Sensitivity analysis - £’m	Change in	
	SCR	SCR coverage ratio
10% increase in direct expenses	(0.015)	(0%)
100% increase in lapse rates	(0.059)	+0%

C.2 Market risk

C.2.1 Material market risks and changes over reporting period

The assets held in the unit-linked pooled funds on TPEN’s balance sheet are exposed to market risk. However, the value of the liabilities for the unit-linked contracts increases or decreases in line with the fair value of the financial assets thus eliminating the balance sheet market risk for TPEN.

However, the BEL is sensitive to market risk and the profitability of the unit-linked investment contracts will be impacted by the value of AUM which is also affected by the market. The potential types of market risk include equity, interest rate, property, concentration, currency. The impact of market risk is relatively small as a result of the short projection period over which the risk is estimated (as described in **Section C.1.1** above).

TPEN's non-unit-linked assets which are also exposed to market risk are:

- a small amount of seed money in the unit-linked pooled funds; and
- commercial paper, certificates of deposit, time deposits and bonds held in the Sterling Fund.

The main component of market risk at 31 December 2018 is equity market risk, the majority of which arises from revenues from policyholders linked to the value of assets invested in equity markets.

There were no material changes over the reporting period and there were no other material changes in the measurement techniques.

The impact of market risk on the AUM and future revenue of TPEN is assessed through stress testing as described **Section C.7.1**.

C.2.2 Assessment and risk mitigation techniques used for market risk

The methodologies used to estimate market risk mainly involve stress scenarios defined in the standard formula SCR.

The contributions to market risk from equity market, property market, interest rates and currency risk are derived by assessing the impact of market stresses on the profitability of unit-linked contracts and on TPEN's holding in the Sterling Fund.

The contributions from spread risk involves identifying assets deemed subject to this risk and calculating the change in market value of these assets due to an increase in credit spreads. The stress applied to each asset is dependent on the asset's credit rating and duration.

The contribution from concentration risk is derived by determining which assets are deemed subject to this risk (unit-linked assets are excluded), identifying which are large enough in isolation to create excess exposures and then aggregating these excess exposures in the manner prescribed in the standard formula SCR.

Given the small size of market risk no specific risk mitigation techniques are used.

C.2.3 Risk sensitivity for market risk

The following market risk sensitivities were assessed to measure the potential impact to the SCR and the solvency coverage ratio (Basic Own Funds / SCR):

- a 25% increase in market value of the unit-linked assets;
- a 50% decrease in market value of the unit-linked assets; and
- a 100bps increase/decrease in interest rates. In both of these scenarios, no allowance has been made for the change in the value of the unit-linked assets in the event of a change in interest rates, only the subsequent impact on the SCR stresses has been considered. The change in the non-linked assets as a result of the interest rate changes is calculated and therefore affects the SCR cover.

The table below sets out the impact of these scenarios on TPEN's surplus (Basic Own Funds less SCR) at 31 December 2018:

Table 11: Market risk - risk sensitivity

Sensitivity analysis - £'000's	Change in	
	SCR	SCR coverage ratio
25% increase in market value of unit-linked assets	374	(1%)
50% decrease in market value of unit-linked assets	(669)	0%
100bps increase in interest rates	(1)	(0%)
100bps decrease in interest rates	1	0%

Additional stress testing is performed as part of the ORSA process to understand the impact of stress scenarios on the profitability and solvency capital adequacy of TPEN. This stress testing includes a scenario in which a severe market downturn is combined with a severe operational risk loss event. The result of the stress test demonstrated that TPEN remains profitable and appropriately capitalised under such a scenario.

C.3 Credit (counterparty default) risk

C.3.1 Material credit risks and changes over reporting period

Credit risk is defined as the risk of loss resulting from counterparty default. TPEN is exposed to credit risk in the following areas:

- policyholder debtors;
- intra-group debtors; and
- cash at bank and holdings in the Sterling Fund.

There were no material changes over the reporting period and no material changes in measurement techniques.

C.3.2 Assessment of and risk mitigation techniques used for credit risk

The majority of the risk calculated under the SCR arises from policyholder debtors which attract a 15% capital charge as they are all less than three months due.

The treatment of policyholder debtors was changed as at 31 December 2018 to exclude debtors where TPEN has the right to recover any such debts from the unit-linked pooled funds from the Type 2 counterparty default calculation, on the basis that such exposures do not create counterparty exposure to policyholders for TPEN shareholders. At 31 December 2018, approximately 19.4% of policyholder debtors fell into this category.

Other credit risks arise from intra-group debtors and counterparties in the Sterling Fund. The Group is profitable and is not believed to represent a credit risk. The Group Counterparty Credit Risk team performs credit risk assessments on the counterparties in the Sterling Fund. The Group Counterparty Credit Risk policy sets out the requirements for reviewing the credit worthiness of counterparties including the frequency of assessment, monitoring and escalation. Credit exposures are monitored on a daily basis to ensure they remain within pre-defined limits.

No specific risk mitigation techniques are used.

There were no other material changes over the reporting period and no other changes in measurement technique.

C.3.3 Risk sensitivity for credit risk

The following credit risk sensitivities were assessed to measure the potential impact to the SCR and the solvency coverage ratio:

- all banks where TPEN holds cash are downgraded by one credit quality step; and
- policyholder debtors increase by 20% and are assumed to be less than three months due.

Table 12: Credit risk - risk sensitivity

Sensitivity analysis - £'000's	Change in	
	SCR	SCR coverage ratio
Exposures to banks downgraded by one credit quality step	130	(2%)
20% increase in policyholder debtors (<3 months due)	74	(1%)

C.4 Liquidity risk

C.4.1 Material liquidity risks and changes over reporting period

Liquidity risk is defined as the risk that TPEN will not have sufficient liquidity to meet its liabilities as they become due or that it can secure the required liquidity only at additional cost. As a result of the size and liquid nature of the corporate assets held on TPEN's balance sheet throughout the year TPEN has limited liquidity risk.

TPEN is included in the Group's liquidity risk management policy which allows access to limited additional liquidity via its ultimate parent company if required.

C.4.2 Assessment of and risk mitigation techniques used for liquidity risks

Short term liquidity requirements are assessed daily, and sufficient liquidity is made available to meet expense liabilities either from fees received or from existing own fund investments. A significant amount of own funds is held in the Sterling Fund described above.

In accordance with TPEN's risk appetite statement, TPEN holds a minimum level of cash to meet liquidity demands. TPEN uses liquidity stress testing to assess the impact of severe but plausible liquidity scenarios. The output of this stress testing is used to inform the liquidity tolerances.

Quarterly updates on TPEN's cash position are prepared and presented for review to the TPEN Board and GMC.

C.4.3 Expected profit included in future premiums

The total amount of the expected profit included in future premiums is zero.

