UUG Holdings (No 1) Ltd

SOLVENCY

AND

FINANCIAL CONDITION REPORT

2019

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SOLVENCY AND FINANCIAL CONDITION REPORT 2019

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EXECUTIVE SUMMARY

INTRODUCTION

This report is the Solvency and Financial Condition Report ("SFCR") of UUG Holdings (No 1) Ltd ("UUG"), the Group's Holding Company and its subsidiaries (collectively, the Group) for the reporting period ended 31 December 2019 ("the Report"). The Report has been prepared in accordance with the Solvency II Regulations governing insurance group reporting and guidance from the European Insurance and Occupational Pensions Authority ("EIOPA") and the Prudential Regulatory Authority ("PRA"),

The Company was incorporated on 22 January 2018 as LCCG UK (RL) Limited and changed its name to the current name on 30 January 2019. On 22 March 2018 Utmost Life and Pensions Holdings Limited (ULPH), Utmost Life and Pensions Limited and Utmost Life and Pensions Services Limited (ULPS) which were subsidiaries of UIG Holdings (No 4) Limited (previously LCCG UK Holdings Limited) were transferred as subsidiaries to UUG forming the Group.

The Group is part of the Utmost Group of Companies, a specialist life insurance business founded in 2013, with the aim of acquiring and managing life insurance business across the UK, Europe and worldwide territories. The ultimate parent company that is registered in the UK is UUG Holdings (No 1) Ltd. The ultimate controlling party of the Group is Oaktree Capital Group LLC, a company incorporated in the United States of America ("USA").

The principal activity of the Group is the provision of life and pension policies by pursuing its strategy of acquiring and consolidating businesses in the UK to deliver economies of scale to the benefit of customers and shareholders. The Group's main business is conducted through Utmost Life and Pensions, an authorised insurer regulated by the PRA in the UK. The Group structure also includes Utmost Life and Pensions' parent ULPH, a UK domiciled insurance holding company. ULPH is parent company to ULPS, a management and administrative services company and various other immaterial non-regulated subsidiaries. The simplified Group structure is shown in section A1.5.

This SFCR provides details of the Group's business and its performance, Systems of Governance, risk profile, and valuation for solvency purposes and capital management for the financial year ended 31 December 2019.

BUSINESS AND PERFORMANCE

Delivering the strategy

Throughout 2019, the Group actively executed its strategy, primarily by focusing upon the completion of the Equitable Life acquisition and creating the infrastructure required for a successful integration.

In preparation for the Equitable Life transfer, on 16 December 2019, Utmost Life and Pensions issued an additional £112.6m of ordinary share capital to ULPH, increasing total issued share capital from £30m to £142.6m. The capital was funded down through the parent hierarchy, via Utmost Life and Pension Holdings Ltd, and UUG Holdings (No 1) Ltd from UUG Holdings (No 3) Ltd. On the same date, the Company repaid the £35m of existing Tier 2 debt and issued £60m of new Tier 2 debt to its parent, UUG Holdings (No 3) Ltd. The new loan, which matures on 9 December 2030, qualifies as Tier 2 capital under Solvency II reporting guidelines.

As shown in the sub-section 'Intra-group loans' in section E, the Company also issued £60m of senior debt to Utmost Life and Pensions Holdings Ltd, which then itself issued a £60m Tier 2 loan to Utmost Life and Pensions.

Approval was sought from the PRA in respect of the loan arrangements qualifying as Tier 2 debt, and this was received on 19 November 2019. On 15 November 2019, the PRA approved the change in control of Equitable Life to Utmost Life and Pensions on completion of the transaction.

On 1 January 2020, Equitable Life transferred circa. £6.3bn of funds under management to the Group, with £79m assets being retained within Equitable Life for the circa. 3,000 German and Irish policyholders, with Utmost as sole Member, and all employees of Equitable Life were transferred to Utmost Services, under Transfer of Undertaking (Protection of Employment) regulations (TUPE).

The Group's vision and mission statement clarify the growth strategy:

Vision – "To become a successful UK life and pension consolidator."

Mission Statement – "To improve customer and shareholder outcomes by looking after the interests of all our customers, new and longstanding."

To achieve the strategy, it is recognised that a steady stream of acquisitions will be needed to substantially increase funds under management to the target position. With such acquisitions, it is acknowledged that the Group will minimise the challenges around the management of a closed book, where the policy base is in decline and diseconomies of scale bite as the proportion of fixed costs to total costs increases.

However, challenges like this also present opportunities for the Group, given the material number of UK life and pension companies currently pursuing a run-off strategy, and typically looking for third parties who, via business transfers and other mechanisms, can provide a solution to their needs.

The Group's vision is to become a successful medium-sized UK life and pension consolidator, and its mission statement is to improve customer and shareholder outcomes by looking after the interests of all our customers; both new from acquisitions and longstanding.

In conjunction with the Utmost Group of Companies, the Group will continue to look for further acquisitions. We believe that there are opportunities as Life and Pensions companies in the UK consider their future operating models, and we have the ability to provide a variety of solutions to meet these needs. The Group continues to actively evaluate further acquisition opportunities.

Re-branding Activity

During the first quarter of 2019, the Utmost Group reviewed its brand to consider how to better support the Group's strategy going forward. As a result, in March 2019 the Group rebranded and launched its new website (utmost.co.uk).

As part of this process Life Company Consolidation Group ('LCCG'), of which the Group is a part, was also re-branded as the Utmost Group of Companies, with Utmost Life and Pensions, Utmost Wealth Solutions and Utmost Corporate Solutions all included under this umbrella. Utmost Wealth Solutions and Utmost Corporate Solutions are not part of the UUG Group.

The new brand is designed to support the strategy and how both customers and other key stakeholders view the Group as it moves forward.

Product development and marketing

As the Group grows it will continue to invest in enhancing its product offering. Resources were focused in 2019 on this area, with a view to launching a Flexible Drawdown Product early in 2020. At launch, this product will only be available to the current customers of Utmost Life and Pensions.

Investment management changes

To support the continuing growth of the Group, an investment manager selection process was undertaken during the latter part of 2018 to select a manager for the combined Group / Equitable Life unit-linked business going forwards. On 27 March 2019, J.P. Morgan Asset Management was formally approved by the Board as the new investment manager. Utmost Life and Pensions migrated the unit-linked funds of Utmost Life and Pensions to J.P. Morgan during the fourth quarter of 2019, retaining Schroder's for the unit-linked property funds.

During 2019, J.P. Morgan also worked with Utmost Life and Pensions and Equitable Life to develop a suitable unit-linked proposition in preparation for policyholders converting from with-profits to unit-linked in January 2020. Goldman Sachs Asset Management have been retained as manager for the non-linked business.

Business performance

Since the transfer of business from Reliance Mutual Insurance Society (RTW) Ltd ("RMIS") the Group has focused on the efficient management of the business with a specific focus on the management of the investment portfolio backing the annuity liabilities and on delivering service to customers in a cost-effective manner. During 2019, the Group restructured the assets in the investment portfolio backing the annuity liabilities to reduce the capital requirements arising from credit risk, leading to an increase in the Surplus over the Solvency Capital Requirement ("SCR") of £7.1m.

Operating profit and loss

The operating Profit and Loss for the year reflects an improvement from a post-tax profit of £4.8m in 2018 to £5.4m in 2019. The key drivers of this net change of £0.6m were, as follows:

- An increase in investment returns driven by positive stock market returns;
- Partly offset by increases in Technical Provisions and reinsurance reserves driven by change in assumptions; and
- A small increase in expenses driven by costs relating to the acquisition of Equitable Life.

Capital position

The Group maintained capital sufficient to meet the SCR throughout the year. As at 31 December 2019, the Group had a Solvency Coverage Ratio of 471%; being the percentage value of its eligible Own Funds compared to the SCR of £53.8m, (see section D). The ratio had increased, driven by capital held in readiness for the acquisition of Equitable Life on the 1 January 2020. On the 1 January post acquisition, the ratio was estimated to be approximately 180%.

- **Matching Adjustment**

The Group has two Matching Adjustment ("MA") portfolios that back some of the annuity business and Funeral Plan policies. The MA enables the Group to benefit from a higher discount rate that reduces the value of the liabilities. The Group Solvency Coverage Ratio is 471% (2018: 179%) which includes the benefit of the MA. Without the MA, the Solvency Coverage Ratio would be 282%. (2018: 128%)

- **Transitional Measures**

The Group does not apply the transitional risk-free interest rate term structure. The Group applied a Transitional Measure on the Technical Provisions ("TMTP") as at 31 December 2019, which increased Own Funds by £31.2m. (2018: £33.6m) the Group Solvency Coverage Ratio of 471% (2018: 179%) reflects the TMTP. Without the TMTP, the Solvency Coverage Ratio would have been 413% (2018: 128%). On 1 January 2020, post the acquisition of Equitable Life, the benefit of the TMTP was removed.

The table on the following page sets out the capital requirements over the reporting period allowing for the eligibility restrictions.

SII Pillar 1 Solvency (£'m)	Utmost Life and Pensions		Group	
	2019	**2018**	**2019**	**2018**
Eligible Own Funds	**251.3**	**115.0**	**253.7**	**115.5**
Solvency Capital Requirement (SCR)	*53.8*	*64.6*	*53.8*	*64.6*
Minimum Capital Requirement (MCR)	*20.3*	*21.1*	*20.3*	*21.1*
Required Capital (higher of SCR and MCR)	**53.8**	**64.6**	**53.8**	**64.6**
Excess Available Capital (after capital support)	**197.5**	**50.4**	**199.9**	**50.9**
Solvency Coverage ratio	**467.3%**	**178%**	**471.3%**	**179%**

Strategic risk

Whilst the Group's strategy is to acquire businesses, the Group has also considered the implications of the strategy not succeeding. If this were the case, then the Group would look at other ways of driving down unit costs. This would include outsourcing, transferring the business to other interested parties or looking for other expense reductions. The expense provision within the reserves has taken due regard to all of these other factors.

Other Key Risks

The Group operates within a dynamic business environment which is continually influenced by the external environment including economic, political and industrial, competitive, demographic, health / lifestyle, legal and regulatory factors.

In operating in this environment, the Group is exposed to risks. Part of the Group's success is dependent on managing these risks appropriately. The four key risks that the Group faces are underwriting risk, market risk, credit risk and operational risk.

The Group continues to monitor the impact of the COVID-19 outbreak and its impact on the Group and remains focused on supporting its customers and staff. The Group entered 2020 with a strong Balance Sheet and with a Solvency II coverage ratio of approximately 180% as outlined above. As at the date of approving the SFCR, whilst this Solvency ratio has fallen, mainly as a result of lower interest rates, it is still comfortably well above required capital levels and we remain in a strong and resilient position and able to meet our capital requirements.

Customers

In line with our mission statement, customer interests, from both existing and acquired businesses, are at the forefront of the Group's business model.

The Group's strategy is to consolidate books of business, which inherently implies servicing long-standing customers with a focus on meeting customer needs, delivering on the commitments to customers and providing or taking opportunities to enhance returns to customers where possible as well as sound financial management.

A key objective for the Group is to achieve good customer outcomes and capital strength, which provides security of customer benefits.

Risk and governance framework

The Group utilises a 'three lines of defence' model for the management of its risks. This model is operated through the Board, its Committees, and management committees within Utmost Life and Pensions.

A key element of the Group's system of governance is its 'three lines of defence' model, ensuring risk management is the responsibility of all individuals within the Group, with management as 'first line', key control functions as 'second line' and internal audit as the 'third line' of defence. Though, this model is operated through the Board, its Committees, and management committees within the Group, the main risk management is delegated to the Board of Utmost Life and Pensions.

The Group's Enterprise Risk Management Framework ("ERM") provides the framework for the management of these risks, and supports attainment of the Group's strategic objectives. The ERM is designed to support the identification of all material risks, including medium- and long-term risks. The ERM Framework further sets out the Group's overall strategy towards and appetite for risk, the risk governance and management processes, and the Group's approach to risk classification, monitoring and analysis.

As part of ERM Framework mechanisms, risks are quantified and are subject to stress test and scenarios analysis. Non-quantifiable risks are fully covered within the framework and are monitored and managed through the Group's risk reporting and risk governance structures.

The four principal risks to the business are detailed in the table below.

Underwriting risk	Primarily in the form of longevity, expense and persistency risks and the take-up of guaranteed options.
Market risk	Primarily in the form of interest rate and equity risk.
Credit risk	Primarily from spread risk on corporate bonds
Operational risk	The Group has identified 10 operational risk categories: business operations; financial/actuarial; legal/ regulatory; outsourcing/investment; governance; people; IT; cyber security; financial crime; and external.

The Group's Systems of Governance and risk profile are set out in sections B and C of this report.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Directors' Statement

Approval by the Board of Directors of the Solvency and Financial Condition Report for the year ending 31 December 2019

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:

    - Throughout the financial year in question, UUG Holdings (No 1) Ltd has complied in all material respects with the requirements of the PRA rules and Solvency II Regulations as applicable; and

    - It is reasonable to believe that, at the date of the publication of the SFCR, UUG Holdings (No 1) Ltd has continued so to comply, and will continue so to comply in future.

On behalf of the Board of UUG Holdings (No 1) Ltd

By order of the Board

Ian Maidens
Group Financial Officer
14 May 2020

SOLVENCY AND FINANCIAL CONDITION REPORT 2019

A. BUSINESS AND PERFORMANCE

A.1 Business

UUG Holdings (No 1) Ltd ("UUG") is part of the Utmost Group of Companies, a specialist life insurance business founded in 2013, with the aim of acquiring and managing life insurance business across the UK and Europe with c£36bin assets under administration and more than 600,000 customers. The Group's largest subsidiary is Utmost Life and Pensions, a wholly-owned subsidiary of Utmost Life and Pension Holdings Limited ("Utmost Holdings", "ULPHL") whose other subsidiaries include Utmost Life and Pensions Services Limited ("Utmost Services"). Utmost Services employs all staff for the Utmost Holdings Group of companies.

The principal activity of the Group, through its main operating entity Utmost Life and Pensions, is the provision of life and pensions policies by pursuing its strategy of acquiring and consolidating businesses in the UK to deliver a safe home for its customers through our strong capital position and efficient operational management. The ultimate parent company of UUG Holdings (No 1) Ltd, is OCM LCCG Holdings Limited: a company incorporated in the Cayman Islands.

A.1.1 Legal form

The ultimate EEA parent company of the Group as at 31 December 2019 (pre Brexit) registered in the UK is UUG Holdings (No 1) Ltd (Registration No. 11163964). It is a company limited by shares incorporated in England and Wales and its registered office address is Saddlers' House, 5th Floor 44 Gutter Lane, London, England EC2V 6BR. The ultimate controlling party of the Group is Oaktree Capital Group LLC, a company incorporated in the USA.

The Group's material subsidiary Utmost Life and Pensions is a limited liability company incorporated in January 2017 and domiciled in England and Wales (Registration No.10559664), and its registered office address is Utmost House, 6 Vale Avenue, Tunbridge Wells, Kent, TN1 1RG. Utmost Life and Pensions is regulated by both the Financial Conduct Authority ("FCA") and PRA, and authorised by the PRA.