C.4.4 Risk sensitivity for liquidity risks

Liquidity stress testing is conducted as part of the ORSA to assess the liquidity required under normal and stressed conditions. This stress testing includes both short- and long-term liquidity stresses. This testing demonstrated that TPEN maintains sufficient liquid resources to withstand severe liquidity shocks.

C.5 Operational risk

C.5.1 Material operational risks and changes over reporting period

TPEN defines operational risk as the risk of loss resulting from inadequate or failed internal processes, systems and people or external events. The categories of operational risk to which TPEN is or could be exposed are set out below:

Table 13: TPEN's operational risks

Basel category	TPEN's operational risks
Execution, Delivery & Process Management	Failure of a major outsource provider
	Significant Outsourcer Error / Trade Error
	Mandate breach
	Financial Reporting / Disclosures / Payments / Taxes
Clients Products & Business Practices	Regulatory Change and Relationship Management[1]
	Conflicts of Interest / Policy Holder Reasonable Expectations / Treating Customers Fairly[1]
	Product Design & Management / Suitability / Mis-selling
	Pricing / Margins / Profitability / Sales Channels / Targets
	Client Satisfaction / Client Services / Reporting / Billing
Internal/External Fraud	Fraud, AML and Other Financial Crimes[1]
Employment Practices & Workplace Safety	Health and Safety
	Talent Retention
Business Disruption and System Failure	Information Security / Data Protection / Information Security
	Systems / Premises Failure

[1] Includes legal and compliance risks.

There is no key risk for the Basel Category "Damage to Physical Assets" because TPEN does not hold significant assets on its shareholder balance sheet.

There were no material changes over the reporting period in the operational risks to which TPEN is exposed.

C.5.2 Assessment of and risk mitigation techniques used for operational risks

TPEN's Operational Risk Policy aims to establish an effective and sustainable operational risk framework and governance practices which can be understood and adhered to by all staff. The framework is designed to manage operational risk exposures that have been agreed by the TPEN Board and the GMC.

The following elements of the Operational Risk Framework are used to assess and manage operational risks:

- a top down assessment of operational risks facing the business;
- TPEN's RCSAs are reviewed annually by the First Line of Defence business units to ensure they capture key risks, and the associated control environment is updated and challenged by the Second Line of Defence. RCSAs are also reviewed following any 'trigger events' to processes, products or operating models. All risks identified as part of the RCSA process are rated according to the inherent risk, controls and residual risk;
- material REVs are escalated to senior management and governance forums;
- external loss data is reviewed semi-annually to have a forward-looking view of potential emerging risks that are assessed during TPEN governance meetings;
- controls are reviewed when loss events occur, both in relation to the event itself to ensure they can be strengthened but also adopting a wider view of other associated processes or products;
- operational risk workshops are held regularly with SMEs from the First and Second Lines of Defence to identify severe but plausible loss events and to discuss the frequency and severity with which these risks apply to TPEN;
- KRIs in relation to TPEN (linked to its RCSAs) are reviewed quarterly as part of quarterly GMC and TPEN Board reporting to identify whether there are any early indicators of movement outside set risk appetite thresholds; and
- assessment of legal cover from intragroup service agreements.

All risks are reported to the GMC and the Board in the TPEN Dashboard with KRIs monitored to provide an early indication as to the status and direction of movement of the underlying risk.

Since the majority of TPEN's activities are outsourced either to Group companies or to external providers, this is coupled with the review by the GMC and TPEN Board of the performance of the outsourced service providers. The ORSA also considers that the contracts underlying the outsourcing arrangements provide some legal protection to TPEN in the event of a loss caused by an outsource provider.

The contribution from operational risk in the SCR is calculated as 25% of non-acquisition expenses incurred over the last 12 months. For the year ended 31 December 2018, the methodology for calculating SCR for operational risk arising from expenses in the Property fund was updated to exclude dilapidation costs from the expense base on the basis that such expenses are not incurred by TPEN and are borne by tenants as they are contractually obliged to meet dilapidation costs. These costs form only a modest fraction of total expenses.

C.5.3 Risk sensitivity for operational risks

The following operational risk sensitivities were assessed to measure the potential impact to the SCR and the solvency coverage ratio:

- policyholder-borne expenses incurred in the Property fund 20% higher; and
- policyholder-borne expenses incurred in the Property fund 20% lower.

Table 14: Operational risk - risk sensitivity

Sensitivity analysis - £'m	Change in	
	SCR	SCR coverage ratio
Policyholder-borne expenses incurred in the Property fund 20% higher	0.9	(16%)
Policyholder-borne expenses incurred in the Property fund 20% lower	(0.9)	19%

C.6 Other material risks

C.6.1 Risk concentration

TPEN is exposed to concentration risk arising from its key clients, outsource service providers and corporate banking provider:

- exposure to key clients is assessed by monitoring the proportion of AUM and revenue attributable to these clients. Dedicated client service teams work closely with the clients to ensure that TPEN continues to meet their needs. Stress testing scenarios are used to model the impact of the loss of key clients on the profitability, solvency coverage, and liquidity position. Whilst the loss of a key client would have an impact on the profitability of TPEN there would be no impact on other clients. There were no material changes over the reporting period;
- TPEN outsources all of its activities to service providers (Refer to **Section B.7**). The performance of outsource service providers is assessed by the GMC and TPEN Board on a regular basis. As part of the ORSA process specific stress scenarios are used to model the impact of the failure of an outsourced service provider and TPEN ensures it has sufficient capital to withstand such a severe event. There were no material changes over the reporting period; and
- TPEN has exposure to a single corporate banking provider which is a highly rated institution. The concentration risk is mitigated as TPEN invests excess cash in the Sterling Fund which is diversified over a range of highly-rated counterparties. TPEN remains within its internal limit for exposure to a single counterparty.

C.6.2 Fund liquidity risks

Fund / client liquidity risk is defined as the risk of being unable to manage fund or segregated client portfolio liquidity in accordance with agreed terms or objectives. This would include the inability to meet redemption requests, but also the inability to invest fund liquidity in a timely manner. TPEN has no obligation to redeem policies at a stated price. In liquidity constrained environments where redemptions may exceed the ability to raise liquidity, TPEN has the option to suspend dealing in a fund or funds. The potential liquidity risk is therefore mitigated by this option in the terms and conditions of the funds.

C.6.3 Other material risks

TPEN offers asset management services to its clients either in the form of unit-linked insurance contracts or in segregated client portfolios. The nature of this service introduces the following risks to TPEN:

- investment performance/sustained underperformance making funds less attractive;
- market events resulting in a decline in AUM and a reduction in fees earned; and
- profit margin compression due to changing market conditions.

The potential impact of these risks is assessed through stress scenarios (see **Section C.7.1**) as part of the ORSA process and KRIs relating to these risks are reported to the GMC and TPEN Board.

There were no material changes to the risk profile of TPEN over the reporting period and there is no other material information.