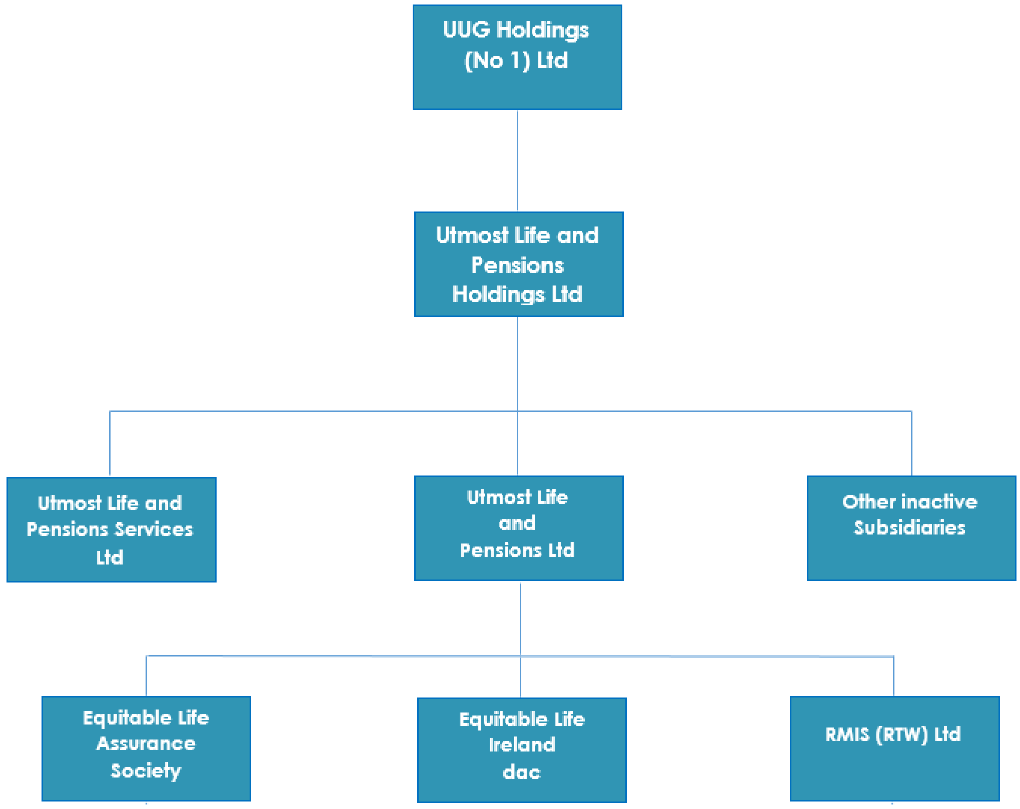
A.1.2 Supervisory authorities and external Auditors

Supervisory Authority	External Auditors
Prudential Regulation Authority Bank of England 20 Moorgate London EC2R 8AH	PricewaterhouseCoopers LLP 7 More London Riverside London SE1 2RT
Financial Conduct Authority 12 Endeavour Square London E20 1JN	

A.1.3 Group structure

Following a Group reorganisation on 22 March 2018 the structure below sets out the principal companies with a material relationship within the Group. UUG the parent company of the Group, an insurance holding company is domiciled in the UK and is the parent company of Utmost Holdings which in turn is the parent company of Utmost Life and Pensions and ULPS and other minor subsidiaries. Utmost Life and Pensions is the parent company of RMIS (RTW) Limited ('RMIS'), formerly Reliance Mutual Insurance Society Limited which, following the transfer of business to Utmost Life and Pensions on 1 April 2018, does not undertake trading activities. On 1 January 2020 the Equitable Life became a subsidiary of Utmost Life and Pensions following a Part VII transfer.

The new structure as at 1 January 2020, post Equitable Life acquistion was as follows:



The ultimate parent company which maintains a majority controlling interest in the Company is recognised by the Directors as OCM LCCG Holdings Limited: a Cayman Islands incorporated entity. OCM LCCG Holdings Limited is an investment vehicle owned by funds which are managed and advised by Oaktree Capital Management, L.P, a subsidiary of the ultimate controlling party, Oaktree Capital Group LLC.

As the company doesn't prepare consolidated financial statements, the smallest Group for which consolidated financial statements are publicly available is Utmost UK Group Holdings Ltd (UUGH), available at www.utmostgroup.co.uk.

Details of all of the Group's subsidiaries as at 31 December 2019 are as follows:

Group Legal Entity	Nature of Business	Country of Incorporation	Address	Registered Number
Utmost Life and Pensions Holdings Limited	Insurance holding company	GB	Utmost House, 6 Vale Avenue, Tunbridge Wells, TN1 1RG	10556487
Utmost Life and Pensions Limited	Long term insurance	GB	Utmost House, 6 Vale Avenue, Tunbridge Wells, TN1 1RG	10559664
Utmost Life and Pensions Services Limited	Service company	GB	Utmost House, 6 Vale Avenue, Tunbridge Wells, TN1 1RG	10559966
RMIS (RTW) Limited	Member settlements	GB	Utmost House, 6 Vale Avenue, Tunbridge Wells, TN1 1RG	00491580

Reliance Unit Managers Limited	Unit Trust management	GB	Utmost House, 6 Vale Avenue, Tunbridge Wells, TN1 1RG	00724451
Reliance Pension Scheme Trustee Limited	Pension Trustee	GB	Utmost House, 6 Vale Avenue, Tunbridge Wells, TN1 1RG	01721946
Reliance Administration Services Limited	Administration	GB	Utmost House, 6 Vale Avenue, Tunbridge Wells, TN1 1RG	03710407
F S Management Limited	Administration	GB	Utmost House, 6 Vale Avenue, Tunbridge Wells, TN1 1RG	02944179
RL DormantCo Limited	Dormant	GB	Utmost House, 6 Vale Avenue, Tunbridge Wells, TN1 1RG	10644049

From 1 January 2020, the Group also includes:

Equitable Life Assurance Society	Long term insurance	GB	Walton Street, Aylesbury, Bucks, HP21 7QW	00037038
Equitable Life Ireland DAC	Life Assurance	IE	25-28 North Wall Quay, Dublin 1, D01 H104	632405

A.1.4 Lines of business

The vast majority of the Group's in-force business has been written in the UK, within Utmost Life and Pensions.

Utmost Life and Pensions is sub-divided into a number of distinct sub-funds, which are: the Non-Profit Fund ("NPF"), which includes shareholder funds and the unit-linked business; and four separate With-Profits Sub-Funds ("WPSFs") (WPSF1, 2, 4 and 6), primarily with-profits business. The NPF contains two MA portfolios of assets used to back immediate annuities and funeral plans.

The Group has no external new business, and the only new business written is annuities sold to existing policyholders on the vesting of their pension savings contracts (including contracts with GAOs).

The following table summarises the Group's material lines of business as at 31 December 2019.

Line of Business	Contract Type	Product(s)	% of Technical Provisions
Unit-Linked and Index-Linked Insurance	Unit-Linked	Life and Pensions Savings	42%
Other Life Insurance	Non-Linked	Annuities	35%
Other Life Insurance	Non-Linked	Funeral Plan	5%
Other Life Insurance	Non-Linked	Term and Endowment Assurances	8%
Insurance with profit participation	Conventional With-Profits	Endowment Assurances, Annuities and other	10%

The Group also has small amounts of in-force unitised with-profits business, unit-linked annuities, non-linked deferred annuities, and health insurance business.

A.1.5 Significant events

A.1.5.1 Delivering the strategy

Throughout 2019, the Group actively executed its strategy, primarily by focusing upon the completion of the Equitable Life acquisition and creating the infrastructure required for a successful integration.