C.7 Other material information

C.7.1 Stress and scenario testing and sensitivity analysis

Stress tests are performed to model the impact of severe but plausible stresses on TPEN's profitability and capital position as part of the ORSA process, including:

- profit and capital stress testing is performed to assess the impact of a range of single and multifactor stress tests on TPEN's five-year financial forecast to assess impact to TPEN's profitability and capital position. The scenarios are developed based on an assessment of TPEN's risk profile including Key and Emerging Risks, and are informed by key business changes, and recent REVs and external losses;

- liquidity stress testing is conducted as part of the ORSA to assess the liquidity required under normal and stressed conditions; and
- reverse stress testing in which TPEN performs an assessment on its business plan to identify a range of adverse circumstances which could cause its business plan to become unviable.

The stress testing performed as part of the ORSA has shown that while these severe scenarios would have a material impact on profitability, TPEN would continue to maintain a capital surplus above its internal threshold and would continue to able to service its clients.

D. Valuation for Solvency Purposes

D.1 Assets

D.1.1 Solvency II valuation for each material class of asset

The following table analyses TPEN's assets at fair value per the financial statements.

Table 15: Assets - solvency II valuation - as at 31 December

Asset class - £'m	2018	2017
Collective investment undertakings and other investments	18.1	27.0
Assets held for unit-linked contracts[1]	3,581.3	3,558.9
Reinsurance recoverable unit-linked[1]	39.6	68.4
Liabilities associated with unit-linked[1]	(66.8)	(65.7)
Receivables (trade not insurance)	5.2	6.8
Cash and cash equivalents	2.1	0.4
Creditors - amounts falling due within one year	(3.9)	(9.1)
Provision for liabilities	(0.5)	(0.7)
Deferred tax liability relating to technical provisions	(0.2)	(0.3)
Net assets per Solvency II	**3,574.9**	**3,585.7**

[1] these three items sum to £3,554.0m (2017: £3,561.6m) and match against technical provisions calculated as a whole of £3,554.0m (2017: £3,561.6m).

The key movements in the 12 months to 31 December 2018 were:

- collective investment scheme undertakings reduced by £8.9m following a £5.0m dividend payment and the settlement of the majority of intra-group tax relief debtors of £5m;
- assets held for unit-linked contracts increased by £21.3m as investment returns on the financial instruments were offset by net client outflows; and
- reinsurance recoverables reduced by £28.8m due to client outflows in funds managed by third parties.

Collective investment undertakings and other investments

At the reporting date TPEN held £18.0m (2017: £27.0m) in a collective investment scheme (the Sterling Fund) which invests primarily in sterling denominated cash deposits and certificates of deposits and UK Government issued Treasury Bills. Shares in assets in collective investment schemes are valued at fair value for Solvency II based on market prices of the underlying assets at the reporting date. The balance of £0.1m (2017: £0.1m) is seed investments made in to pooled funds. These pooled funds are held within a variety of collective investment schemes and valued at fair value based upon the published price of the collective investment scheme.

Assets held for unit-linked contracts

Assets held for unit-linked contracts are fair valued as follows:

- Level 1 – fair value is derived from quoted prices (unadjusted) in active market prices for identical assets or liabilities;
- Level 2 – fair value is derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as price) or indirectly (i.e. derived from prices); and
- Level 3 – fair value is derived from valuation techniques using inputs that include inputs for the asset or liability that are not based on observable market data (unobservable market inputs).

At 31 December 2018, TPEN held £1.6bn Level 1 (2017: £1.7bn), nil at Level 2 (2017: nil) and £1.9bn Level 3 (2017: £1.8bn) assets (net of associated liabilities) to cover linked liabilities. The Level 3 investments comprise investment property which is measured initially at cost, including related transaction costs, on the date of acquisition or the date of unconditional exchange, if earlier. After initial recognition, investment property is carried at fair value, after the deduction of unamortised lease incentives.

Valuations are performed by CBRE Limited ("**CBRE**") and Jones Lang LaSalle ("**JLL**") who are professional, third party, independent Chartered Surveyors, at the period end in accordance with Royal Institute of Chartered Surveyors Appraisal and Valuation Standards. CBRE and JLL hold recognised and relevant professional qualifications and have relevant experience in the location and category of the investment property being valued. Fair value is based on active market information, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset.

The fair values by asset exposure class are set out in Table 5 of **Section A.3.1**.

Reinsurance recoverables from unit-linked

Reinsurance recoverables from unit-linked contracts represents the amount that has been contracted out to other institutions under a contract of reinsurance. These are valued at fair value based on current market value of the underlying assets, determined by reference to quoted active market prices at the close of business on the balance sheet date. The reinsurance share of claims provisions at 31 December 2018 was £39.6m (2017: £68.4m).

Receivables

Receivables, (trade not insurance) are amounts due for services performed in the ordinary course of business, which generally have 30-day payment terms. Debtors are recognised at fair value equivalent to the invoice amount and are maintained at this value as the amount receivable for services is not subject to change after the invoice is issued. Debtors totalling £0.8m, were past due as at 31 December 2018 (2017: none), all of these debts were settled during January 2019. No debtors were written-off as bad debts in 2018 (2017: none).

There is no active market for the receivables or similar assets that can be used to fair value the assets. It is considered that the present value of the expected cash flows, allowing for anticipated bad debts, is materially the same as measuring the receivables at amortised cost using the effective interest rate method, less any impairment. As a result, there is no difference between IFRS and Solvency II measurement.

Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, bank overdrafts, deposits held at call with banks and other short term highly liquid investments that are readily convertible on demand to known amounts of cash with an insignificant change in their fair values. Such investments are those with less than three months' maturity from the date of acquisition. As at 31 December 2018 deposits at call with banks was £2.1m (2017: £0.4m).

D.1.2 Solvency II and International Financial Reporting Standards ("IFRS") valuation differences by material class of asset

There are no differences between the valuation of assets under Solvency II and the valuation in the financial statements. There have been no changes to the valuation and recognition approach during the year.

TPEN has made no adjustments to its *reinsurance recoverables* in its financial statements in recording the reinsurance share of claims provisions for solvency purposes.

D.2 Technical Provisions

D.2.1 Technical provisions by material line of business

The technical provisions reduced from £3,560.3m at 31 December 2017 to £3,553.0m at 31 December 2018 as set out below:

Table 16: Technical provisions at 31 December

Technical provisions - £'m	2018	2017
Technical provisions per financial statements[1]	3,554.0	3,561.6
Best Estimate Liability (negative provision)	(1.7)	(1.9)
Risk Margin	0.7	0.6
Technical provisions per Solvency II	**3,553.0**	**3,560.3**

1. Reported in QRT S.02.01.02 as "Technical provisions – index-linked and unit-linked contracts".

Technical provisions per financial statements

For liabilities that can be replicated reliably using financial instruments for which a reliable market value is observable (e.g. TPEN's unit-linked liabilities, because they exactly match the unit-linked assets), the market value of replicating financial instruments are used. Therefore, for TPEN the unit-linked assets and liabilities net off against each other in the financial statements. Included within the TPEN unit-linked assets and liabilities is £39.6m (2017: £68.4m) relating to reinsurance recoverables (Refer to **Section D.1.2**). Technical provisions per financial statements reduced by £7.6m in line with the reduction in the value of unit-linked assets (refer to **Section A.3**). Refer to **Section A.3.1** for explanation on movements in technical provisions.

Best Estimate Liability

For liabilities that cannot be replicated in this way, both a best estimate of the provision is calculated as well as a Risk Margin (see below). The BEL is calculated by determining the present value of best estimates of future cashflows of the policies.

The key assumptions are set out below:

- the projection period over which the best estimate is accrued is 12 months. This is the estimated length of time that it would take to wind down the business after terminating the contracts unilaterally via TPEN serving relevant notice on the policyholders. At 31 December 2018, the notice period for unilateral termination by TPEN was three months for all policies;
- the lapse rates on policies underlying the SCR are 6% per annum for pooled clients or 11% per annum for segregated clients taking account of past experience; and
- expenses continue to be subject to the Group transfer pricing policy. This methodology provides some protection to TPEN's profit in that if revenue were to decrease, so too would expenses.

The BEL, which is based on future cashflows is an asset due to the profitable nature of contracts. There have been no material changes to assumptions during the year. The BEL reduced by £0.2m due to a reduction in revenues over 2018.

Risk Margin

The Risk Margin is determined as the cost of providing additional own funds to support the future SCR requirements under a hypothetical transfer of the insurance liabilities to a third party. As the projection period used for TPEN is 12 months, the Risk Margin is derived by using the elements of the SCR not deemed hedgable (i.e. elements other than bank counterparty and market risk exposures) present at outset and applying a cost of capital of 6% per annum (as specified in DR 2015/35 Article 39). The Risk Margin increased by c.£0.1m largely due to the increase in the operational risk SCR.

D.2.2 Uncertainty associated with the value of technical provisions

A source of uncertainty is how actual experience will differ from the best estimate assumptions used to calculate the technical provisions. A sensitivity analysis is performed in accordance with Article 272(1)(b) to ensure TPEN understands this uncertainty.

Estimates, assumptions and judgements are regularly evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

D.2.3 Solvency II and IFRS valuation differences of Technical Provisions by material line of business

The IFRS valuation of the unit-linked liabilities is £3,554.0m (2017: £3,561.6m) and the valuation for solvency purposes is £3,553.0m (2017: £3,560.4m). There have been no material changes to the valuation and recognition approach during the year.

D.2.4 Other

When calculating its technical provisions (and when determining how these technical provisions would alter under relevant SCR stresses), TPEN has used a short-term projection period of 12 months set by reference to the notice period TPEN could give to unilaterally terminate policies and the length of time required to wind down the business, rather than a long projection period that ignores the unilateral powers. The use of a short projection period is a simplification that the TPEN Board considers is proportionate, since it satisfies the requirements set out in Article

56 of the Commission delegated regulation (EU) 2015/35.

The PRA has indicated to TPEN that it does not object to the use by TPEN of such a simplification for the calculation of its technical provisions, subject to the TPEN Board carrying out a review and assessment, at least annually, of:

- whether the proportionality requirements of Article 56 continue to be met; and
- whether the TPEN Board's capital management policy needs to be adjusted to ensure it reflects the TPEN Board's capital risk appetite, in terms of SCR coverage, on both a long and short projection basis.

The TPEN Board has reviewed the impact of both and long and short projection period and determined that a short projection period remains appropriate as technical provisions are higher than under a long projection period. The TPEN Board considers the use of a short projection period to be a simplification that is proportionate and satisfies the requirements set out in Article 56. The Group Capital Risk Management Policy has been adjusted appropriately. Should this review indicate that the requirements of Article 56 are no longer being met the TPEN Board would take appropriate action to ensure that TPEN continues to remain adequately capitalised and maintain a solvency capital ratio above its internal capital buffer threshold of 125%.

The SCR has been calculated excluding the impact of the planned novation of segregated clients referred to in Section A.5 above. The TPEN Board has considered the impact of the planned novation and has concluded that the short projection period would remain appropriate.

The TPEN does not apply or make use of the following:

- the matching adjustment referred to in Article 77b of Directive 2009/138/EC;
- the volatility adjustment referred to in Article 77d of Directive 2009/138/EC;
- the transitional risk-free interest rate-term structure referred to Article 308c of Directive 2009/138/EC; or
- the transitional deduction referred to in Article 308d of Directive 2009/138/EC.

D.3 Other Liabilities

D.3.1 Solvency II valuation for each material class of other liabilities

Total other liabilities reduced by £5.4m in the 12 months to 31 December 2018, largely due to the settlement of Group tax relief creditors. The table sets out a summary of other liabilities:

Table 17: Other liabilities at 31 December

Other Liabilities (S.02.01.02) - £'m	2018	2017
Deferred tax liability	0.7	1.0
Payables (trade not insurance)	3.2	8.5
Any other liabilities not shown elsewhere	0.7	0.5
Total other liabilities	**4.6**	**10.0**

Deferred tax liability

Deferred tax liability arose from a change in statutory tax basis introduced in preparation for the introduction of Solvency II. From 2013, TPEN is taxed on its corporate profit whereas previously tax was calculated on the surplus calculated under Solvency I. The deferred tax figure reflects the transitional adjustment that is being made on a straight-line basis over a 10-year period.

TPEN's own funds includes a further deferred tax element relating to technical provisions (See **Table 19**). This has been calculated by multiplying the negative BEL less the Risk Margin by an assumed tax rate of 18%.

Payables (trade not insurance)

Payables include the following:

- amounts due to Group undertakings relating to investment management services and distribution services supplied by other Group companies in line with the Group transfer pricing framework. These services are invoiced and settled quarterly; and

- fees to transfer agents which are paid quarterly after a receipt of a valid invoice that reconciles to the rate card per the service level agreement.

No payables were past due during the year 2018 (2017: none).

Any other liabilities not shown elsewhere

Any other liabilities are made up of amounts for custody and sub-advisor fees of £0.2m (2017: £0.5m) recognised on an accruals basis.

D.3.2 Solvency II and IFRS valuation differences by material class of other liabilities

There are no material differences between the valuation of other liabilities for solvency purposes and the valuation in the financial statements.

D.4 Alternative methods for valuation

No alternative valuation techniques are used.

D.5 Other material information

TPEN has no further material information to disclose.

E. Capital management

E.1 Own funds

E.1.1 Objective, policies and process for managing own funds

TPEN's policy is that sufficient own funds will be maintained to meet regulatory requirements with adequate surplus in line with operating and strategic objectives. TPEN holds regular board meetings at least quarterly to review regulatory capital requirements compared to own funds.