In preparation for the Equitable Life transfer, on 16 December 2019, Utmost Life and Pensions issued an additional £112.6m of ordinary share capital to ULPHL, increasing total issued share capital from £30m to £142.6m. On the same date, Utmost Life and Pensions repaid its £35m Tier 2 loan facility from ULPHL, via the parent hierarchy of Utmost Holdings and UUG Holdings (No 1) Ltd and the new Tier 2 debt of £60m was drawn down. The new loan, which matures on 9 December 2030, qualifies as Tier 2 capital under Solvency II reporting guidelines.

Approval was sought from the PRA in respect of the loan arrangement in Utmost Life and Pensions qualifying as Tier 2 debt, and this was received on 19 November 2019. On 15 November 2019, the PRA approved the change in control of Equitable Life to Utmost Life and Pensions on completion of the transaction.

On 1 January 2020, Equitable Life transferred circa. £6.3bn of funds under management to the Group, with £79m assets being retained within Equitable Life for the circa. 3,000 German and Irish policyholders, with Utmost as sole Member, and all employees of Equitable Life were transferred to Utmost Services, under Transfer of Undertaking (Protection of Employment) regulations (TUPE).

The Group's vision and mission statement clarify the growth strategy:

Vision – "To become a successful UK life and pension consolidator."

Mission Statement – "To improve customer and shareholder outcomes by looking after the interests of all our customers, new and longstanding."

To achieve the strategy, it was recognised that a steady stream of acquisitions would be needed to increase funds under management to the target position. Without such acquisitions, it is acknowledged that the Group will have to address the challenges around the management of a closed book where the policy base is in decline and diseconomies of scale will bite as the proportion of fixed costs to total costs increases.

However, challenges like this also present opportunities for the Group, given the material number of UK life and pension companies currently pursuing a run-off strategy, and typically looking for third parties who, via business transfers and other mechanisms, can provide a solution to their needs. Indeed, on 15 June 2018, the Group announced that it had signed an agreement with Equitable Life under which it was proposed that Equitable Life and its business would transfer to Utmost Life and Pensions. The majority of these customers are based in the UK, but a small number of unit-linked and with-profits customers, sold under German and Irish law, are based in Ireland and Germany. This German and Irish business is being retained in Equitable Life, and Equitable Life became a subsidiary of Utmost Life and Pensions on 1 January 2020.

In preparation for the acquisition, Equitable Life undertook a Scheme of Arrangement in accordance with Part 26 of the Companies Act 2006 ("the Scheme"). For the Scheme to be effective, eligible with-profits policyholders were required to vote in favour of the Scheme. Voting took place at a policyholder meeting and EGM on 1 November 2019, and the results were overwhelmingly in favour of the proposed changes.

The High Court considered the Scheme and Transfer at two hearings:

- A Convening/Directions hearing to determine legal matters, including confirmation that with-profits policyholders were able to vote as a single class; and
- A Sanctions hearing that approved the Scheme and Part VII Transfer.

The Scheme was sanctioned by the UK Court on 4 December 2019 with an effective date of 1January 2020, at which point eligible with-profits policies were converted to unit-linked policies with no investment guarantees.

The proposal subsequently transferred all policies (other than those covered by German and Irish law) to the Group by a Part VII Transfer under the Financial Services and Markets Act 2000 ("the Transfer") to Utmost Life and Pensions. On 1 January 2020, Utmost Life and Pensions became the sole Member of Equitable Life.

In conjunction with the Utmost Group of Companies, the Group will continue to look for further acquisitions. It believes that there are opportunities as Life and Pensions companies in the UK consider their future operating models and has the ability to provide a variety of solutions to meet these needs. The Group continues to actively evaluate further acquisition opportunities.

Throughout 2019, the Group actively executed its strategy, primarily by focusing upon the completion of the Equitable Life acquisition and creating the infrastructure required for a successful integration.

A.1.5.2 Rebranding activity

During the first quarter of 2019, the Utmost Group reviewed its brand to consider how to better support the Group's strategy going forward. As a result, in March 2019 the Group rebranded and launched its new website (utmost.co.uk).

As part of this process Life Company Consolidation Group ('LCCG') of which the Group is part also re-branded as the Utmost Group of Companies, with Utmost Life and Pensions, Utmost Wealth Solutions and Utmost Corporate Solutions all included under this umbrella. The new brand is designed to support the strategy and how both customers and other key stakeholders view the Group as it moves forward.

The new brand identity is also seen as a key piece in the retention programme for the Equitable Life policyholders, and improving their awareness and understanding of Utmost Life and Pensions as they receive further details on the proposed transfer during 2019.

The Company formally changed its name from LCCG UK (RL) Limited to UUG Holdings (No 1) Ltd with effect from 30 January 2019.

A.1.5.3 Product development and marketing

As the Utmost Life and Pensions grows it will continue to invest in enhancing its product offering. Resources were focused in 2019 on this area, with a view to launching a Flexible Drawdown Product early in 2020. At launch, this product will only be available to the current customers of Utmost Life and Pensions.

A.1.5.4 Investment management changes

To support the continuing growth of the Group, an investment manager selection process was undertaken during the latter part of 2018 to select a manager for the combined Utmost Life and Pensions/Equitable Life unit-linked business going forwards. On 27 March 2019, J.P. Morgan Asset Management was formally approved by the Board as the new investment manager. Utmost Life and Pensions migrated the unit-linked funds of Utmost Life and Pensions to J.P. Morgan during the fourth quarter of 2019, retaining Schroder's for the unit-linked property funds. During 2019, J.P. Morgan also worked with Utmost Life and Pensions and Equitable Life to develop a suitable unit-linked proposition in preparation for policyholders converting from with profits to unit-linked in January 2020. Goldman Sachs Asset Management have been retained as manager for the non-linked business.

A.1.6 Business and Performance

The Company prepares its Annual Report and Financial Statements on an IFRS basis but does not prepare consolidated Group accounts. All of its subsidiaries prepare accounts in accordance with FRS 102 and FRS 103 (UK GAAP) and therefore the consolidated accounts use that as the basis for this report. For the purposes of this document, financial performance is presented on a Solvency II basis; the changes for which are detailed and explained within this report.

The three most significant differences between the Solvency II reporting and UK GAAP statutory basis are as follows :

- Actuarial liabilities are calculated on a best estimate basis for Solvency II and a prudent basis for UK GAAP;
- Intangible assets including goodwill and the present value of acquired in-force business have been excluded from the asset values for Solvency II reporting; and
- Tier 2 debt capital is treated as a liability for UK GAAP reporting.

The Group's Solvency Coverage Ratio at 31 December 2019 was 471%, (2018: 179%), which was successfully ahead of the Board's stated risk appetite of 135%. (2018: 135%). The table below shows both the Group solvency position of 471% at 31 December 2019, (2018: 179%), as well as the solvency position of Utmost Life and Pensions: 467%. Fundamentally, there are minimal own funds and risks outside of Utmost Life and Pensions, in the calculation of the Group solvency.

SII Pillar 1 Solvency (£'m)	Utmost Life and Pensions		Group	
	2019	2018	2019	2018
Eligible Own Funds	**251.4**	**115.0**	**253.7**	**115.5**
Solvency Capital Requirement (SCR)	*53.8*	*64.6*	*53.8*	*64.6*
Minimum Capital Requirement (MCR)	*20.4*	*21.1*	*20.3*	*21.1*
Required Capital (higher of SCR and MCR)	**53.8**	**64.6**	**53.8**	**64.6**
Excess Available Capital (after capital support)	**197.6**	**50.4**	**199.9**	**50.9**
Solvency Coverage ratio	**467%**	**178%**	**471%**	**179%**

A.2 Underwriting Performance

Due to the nature of the Group's unit-linked, annuities and with-profits business, an analysis of underwriting performance does not provide meaningful information without netting off the investment performance and, for this reason, it is not the way in which the Group manages the business. Financial performance focuses on the movement in the Group's economic value and solvency ratio.