As part of the ORSA process, a five-year plan is prepared which assists in capital planning.

None of TPEN's own funds are subject to transitional arrangements and TPEN has no ancillary own funds. No deductions are applied to own funds and there are no material restrictions affecting their availability and transferability.

E.1.2 Own funds classified by tiers

TPEN classifies its own funds as Tier 1, Tier 2 or Tier 3 depending on the characteristics of the capital. Tier 1 capital is the best form of capital for the purposes of absorbing losses. TPEN's own funds are deemed to have loss absorbing characteristics allowing them to be treated as Tier 1 capital and hence contribute to Basic Own Funds available to meet the SCR. Basic Own Funds reduced by 13.4% due to net impact of the payment of a £5.0m dividend during 2018 and 2018 retained profits of £1.7m.

Table 18: Basic Own Funds classified by tiers at 31 December

Own funds (S.23.01.01) - £'m	Tier	2018	2017	YoY%
Share capital	1	11.3	11.3	0.0%
Reconciliation reserve	1	10.6	14.1	(24.2%)
Basic Own Funds		**21.9**	**25.4**	**(13.4%)**

The reconciliation reserve represents retained earnings and reconciliation adjustments from the IFRS balance sheet to the Solvency II balance sheet. The increase in reconciliation reserve over the reporting period is mainly driven by retained earnings. The share capital and reconciliation reserve are available for distribution subject to meeting SCR and capital surplus requirements, are not subordinated in any way, and have no restricted duration.

The reconciliation reserve is calculated as follows:

Table 19: Reconciliation reserve at 31 December

Reconciliation reserve - £'m	2018	2017
Retained earnings in the financial statements	9.8	13.1
Items not recognised in the financial statements		
Best Estimate Liability (S02.01. 01)	1.7	1.9
Risk Margin (S.02.01.01)	(0.7)	(0.6)
Deferred tax liability relating to technical provisions	(0.2)	(0.3)
Reconciliation reserve	**10.6**	**14.1**

E.1.3 Eligible amount of own funds to cover the Solvency Capital Requirement, by tier

All of TPEN's own funds are Tier 1 and are therefore eligible to be used for meeting the SCR.

E.1.4 Eligible amount of own funds to cover the Minimum Capital Requirement, by tier

All of TPEN's basic own funds are Tier 1 and are therefore eligible to be used for meeting the MCR.

E.1.5 Difference between equity as shown in the financial statements and the Solvency II value excess of assets over liabilities

The following table reconciles the differences (reconciliation reserve) between the equity in the financial statements and the excess of the assets over liabilities as calculated for solvency purposes (Solvency II - Basic Own Funds).

Table 20: Solvency II - Basic Own Funds at 31 December

Own Fund item (S.23.01.01) - £'m	2018	2017
Total equity in financial statements	21.1	24.4
Items not recognised in the financial statements		
Best Estimate Liability (S02.01. 01)	1.7	1.9
Risk Margin (S.02.01.01)	(0.7)	(0.6)
Deferred tax liability relating to technical provisions	(0.2)	(0.3)
Solvency II – Basic Own Funds	**21.9**	**25.4**

The BEL of £1.7m at 31 December 2018 (2017: £1.9m) is partially offset by a deferred tax element of £0.2m (2017: £0.3m). The decrease in the BEL since 31 December 2017 is due to lower revenues.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

E.2.1 Amount of Solvency Capital Requirement and Minimum Capital Requirement

The amount of TPEN's SCR and MCR at the end of the reporting period are £10.8m (2017: £12.1m) and £4.8m (2017: £5.5m) respectively.

E.2.2 Solvency Capital Requirement split by risk modules

The table below sets out the components of the SCR (using the standard formula) under a short-projection period:

Table 21: Solvency Capital requirement split by risk modules at 31 December

Solvency Capital Requirement (S.25.01.21) - £'m	2018	2017
Market risk	1.0	1.2
Credit (Counterparty default) risk	0.8	2.1
Insurance (Life underwriting) risk	1.1	1.2
Diversification	(0.8)	(1.3)
Basic Solvency Capital Requirement	**2.1**	**3.2**
Operational risk (S.25.01.21)	9.9	9.2
Loss absorbing capacity of deferred taxes	(1.2)	(0.3)
Solvency Capital Requirement (SCR)	**10.8**	**12.1**

The methodology for the calculation of individual components of the SCR are described in **Section C**.

The key changes in the SCR from 31 December 2017 to 31 December 2018 were:

- market risk capital requirement reduced to £1.0m due to lower opening BEL which has decreased due to lower year-end revenues;
- counterparty risk capital requirement reduced by £1.3m to £0.8m largely driven by the settlement of the majority of intra-group tax relief debtors throughout 2018;
- insurance (life underwriting) risk reduced due to lower opening BEL which has decreased due to lower year-end revenues;
- diversification benefit reduced in line with the other components of the Basic SCR;
- operational risk capital requirement increased by 7.7% to £9.9m due to an increase in expenses borne by policyholders (largely within the property fund); and
- loss absorbing capacity of deferred taxes increased primarily due to a change in methodology. In 2017 the applied methodology was BEL multiplied by the corporate tax rate. In 2018, this has been amended to be BEL less the Risk Margin multiplied by the tax rate, and including 2017 and 2018 tax amounts to reflect potential loss relief on these years.

E.2.3 Simplified calculations and Company specific parameters

TPEN uses the Solvency II standard formula to calculate its SCR, where:

- no simplifications per the Solvency II Delegated Regulation Articles 89 to 112 have been used, other than the use of a short projection period noted in Section D.2.4. Where it proved impractical to capture a full look-through of some unitised funds held within some of TPEN's portfolios, these funds were treated as Type 2 Equities, per Delegated Regulation Article 168(3);
- no undertaking-specific parameters have been used; and
- TPEN was not subject to a capital add-on or any required use of undertaking-specific parameters by the PRA that might need to be disclosed in the SFCR under Article 110 of Directive 2009/138/EC.

E.2.4 Inputs used to calculate the Minimum Capital Requirement

TPEN is required by Solvency II Article 129 to maintain an amount of eligible basic own funds, the MCR. The MCR is calculated as the maximum of €3.7m (absolute floor in Article 129(d)(ii) for TPEN's type of business), and the linear MCR derived from a proportion of technical provisions and a proportion of the SCR, with the linear MCR subject to upper and lower bounds of 25% to 45% of the SCR. At the reporting date, the upper bound was applied and the MCR was 45% of the SCR.

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

TPEN did not use the duration-based equity risk sub-module when calculating its SCR.

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

TPEN applies the standard formula model and does not use an internal model to calculate the SCR.

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

There was no breach of the SCR or the MCR over the reporting period.

E.6 Other material information

TPEN has no further material information to disclose.

F. Validations

F.1 Directors' confirmation

Threadneedle Pensions Limited

Approval by the Board of Directors of the Solvency and Financial Condition Report

Financial period ended 31 December 2018

We certify that:

The Solvency and Financial Condition Report ("**SFCR**") has been properly prepared in all material respects in accordance with the PRA rules and Solvency II regulations; and

We are satisfied that:

a. Throughout the financial year in question, the insurer has complied in all material respects with the requirements of the PRA rules and Solvency II Regulations as applicable to the insurer; and
b. It is reasonable to believe that, at the date of the publication of the SFCR, the insurer has continued to comply, and will continue to comply in future.

Threadneedle Pensions Limited Board of Directors

15 April 2019

F.2 Independent Auditor's Report

Report of the external independent auditors to the Directors of Threadneedle Pensions Limited ('the Company')

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

Opinion

We have audited the following documents prepared by the Company as at 31 December 2018:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2018, ('**the Narrative Disclosures subject to audit**'); and

- Company templates S.02.01.02, S.12.01.02, S.23.01.01, S.25.01.21 and S.28.01.01 ('**the Templates subject to audit'**).

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

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

- The 'Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;

- Company templates S.05.01.02 and S.05.02.01;

- The written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('the Responsibility Statement').

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of the Company as at 31 December 2018 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Basis for opinion

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

Conclusions relating to going concern

ISAs (UK) require us to report to you where:

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

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, are not clear, and it is difficult to evaluate all of the potential implications on the Company's trade, customers, suppliers and the wider economy.

Emphasis of Matter - Basis of Accounting

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

Other Information

The Directors are responsible for the Other Information.

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

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

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations.

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

The Directors have elected to comply with the External Audit Part of the PRA Rulebook for Solvency II firms as if it applied to the Company, notwithstanding that the Company is a small firm for external audit purposes (as defined in the PRA Rulebook).

Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report

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

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the Solvency and Financial Condition Report.

A further description of our responsibilities for the audit is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

This report, including the opinion, has been prepared for the Board of Directors of the Company in accordance with our letter of engagement dated 29 March 2019 and External Audit rule 2.1 of the Solvency II firms Sector of the PRA Rulebook as if it applied to the Company, and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose or to any other party save where expressly agreed by our prior consent in writing.

Report on Other Matters

The Directors have requested that we consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of the Company's statutory financial statements as if the Company was subject to the External Audit Part of the PRA Rulebook for Solvency II firms. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants

London

15 April 2019

Glossary

AMC	Annual Management Charge
Ameriprise	Ameriprise Financial, Inc.
AUM	Assets Under Management
BEL	Best Estimate Liability
bn	Billion
CBRE	CBRE Limited
CTI	Columbia Threadneedle Group of companies
DB	Defined Benefit
DC	Defined Contribution
EMEA BMC	EMEA Business Management Committee
EMEA RCC	EMEA Risk and Controls Committee
FCA	Financial Conduct Authority
FPDC	Fund Pricing and Dealing Committee
FIT	FCA's Fit and Proper test for Approved Persons and Specified Significant Harm Functions
GMC	General Management Committee of TPEN
Guest funds	Unit-linked pooled funds managed on a passive basis by a third-party asset manager
IFRS	International Financial Reporting Standards
JLL	Jones Lang LaSalle
KRI	Key Risk Indicators
m	Million
MCR	Minimum Capital Requirement
ORSA	Own Risk and Solvency Assessment
PRA	Prudential Regulation Authority
QRT	Solvency II Quantitative Reporting Template
RCSA	Risk and Control Self-Assessment
REV	Internal Risk Events
SCR	Solvency Capital Requirement
SFCR	Solvency and Financial Condition Report
SIMR	Senior Insurance Managers Regime
SMCR	Senior Managers & Certification Regime
SME	Subject Matter Expert
Sterling Fund	Threadneedle Sterling Fund
TAMH Sàrl	Threadneedle Asset Management Holdings Sàrl
TAMHL	Threadneedle Asset Management Holdings Limited
TAML	Threadneedle Asset Management Limited
TPEN	Threadneedle Pensions Limited
TPEN Board	Board of Directors of TPEN

Quantitative Reporting Templates

The following Quantitative Reporting Templates are reported in GBP thousands while the tables in the Summary (Section 1), and Sections A – E of this document are reported in GBP million.

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
- S.12.01.02 – Life and Health SLT Technical provisions
- 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 – assets (£'000)

Assets		**Solvency II value**
		C0010
Intangible assets	**R0030**	
Deferred tax assets	**R0040**	
Pension benefit surplus	**R0050**	
Property, plant & equipment held for own use	**R0060**	
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	18,062
Property (other than for own use)	**R0080**	
Holdings in related undertakings, including participations	**R0090**	
Equities	**R0100**	
Equities - listed	**R0110**	
Equities - unlisted	**R0120**	
Bonds	**R0130**	
Government Bonds	**R0140**	
Corporate Bonds	**R0150**	
Structured notes	**R0160**	
Collateralised securities	**R0170**	
Collective Investments Undertakings	**R0180**	17,995
Derivatives	**R0190**	
Deposits other than cash equivalents	**R0200**	
Other investments	**R0210**	67
Assets held for index-linked and unit-linked contracts	**R0220**	3,514,457
Loans and mortgages	**R0230**	
Loans on policies	**R0240**	
Loans and mortgages to individuals	**R0250**	
Other loans and mortgages	**R0260**	
Reinsurance recoverables from:	**R0270**	39,558
Non-life and health similar to non-life	**R0280**	
Non-life excluding health	**R0290**	
Health similar to non-life	**R0300**	
Life and health similar to life, excluding health and index-linked and unit-linked	**R0310**	
Health similar to life	**R0320**	
Life excluding health and index-linked and unit-linked	**R0330**	
Life index-linked and unit-linked	**R0340**	39,558
Deposits to cedants	**R0350**	
Insurance and intermediaries receivables	**R0360**	
Reinsurance receivables	**R0370**	
Receivables (trade, not insurance)	**R0380**	5,397
Own shares (held directly)	**R0390**	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	**R0400**	
Cash and cash equivalents	**R0410**	2,068
Any other assets, not elsewhere shown	**R0420**	
Total assets	**R0500**	3,579,542

S.02.01.02 - Balance sheet – liabilities (£'000)