The Group, through Utmost Life and Pensions wrote £7.4m (2018: £7.5m) of new business in respect of annuities sold to existing policyholders on the vesting of their pension savings contracts (including contracts with GAOs). The Group has no other new business.

A.3 Investment Performance

Net return on investments includes investment return to both policyholders and shareholders.

Investment return comprises investment income, including realised investment gains and losses and movements in unrealised gains and losses on investments designated as fair value through profit or loss, net of investment expenses and charges.

Interest income is recognised as it accrues, taking into account the effective yield on investments.

Dividends are included as investment income on the date when the right to receive has been established.

Unrealised gains and losses on investments represent the difference between the valuation at the date of the Statement of financial position and their purchase price or, if they have been previously valued, their valuation at the date of the last Statement of financial position. The movement in unrealised gains and losses recognised in the year also includes the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period. Upon disposal or impairment, accumulated unrealised gains and losses are transferred from other comprehensive income to the income statement as realised gains or losses.

The Group's asset portfolio is invested to generate competitive investment returns whilst remaining within the Group's appetite for market and credit risk.

An analysis of the net investment return by asset class is presented in the table below.

Year End 2019:

	Debt Securities	Equity securities	Other Financial Investments	Total
	£m	£m	£m	£m
Dividends	-	-	12.8	12.8
Interest	29.1	-	-	29.1
Net realised (losses) / gains	(0.7)	-	46.4	45.7
Net unrealised (losses)	45.9	(0.1)	27.8	73.6
	74.3	(0.1)	87.0	161.2

Year End 2018:

	Debt Securities	Equity securities	Other Financial Investments	Total
	£m	£m	£m	£m
Dividends	-	0.2	9.0	9.2
Interest	23.8	-	0.7	24.5
Net realised (losses) / gains	12.5	(0.1)	6.6	19.0
Net unrealised (losses)	(35.0)	(0.2)	(33.7)	(68.9)
	1.3	(0.1)	(17.4)	(16.2)

The realised gains and unrealised losses are in respect of the portfolio of corporate and government bonds. At 31 December 2019, the Group had no material securitised investments.

A.4 Performance of Other Activities

There is no performance of other activities not already covered elsewhere in this report, within the Group.

A.5 Any Other Material Activities

There are external factors which impact the key risks of the Group.

There remains uncertainty around the terms under which the UK will leave the European Union ("EU"). Although Brexit is not expected to have a significant impact on the Group's operational activity, this uncertainty leads to lack of clarity on how the EU and UK will interact in the future and the impact on financial services. It also leads to volatility in financial markets, which can increase certain risks. The Group has in place controls to minimise the impact of any volatility.

The Group continues to monitor the progress made on the terms under which the UK will trade with the EU from the end of 2020. The Group believes that it has adequate mitigating controls and procedures in place to address these risk areas.

It is likely to impact the German and Irish business that remains in Equitable Life, our subsidiary from 1st January 2020 and this may require further review in 2020. A Part VII transfer of the German and Irish business to a regulated Irish subsidiary company may be required in the future to enable the Group to provide continuous service to German and Irish policyholders. The outbreak of COVID-19 is having a significant impact in the UK. We have sought to ensure the safety of our staff and so, in line with Government advice, the majority of our staff are now set up and are working from home. The COVID-19 outbreak has also caused a high degree of volatility in the financial markets.

The Group considers the COVID-19 outbreak to be a non-adjusting post balance sheet event. The Group continues to monitor the market movements and remains focused on supporting its customers and staff. Given the inherent uncertainties, it is not practicable to determine the impact of COVID-19 on the Group's future financial performance. However, as a closed book life company consolidator, we are not reliant on new business for generating the majority of our earnings. As a result of the Part VII transfer from Equitable Life, Utmost Life and Pensions has a reassurance agreement with a large UK regulated insurance counterparty and this is the Group's largest exposure to downgrades. The COVID-19 outbreak has not caused any interruption to the operation of this reinsurance and we continue to monitor the financial strength of all our reinsurers. The Group entered 2020 with a strong Balance Sheet and with a Solvency II coverage ratio of approximately 180% as outlined above. As at the date of approving the SFCR, whilst this Solvency ratio has fallen, mainly as a result of lower interest rates, it is still comfortably well above required capital levels and we remain in a strong and resilient position and able to meet our capital requirements.

B. SYSTEM OF GOVERNANCE

B.1 General Information

In the year ended 31 December 2019, the Group's System of Governance (SoG) comprises of the Group Board, subsidiary boards and delegated sub-committees.

The Board is responsible for promoting the long-term success of the Group for the benefit of shareholders. The UUG Board of directors comprises:

- Paul Thompson
- Ian Maidens
- Henry Smith (resigned 20/3/20)
- Christopher Boehringer

The Board delegates responsibility to subsidiary boards in order to achieve this, and to ensure consistency of governance principles across the Group.

- The SoG for the holding company ULPH mirrors the SoG applied by the major insurance subsidiary Utmost Life and Pensions, with matters delegated to the subsidiary Boards as appropriate; and
- The SoG for the other minor subsidiary undertakings has its own Board of directors and management committees, in accordance with the applicable regulations

The governance structure of the major insurance subsidiary Utmost Life and Pensions, where, as at 31 December 2019 over 98% of the business is conducted from, is noted below:

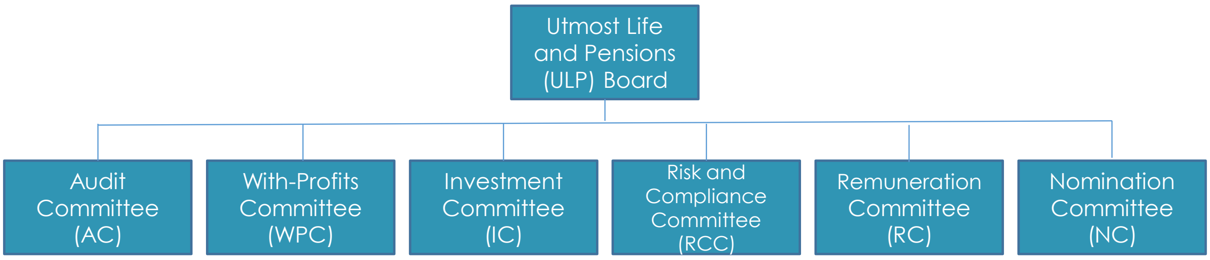
Throughout 2019, the Board of Utmost Life and Pensions consisted of at least seven non-executive Directors (with all but two being independent, including the Chairman and the Senior Independent Director) and two Executive Directors.

The Utmost Life and Pensions Board's role is to:

- Have collective responsibility for the long-term sustainable success of the business;
- Provide entrepreneurial leadership of Utmost Life and Pensions within a framework of prudent and effective controls which enables risk to be assessed and managed;
- Maintain a sustainable business model and a clear strategy consistent with that model;
- Ensure that the assets of Utmost Life and Pensions are safeguarded;
- Articulate and oversee a clear and measurable statement of risk appetite against which major business options are actively assessed;
- Meet its regulatory obligations, be open with the Regulators and set a culture that supports prudent management;
- Set Utmost Life and Pensions' values and standards and ensure that its obligations to its shareholder and others, particularly the obligation to treat customers fairly, are understood and met;
- Maintain a high standard of corporate governance proportionate to the size of Utmost Life and Pensions;
- Ensure that the necessary resources are in place for Utmost Life and Pensions to meet its objectives; and
- Review management performance.

The Board of Utmost Life and Pensions has authority to delegate certain responsibilities to Board sub-committees and executives and senior managers within Utmost Life and Pensions. However, the Board always remains accountable and cannot delegate this ultimate accountability.

Utmost Life and Pensions' Approved Person and Key Function Policy also governs the delegations, to ensure that individuals and committees have relevant qualifications, experience and knowledge to complete the task. The structure of the delegated responsibilities to all Board sub-committees is shown below.



Audit Committee

The Audit Committee is a sub-committee of Utmost Life and Pensions' Board and has been delegated responsibility for monitoring the integrity of Utmost Life and Pensions' Financial Statements and the adequacy and effectiveness of internal controls and the risk management system. This includes responsibility for the review of disclosures to the supervisory authority, including the SFCR, in addition to its UK GAAP statutory financial reporting and accounts disclosures.

The Members of the Committee are appointed by the Board of Utmost Life and Pensions, following consultation with the Committee Chairman. The Committee will be composed of at least three members at all times, and must be composed only of non-executive Directors. At least one member of the Committee must have competence in accounting and/or auditing, and the remaining members should at a minimum have experience of dealing with financial and accounting matters.

The Committee Chairman shall be appointed by the Board, and shall be an Independent non-executive Director. In the absence of the Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting. The Chairman of each meeting shall be an independent non-executive Director.

Utmost Life and Pensions' Chief Executive, the Chief Financial Officer and the Chief Actuary shall be invited to attend meetings of the Committee. In addition to appointed members, the Chairman may invite other persons to attend all or part of any meeting.

Furthermore, Internal and External Audit shall have direct access to the Committee as appropriate.

The Committee shall meet at least four times a year, normally quarterly, and at such other times as the Chairman considers necessary or appropriate. In addition, ad hoc meetings shall be held whenever it is necessary to discuss any significant or critical aspects concerning Utmost Life and Pensions' financial control affairs and/or related matters.

Risk and Compliance Committee

The Risk and Compliance Committee is a sub-committee of Utmost Life and Pensions' Board and has been delegated responsibility for assisting the Board in its oversight of the risk management and compliance culture and ensuring compliance of the undertaking with all legal and administrative requirements. It also has delegated authority for:

- Overseeing the regulatory capital position;
- Advising the Board on Utmost Life and Pensions' risk appetite and risk, control and compliance exposure;
- Setting and monitoring Utmost Life and Pensions' risk management and compliance policies; and
- Ensuring the effectiveness of its Own Risk Solvency Assessment ("ORSA").

The Committee also aligns with the Remuneration Committee to embed a risk-based company-wide Remuneration Policy for Utmost Life and Pensions.

The members of the Committee shall be appointed by the Board following consultation with the Committee Chairman. The Committee will be composed of at least three members at all times.

The Committee Chairman shall be appointed by the Board of Utmost Life and Pensions, and shall be an independent non-executive Director. In the absence of the Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting. The Chairman of each meeting shall be an independent non-executive Director.

Utmost Life and Pensions' Chief Executive, the Chief Risk Officer, the Chief Financial Officer and the Chief Actuary shall be invited to attend meetings of the Committee. In addition to appointed members, the Chairman may invite other persons to attend all or part of any meeting.

Furthermore, the Chief Risk Officer shall have direct access to the Committee as appropriate.

The Committee shall meet at least four times a year, normally quarterly and at such other times as the Chairman considers necessary or appropriate. In addition, ad hoc meetings shall be held whenever it is necessary to discuss any significant or critical aspects concerning Utmost Life and Pensions' risk and compliance affairs and/or related matters.

With-Profits Committee

The With-Profits Committee is a sub-committee of Utmost Life and Pensions' Board and has delegated responsibility to act in an advisory capacity to inform decision making by the Board in relation to the management of Utmost Life and Pensions' With-Profits Sub-Funds ("WPSFs"), including the way in which each of the WPSFs is managed by Utmost Life and Pensions, including adherence to the Principles and Practices of Financial Management ("PPFM") and the future distribution of surplus in the WPSFs paying close regard to policyholders' reasonable expectations and in keeping with Treating Customers Fairly principles.

The Committee considers relevant matters affecting policyholders generally and matters which affect sub-groups of policyholders rather than individual cases.

For two years after the 1 April 2018 Reliance Mutual scheme, the Committee also has the additional responsibilities of supporting the implementation of the scheme and adherence to the PPFM and the Distribution plan because these documents apply to all of the policyholders of the transferred policies of RMIS.

The Committee Chairman and other members of the Committee are appointed by the Board of Utmost Life and Pensions in consultation with the Chairman. The majority of the members of the Committee are independent of Utmost Life and Pensions and its Group of companies.

During the first two years after the 1 April Reliance Mutual scheme, the With-Profits Committee consisted of no more than six members; three of whom are former RMIS Directors or RMIS nominees who cannot be removed during the two-year period other than for gross misconduct or if the Regulators indicate to Utmost Life and Pensions in writing that such a member is not suitable to remain a member of the With-Profits Committee. The Chairman during this period is selected from one of these former RMIS Directors or RMIS nominees, and is entitled to a casting vote in addition to any other vote he/she may have. Changes are due to be made in the composition of the Committee once the two-year period has been completed.

At least one member of the With-Profits Committee has recent and relevant financial experience and, preferably, holds a professional qualification from a professional actuarial body.

The Chairman of the Board of Utmost Life and Pensions is not a member of the With-Profits Committee.

Only members of the With-Profits Committee have the right to attend With-Profits Committee meetings. However, other Directors and other individuals (including representatives of external advisers) may be invited to attend all or part of any meeting as and when appropriate in the opinion of the With-Profits Committee's Chairman or the majority of its members.

The Committee meets at least four times a year at appropriate intervals in the financial reporting and with profits cycle, and otherwise as required.

Investment Committee

The Investment Committee is a sub-committee of Utmost Life and Pensions' Board and has been delegated responsibility for recommending the overall strategic investment policy for the Board's consideration, and oversight and control of Utmost Life and Pensions' investment activities.

The Investment Committee shall seek to ensure that investment activities carried out are consistent with the Investment Policy as adopted by the Board of Utmost Life and Pensions, and Investment Guidelines issued pursuant to seeking the achievement of the objectives of the Investment Policy as issued from time to time. It exercises control over the execution of the Board's strategic decisions and the sound and efficient management of investment-related matters.

The members of the Committee shall be appointed by the Board of Utmost Life and Pensions following consultation with the Committee Chairman. The Committee will be composed of at least three members at all times.

The Chairman shall be appointed by the Board by Utmost Life and Pensions, but shall be an independent non-executive Director. In the absence of the Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting. The Chairman of each meeting shall be an independent non-executive Director.

Utmost Life and Pensions' Chief Executive, the Chief Financial Officer, the Chief Actuary, the With-Profits Actuary, the Chief Risk Officer and the Investment Oversight Manager shall be invited to attend meetings of the Committee. In addition to appointed members, the Chairman may invite other persons to attend all or part of any meeting.

Furthermore, the Chief Financial Officer, the Chief Risk Officer and the Investment Oversight Manager shall have direct access to the Committee as appropriate.

The Committee shall meet at least quarterly and at such other times as the Chairman considers necessary or appropriate. In addition, ad hoc meetings shall be held whenever it is necessary to discuss any significant or critical aspects concerning Utmost Life and Pensions' investment affairs and/or related matters.

Remuneration Committee

The Remuneration Committee is a sub-committee of Utmost Life and Pensions' Board and has been delegated responsibility for overseeing the Remuneration Policy, particularly for all executive Directors and Utmost Life and Pensions' Chairman. The Board itself should determine the remuneration of the non-executive Directors within the limits set in the Board's Terms of Reference and those matters reserved for Group Utmost Life and Pensions' Boards.

No Director shall be involved in any decisions as to their own remuneration.

The members of the Committee shall be appointed by the Board following consultation with the Committee Chairman. The Committee will be composed of at least three members at all times. The Committee must be composed only of non-executive Directors.

The Chairman shall be appointed by the Board, but shall be an independent non-executive Director. In the absence of the Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting. The Chairman of each meeting shall be an independent non-executive Director. The Chairman of the Board shall not be Chairman of the Committee.