		Solvency II value
		C0010
Liabilities		
Technical provisions – non-life	R0510	
Technical provisions – non-life (excluding health)	R0520	
TP calculated as a whole	R0530	
Best Estimate	R0540	
Risk margin	R0550	
Technical provisions - health (similar to non-life)	R0560	
TP calculated as a whole	R0570	
Best Estimate	R0580	
Risk margin	R0590	
Technical provisions - life (excluding index-linked and unit-linked)	R0600	0
Technical provisions - health (similar to life)	R0610	
TP calculated as a whole	R0620	
Best Estimate	R0630	
Risk margin	R0640	
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	0
TP calculated as a whole	R0660	
Best Estimate	R0670	0
Risk margin	R0680	0
Technical provisions – index-linked and unit-linked	R0690	3,552,998
TP calculated as a whole	R0700	3,554,015
Best Estimate	R0710	-1,689
Risk margin	R0720	672
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	
Pension benefit obligations	R0760	
Deposits from reinsurers	R0770	
Deferred tax liabilities	R0780	705
Derivatives	R0790	
Debts owed to credit institutions	R0800	
Financial liabilities other than debts owed to credit institutions	R0810	
Insurance & intermediaries payables	R0820	
Reinsurance payables	R0830	
Payables (trade, not insurance)	R0840	3,208
Subordinated liabilities	R0850	
Subordinated liabilities not in BOF	R0860	
Subordinated liabilities in BOF	R0870	
Any other liabilities, not elsewhere shown	R0880	673
Total liabilities	R0900	3,557,584
Excess of assets over liabilities	R1000	21,958

S.05.01.02 - Premiums, claims and expenses by line of business (£'000)

		Line of Business for: **non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)**								
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance
		C0010	**C0020**	**C0030**	**C0040**	**C0050**	**C0060**	**C0070**	**C0080**	**C0090**
Premiums written										
Gross - Direct Business	**R0110**									
Gross - Proportional reinsurance accepted	**R0120**									
Gross - Non-proportional reinsurance accepted	**R0130**									
Reinsurers' share	**R0140**									
Net	**R0200**									
Premiums earned										
Gross - Direct Business	**R0210**									
Gross - Proportional reinsurance accepted	**R0220**									
Gross - Non-proportional reinsurance accepted	**R0230**									
Reinsurers' share	**R0240**									
Net	**R0300**									
Claims incurred										
Gross - Direct Business	**R0310**									
Gross - Proportional reinsurance accepted	**R0320**									
Gross - Non-proportional reinsurance accepted	**R0330**									
Reinsurers' share	**R0340**									
Net	**R0400**									
Changes in other technical provisions										
Gross - Direct Business	**R0410**									
Gross - Proportional reinsurance accepted	**R0420**									
Gross - Non- proportional reinsurance accepted	**R0430**									
Reinsurers'share	**R0440**									
Net	**R0500**									
Expenses incurred	**R0550**									
Other expenses	**R1200**									
Total expenses	**R1300**									

S.05.01.02 - Premiums, claims and expenses by line of business – continued (£'000)

		Line of Business for: **non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)**			Line of business for: **accepted non-proportional reinsurance**				Total
		Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	
		C0100	**C0110**	**C0120**	**C0130**	**C0140**	**C0150**	**C0160**	**C0200**
Premiums written									
Gross - Direct Business	**R0110**				-	-	-	-	
Gross - Proportional reinsurance accepted	**R0120**				-	-	-	-	
Gross - Non-proportional reinsurance accepted	**R0130**	-	-	-					
Reinsurers' share	**R0140**								
Net	**R0200**								
Premiums earned									
Gross - Direct Business	**R0210**								
Gross - Proportional reinsurance accepted	**R0220**								
Gross - Non-proportional reinsurance accepted	**R0230**								
Reinsurers' share	**R0240**								
Net	**R0300**								
Claims incurred									
Gross - Direct Business	**R0310**								
Gross - Proportional reinsurance accepted	**R0320**								
Gross - Non-proportional reinsurance accepted	**R0330**	-	-	-					
Reinsurers' share	**R0340**								
Net	**R0400**								
Changes in other technical provisions									-
Gross - Direct Business	**R0410**								
Gross - Proportional reinsurance accepted	**R0420**								
Gross - Non- proportional reinsurance accepted	**R0430**								
Reinsurers'share	**R0440**								
Net	**R0500**								
Expenses incurred	**R0550**								
Other expenses	**R1200**								
Total expenses	**R1300**								

S.05.01.02 - Premiums, claims and expenses by line of business – continued (£'000)

		Line of Business for: **life insurance obligations**						**Life reinsurance obligations**		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
		C0210	**C0220**	**C0230**	**C0240**	**C0250**	**C0260**	**C0270**	**C0280**	**C0300**
Premiums written										
Gross	**R1410**			400,763						400,763
Reinsurers' share	**R1420**			2,823						2,823
Net	**R1500**			397,940						397,940
Premiums earned										
Gross	**R1510**			400,763						400,763
Reinsurers' share	**R1520**			2,823						2,823
Net	**R1600**			397,940						397,940
Claims incurred										
Gross	**R1610**			501,856						501,856
Reinsurers' share	**R1620**			30,939						30,939
Net	**R1700**			470,917						470,917
Changes in other technical provisions										
Gross	**R1710**			-37,269						-37,269
Reinsurers' share	**R1720**			-28,853						-28,853
Net	**R1800**			-66,121						-66,121
Expenses incurred	**R1900**			40,118						40,118
Other expenses	**R2500**									0
Total expenses	**R2600**									40,118

S.05.02.01 - Premiums, claims and expenses – by country (£'000)

		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations				Total Top 5 and home country
		C0010	C0020	C0030	C0040	C0050	C0060	C0070
	R0010							
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
Premiums written								
Gross - Direct Business	**R0110**							
Gross - Proportional reinsurance accepted	**R0120**							
Gross - Non-proportional reinsurance accepted	**R0130**							
Reinsurers' share	**R0140**							
Net	**R0200**							
Premiums earned								
Gross - Direct Business	**R0210**							
Gross - Proportional reinsurance accepted	**R0220**							
Gross - Non-proportional reinsurance accepted	**R0230**							
Reinsurers' share	**R0240**							
Net	**R0300**							
Claims incurred								
Gross - Direct Business	**R0310**							
Gross - Proportional reinsurance accepted	**R0320**							
Gross - Non-proportional reinsurance accepted	**R0330**							
Reinsurers' share	**R0340**							
Net	**R0400**							
Changes in other technical provisions								
Gross - Direct Business	**R0410**							
Gross - Proportional reinsurance accepted	**R0420**							
Gross - Non- proportional reinsurance accepted	**R0430**							
Reinsurers'share	**R0440**							
Net	**R0500**							
Expenses incurred	**R0550**							
Other expenses	**R1200**							
Total expenses	**R1300**							

S.05.02.01 - Premiums, claims and expenses – by country (continued) (£'000)

		Home Country	Top 5 countries (by amount of gross premiums written) - life obligations					Total Top 5 and home country
		C0150	C0160	C0170	C0180	C0190	C0200	C0210
	R1400							
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
Premiums written								
Gross	**R1410**	400,763						400,763
Reinsurers' share	**R1420**	2,823						2,823
Net	**R1500**	397,940						397,940
Premiums earned								
Gross	**R1510**	400,763						400,763
Reinsurers' share	**R1520**	2,823						2,823
Net	**R1600**	397,940						397,940
Claims incurred								
Gross	**R1610**	501,856						501,856
Reinsurers' share	**R1620**	30,939						30,939
Net	**R1700**	470,917						470,917
Changes in other technical provisions								
Gross	**R1710**	-37,269						-37,269
Reinsurers' share	**R1720**	-28,853						-28,853
Net	**R1800**	-66,121						-66,121
Expenses incurred	**R1900**	40,118						40,118
Other expenses	**R2500**							0
Total expenses	**R2600**							40,118