In addition to appointed members, the Chairman may invite other persons to attend all or part of any meeting.

The membership and chairmanship of the Committee will be reviewed each year by the Board of Utmost Life and Pensions in consultation with the Chairman to ensure that an appropriate balance is maintained between experience and independence. Changes as required will be recommended to the Board thereafter. The appointment of members to the Committee shall be for a period of up to three years, extendable up to two further periods of three years.

The Committee shall meet at least half-yearly and at such other times as the Chairman considers necessary or appropriate. In addition, ad hoc meetings shall be held whenever it is necessary to discuss any significant or critical aspects concerning Utmost Life and Pensions' remuneration affairs and/or related matters.

Nominations Committee

The Nominations Committee is a sub-committee of Utmost Life and Pensions' Board and has been delegated responsibility for ensuring that the Board has a formal, rigorous and transparent procedure in place to manage the appointment of new Directors to the Board of Utmost Life and Pensions, and to ensure that the Board and its Committees have the appropriate balance of skills, experience, independence and knowledge to enable them to discharge their respective duties and responsibilities effectively, including succession planning.

The members of the Committee shall be appointed by the Board following consultation with the Committee Chairman. The Committee will be composed of at least three members at all times.

Only members of the Committee have the right to attend Committee meetings. However, other individuals, such as the head of HR and external advisers, may be invited to attend for all or part of any meeting, as and when appropriate and necessary.

The Utmost Life and Pensions Board has appointed the Committee Chairman, who is the Chairman of the Utmost Life and Pensions Board. The Chairman of the Utmost Life and Pensions Board shall not chair the Committee when it is dealing with the matter of succession to the chairmanship and the Chairman will appoint a deputy for this purpose.

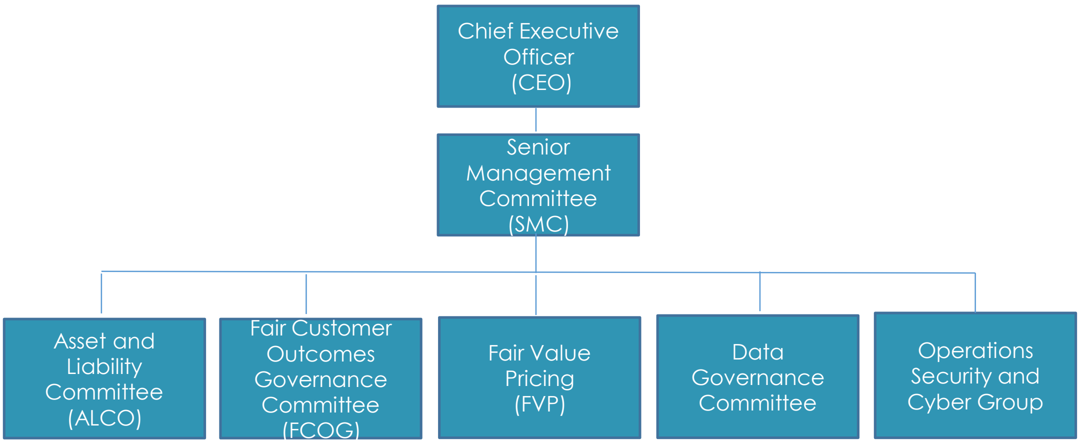
The membership and chairmanship of the Committee will be reviewed each year by the Utmost Life and Pensions Board in consultation with the Chairman to ensure that an appropriate balance is maintained between experience and independence. Changes as required will be recommended to the Utmost Life and Pensions Board thereafter. The appointment of members to the Committee shall be for a period of up to three years, extendable up to two further periods of three years.

The Committee shall meet at least twice a year, and at such other times as the Chairman considers necessary or appropriate.

Executive Sub-Committees

In addition to the above Board committees, a range of Executive sub-committees are in place to support the Utmost Life and Pensions' Chief Executive Officer in his decision making. These committees have no delegated authority (with the exception of the Asset and Liability Committee ("ALCO"), as outlined below) but make recommendations to the Chief Executive Officer.

During the reporting period, the executive committees that were in place are shown below.



Senior Management Committee

The Senior Management Committee ("SMC") assists the Chief Executive Officer in managing the business, executing the business plan, monitoring deliverables and managing the associated risk. This includes liaising with the other executive sub-committees and responding to their recommendations.

Over the reporting period, the committee comprised: the Chief Executive Officer; the Chief Financial Officer; the Chief Risk Officer; the Head of Operations; the Chief Actuary; Utmost Life and Pensions Secretary; the Head of Asset and Liability Management and Investments; and the With-Profits Actuary. Utmost Life and Pensions' Company Secretary acted as secretary to the Committee.

The SMC meets at least 11 times a year.

From 1 January 2020, the Utmost Life and Pensions SMC was renamed the Executive Committee ("ExCo") but will continue to perform the same activities. The composition of the committee will be: the Chief Executive Officer; the Chief Financial Officer; the Chief Risk Officer; the Chief Actuary; the Customer Services Director; the IT and Change Director; and Utmost Life and Pensions Secretary.

Asset and Liability Committee

The Asset and Liability Committee ("ALCO") supports the Utmost Life and Pensions Chief Financial Officer in the ongoing management of investments, including agreeing criteria for fund investment and monitoring performance. It executes investment strategy as defined by the Utmost Life and Pensions Board and the Investment Committee. It also oversees all related cash flow requirements.

It makes recommendations to the With-Profits Committee, the Investment Committee, the SMC and the Risk and Compliance Committee about investment management strategy, cost, performance, unit pricing and asset allocation decisions to ensure that the interests of all policyholders have been appropriately considered and represented, and considers the impacts on the risk profile and appetite of Utmost Life and Pensions.

The committee comprises the Chief Financial Officer, the Chief Actuary, the Chief Risk Officer, the Head of Asset Liability Management and Investments, the With-Profits Actuary, the Capital Management Actuary, and the Investment Oversight Manager, and meets at least 12 times a year.

Fair Customer Outcomes Governance Committee

The Fair Customer Outcomes Governance Committee ("FCOGC") reports to the SMC and the Risk and Compliance Committee on the delivery of fair customer outcomes, including the twelve 'legacy review' outcomes detailed in the internal control framework. It aims to achieve the outcomes for all policyholders, having regard to their characteristics and needs.

FCOGC comprises: the Head of Operations as Chair; the Chief Executive Officer; the Operations Actuarial Manager; the Client Services Manager; the Client Services team leader (Secretary); the Chief Actuary; the Investment Oversight Manager; the Compliance Manager; the Chief Risk Officer; and the Chief Financial Officer.

The committee meets at least five times a year.

Fair Value Pricing Committee

When the Fair Value Policy is invoked by the Board, under exceptional circumstances, including a major disaster or suspended markets, the Fair Value Pricing Committee ("FVPC") is responsible for determining the approach for calculating unit prices to treat customers fairly in these circumstances.

The committee comprises the Chief Financial Officer, the Chief Actuary, the Financial Controller and the Investment Oversight Manager, and meets when required, in line with the Fair Value Pricing Policy.

Data Governance Committee

This committee is responsible for data policy, strategy, procedures, governance artefacts and other data inventories as part of the data governance process. The committee covers all data related to legal and regulatory requirements, including Solvency II and General Data Protection Regulation ("GDPR"), and exists to assist the Head of Operations in carrying out his responsibility to operate the Data Governance Framework, which in turn exists to ensure that Utmost Life and Pensions' legal and regulatory responsibilities for data are met.

The committee is comprised of: the Head of Operations as Chair; the Chief Actuary; the Chief Risk Officer; the Compliance Manager; the Chief Financial Officer; the Head of Operations; Utmost Life and Pensions Secretary; the Information Security Officer; and data owners (as required).