S.12.01.02 – Life and Health SLT Technical provisions (£'000)

		Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	**Total (Life other than health insurance, incl. Unit-Linked)**
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees			
		C0020	**C0030**	**C0040**	**C0050**	**C0060**	**C0070**	**C0080**	**C0090**	**C0100**	**C0150**
Technical provisions calculated as a whole	**R0010**		2,018,294							1,535,721	3,554,015
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	**R0020**		39,558								39,558
Technical provisions calculated as a sum of BE and RM											
Best Estimate											
Gross Best Estimate	**R0030**				-1,537					-152	-1,689
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0080**										
Best estimate minus recoverables from reinsurance/SPV and Finite Re - total	**R0090**				-1,537					-152	-1,689
Risk Margin	**R0100**		415							257	672
Amount of the transitional on Technical Provisions											
Technical Provisions calculated as a whole	**R0110**										
Best estimate	**R0120**										
Risk margin	**R0130**										
Technical provisions - total	**R0200**		2,017,173							1,535,825	3,552,998

S.12.01.02 – Life and Health SLT Technical provisions – continued (£'000)

		Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	**Total (Health similar to life insurance)**
			Contracts without options and guarantees	Contracts with options or guarantees			
		C0160	**C0170**	**C0180**	**C0190**	**C0200**	**C0210**
Technical provisions calculated as a whole	**R0010**						
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	**R0020**						
Technical provisions calculated as a sum of BE and RM							
Best Estimate							
Gross Best Estimate	**R0030**						
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0080**						
Best estimate minus recoverables from reinsurance/SPV and Finite Re - total	**R0090**						
Risk Margin	**R0100**						
Amount of the transitional on Technical Provisions							
Technical Provisions calculated as a whole	**R0110**						
Best estimate	**R0120**						
Risk margin	**R0130**						
Technical provisions - total	**R0200**						

S.23.01.01 - Own Funds (£'000)

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35						
Ordinary share capital (gross of own shares)	R0010	11,300	11,300			
Share premium account related to ordinary share capital	R0030					
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070					
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	10,658	10,658			
Subordinated liabilities	R0140					
An amount equal to the value of net deferred tax assets	R0160					
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180					
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						
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					
Deductions						
Deductions for participations in financial and credit institutions	R0230					
Total basic own funds after deductions	R0290	21,958	21,958			
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Other ancillary own funds	R0390					
Total ancillary own funds	R0400					
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	21,958	21,958			
Total available own funds to meet the MCR	R0510	21,958	21,958			
Total eligible own funds to meet the SCR	R0540	21,958	21,958			
Total eligible own funds to meet the MCR	R0550	21,958	21,958			
SCR	R0580	10,754				
MCR	R0600	4,839				
Ratio of Eligible own funds to SCR	R0620	204.18%				
Ratio of Eligible own funds to MCR	R0640	453.74%				

S.23.01.01 - Own Funds – continued (£'000)

		C0060	
Reconciliation reserve			
Excess of assets over liabilities	**R0700**	21,958	
Own shares (held directly and indirectly)	**R0710**		
Foreseeable dividends, distributions and charges	**R0720**		
Other basic own fund items	**R0730**	11,300	
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	**R0740**		
Reconciliation reserve	**R0760**	10,658	
Expected profits			
Expected profits included in future premiums (EPIFP) - Life business	**R0770**		
Expected profits included in future premiums (EPIFP) - Non-life business	**R0780**		
Total Expected profits included in future premiums (EPIFP)	**R0790**		

S.25.01.21 - Solvency Capital Requirement - for undertakings on standard formula (£'000)

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0100
Market risk	R0010	1,023	-	-
Counterparty default risk	R0020	754	-	-
Life underwriting risk	R0030	1,075		
Health underwriting risk	R0040			-
Non-life underwriting risk	R0050			-
Diversification	R0060	-824	-	-
Intangible asset risk	R0070		-	-
Basic Solvency Capital Requirement	R0100	2,028	-	-

Calculation of Solvency Capital Requirement		C0100
Operational risk	R0130	9,931
Loss-absorbing capacity of technical provisions	R0140	
Loss-absorbing capacity of deferred taxes	R0150	-1,205
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency capital requirement excluding capital add-on	R0200	10,754
Capital add-on already set	R0210	
Solvency capital requirement	R0220	10,754
Other information on SCR		-
Capital requirement for duration-based equity risk sub-module	R0400	
Total amount of Notional Solvency Capital Requirement for remaining part	R0410	
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	

S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity (£'000)

Linear formula component for non-life insurance and reinsurance obligations

		C0010
MCR_{NL} Result	R0010	

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
Medical expense insurance and proportional reinsurance	R0020		
Income protection insurance and proportional reinsurance	R0030		
Workers' compensation insurance and proportional reinsurance	R0040		
Motor vehicle liability insurance and proportional reinsurance	R0050		
Other motor insurance and proportional reinsurance	R0060		
Marine, aviation and transport insurance and proportional reinsurance	R0070		
Fire and other damage to property insurance and proportional reinsurance	R0080		
General liability insurance and proportional reinsurance	R0090		
Credit and suretyship insurance and proportional reinsurance	R0100		
Legal expenses insurance and proportional reinsurance	R0110		
Assistance and proportional reinsurance	R0120		
Miscellaneous financial loss insurance and proportional reinsurance	R0130		
Non-proportional health reinsurance	R0140		
Non-proportional casualty reinsurance	R0150		
Non-proportional marine, aviation and transport reinsurance	R0160		
Non-proportional property reinsurance	R0170		

S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity - continued (£'000)

Linear formula component for life insurance and reinsurance obligations

		C0040
MCR_L Result	**R0200**	24,591

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	**C0060**
Obligations with profit participation - guaranteed benefits	**R0210**		
Obligations with profit participation - future discretionary benefits	**R0220**		
Index-linked and unit-linked insurance obligations	**R0230**	3,512,951	
Other life (re)insurance and health (re)insurance obligations	**R0240**		
Total capital at risk for all life (re)insurance obligations	**R0250**		

Overall MCR calculation

		C0070
Linear MCR	**R0300**	24,591
SCR	**R0310**	10,754
MCR cap	**R0320**	4,839
MCR floor	**R0330**	2,689
Combined MCR	**R0340**	4,839
Absolute floor of the MCR	**R0350**	3,288
-	-	**C0070**
Minimum Capital Requirement	**R0400**	4,839