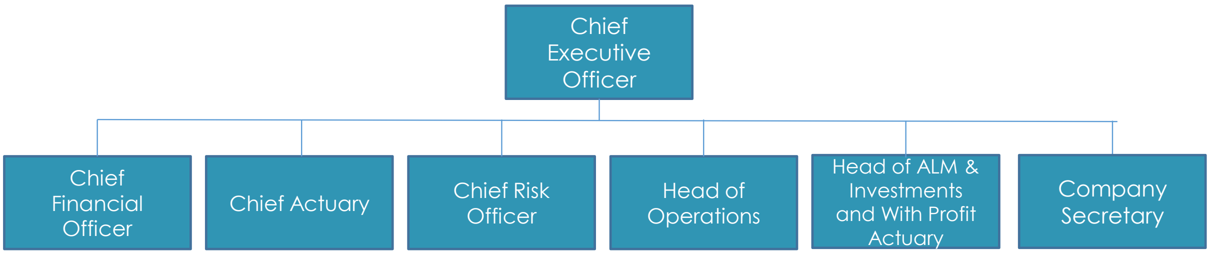
The committee meets at least four times a year.

Operations Security and Cyber Group

This Group exists to: ensure that IT security and cyber risk actions are occurring to schedule; assess changing security needs; and to ensure that adequate business continuity management capability exists and is tested successfully in accordance with the agreed test plan, to minimise disruption and losses (including fines and sanctions) arising from incidents.

Individual Responsibilities

The structure of the delegated responsibilities to individuals over the reporting period is given below.



Executive responsibilities are delegated to the Chief Executive Officer, with ultimate responsibility either retained or delegated to senior management and possibly further cascaded to individuals.

Senior managers have the authority to delegate their responsibilities to fit and proper staff, the approval and assessment of whom is defined in the Approved Person and Key Function Policy.

Integration of all governance

Utmost Life and Pensions' Management Responsibilities Map covers all these functions, with named individuals with the regulatory Senior Managers and Certification Regime ("SM&CR") functions as part of their responsibilities.

Risk management is the responsibility of all functional managers, with the Risk function providing oversight and reporting to the Risk and Compliance Committee. The Chief Risk Officer is a member of the SMC, and reviews Utmost Life and Pensions' risks with the senior team at least monthly, and at every Board meeting.

The Compliance function performs its role in a similar way, with the Compliance Manager reporting to the Chief Risk Officer.

The Internal Audit function was outsourced to Deloitte LLP during the reporting period, who reported directly to the Audit Committee. This changed from 1 January 2020 when the function was incorporated in house.

The Chief Actuary is a member of the SMC, and has a direct reporting line to the Audit Committee and the main Board.

Remuneration Policy and practices

Remuneration of Utmost Life and Pensions' Directors and employees is overseen by the Remuneration Committee, as outlined above. The Committee aims to ensure that Utmost Life and Pensions' various remuneration structures encourage and support alignment between business decisions, individual behaviour, business performance and The Group's values, risk appetite and Capital Management Strategy ("CMS").

The remuneration of the Chairman, the Chief Executive, executive Directors and senior managers is set by the Remuneration Committee in accordance with Utmost Life and Pensions' Remuneration Policy. The primary objective of the Remuneration Policy is to ensure that each executive Director/senior manager is provided with appropriate incentives to encourage exceptional performance and are rewarded for their individual contributions to the long-term success of Utmost Life and Pensions.

The principles underpinning the remuneration of Utmost Life and Pensions' executive Directors/senior managers are as follows:

- Remuneration in general should reflect individual performance and support the delivery of benefits and services to Utmost Life and Pensions and all its stakeholders;
- Remuneration should enable Utmost Life and Pensions to attract, retain and motivate executive Directors of the quality required to run Utmost Life and Pensions effectively; and
- Reviews of base salary will give due regard to information disclosed by comparable companies to bear a reasonable relationship to the scale of the role as well as to other factors. A performance-related incentive scheme is in place for executive Directors and senior managers

The Remuneration Committee takes care to ensure that any such bonus payments are appropriate and that the objectives upon which performance-related payments are assessed are closely aligned to the interests of Utmost Life and Pensions' customers and take into account Utmost Life and Pensions' current strategic position.

B.2 Fit and Proper Requirements

The Group seeks to ensure that all persons who effectively run the undertaking or are key control function holders fulfil the following requirements:

- Their professional qualifications, knowledge and experience are adequate to enable sound and prudent management;
- They are of good repute and integrity.

Key UK management personnel are aligned to the UK Senior Management and Control Function Regime (2017) and have been approved by the PRA and the FCA accordingly.

The Group's major insurance subsidiary Utmost Life and Pensions has a Fit and Proper Policy in place that sets out the way in which Utmost Life and Pensions complies with the PRA's and the FCA's Fit and Proper requirements, with particular emphasis on the SM&CR.

As a result, Utmost Life and Pensions will ensure that its Senior Management Function ("'SMF") Holders, Notified Non-Executive Directors ("NNEDs"), Key Function ("KF") Holders), Key Function Persons ("KFPs"), and Certification Function ("CF") Holders:

- Are, and remain, competent, fit and proper to discharge their responsibilities;

- Are aware of their obligations under the Regulators' relevant conduct rules and standards; and
- Are aware of the expectation to avoid, to the extent possible, activities that could create conflicts of interest or the appearance of conflicts of interest (via Utmost Life and Pensions Conflicts of Interest Policy).

In addition, Utmost Life and Pensions will ensure that all of its SMF Holders are aware of their obligations under the Duty of Responsibility and has established, and maintains, appropriate mechanisms and systems to manage these arrangements.

Utmost Life and Pensions currently has one standalone NNEDs and currently has no standalone KFPs.

Utmost Life and Pensions must ensure that all prospective SMF Holders are fit and proper to undertake the responsibilities being allocated to them. Whilst not expected individually, the Board must collectively possess appropriate qualifications, experience and knowledge about:

- Insurance and financial markets, including the wider business, economic and market environment in which Utmost Life and Pensions operates and an awareness of the level of knowledge and needs of its policyholders;
- The business strategy and business model, in detail;
- The Systems of Governance within the business, including the awareness and understanding of the risks Utmost Life and Pensions is facing and its capability of managing them; together with an ability to assess the effectiveness of Utmost Life and Pensions' arrangements to deliver effective governance, oversight and controls within the business and, if necessary, to oversee changes in these areas;
- Financial and actuarial analysis in order to interpret Utmost Life and Pensions' financial and actuarial information, identify key issues, put in place appropriate controls and take necessary measures based on this information; and
- The regulatory framework and requirements, including the capacity to adapt to changes to the regulatory framework, without delay.

Such assessment will be made at the most senior level, when considering the appointment of a director, to ensure that appropriate diversity is evident. This will take place prior to the due diligence process and prior to the submission of the application form for regulatory approval for a prospective SMF Holder or notification form for an NNED.

HR maintains a central register of SMF Holders, KFHs and CF Holders in its Management Responsibilities Map. This records the names and positions of those SMF Holders who run Utmost Life and Pensions as and when appointed.

The map also contains a record of the allocation of prescribed responsibilities and a summary of all the additional allocated SMF Holder responsibilities. This information is detailed further in the SMF Holders' Statements of Responsibilities. The map is reviewed annually, or more frequently following organisational change.

Once Utmost Life and Pensions has decided at the most senior level that it wishes to appoint an SMF Holder, the HR department will carry out the necessary due diligence checks in respect of the individual to be appointed. It will seek to establish information relating to any criminal, disciplinary, enforcement or administrative offences currently being tried or having been tried in the past relating to both the financial services industry and outside of the industry.

Whilst having previous infringements may not necessarily result in the person being assessed as not fit for the role being considered, HR will ensure that there is a judgement based on the widest information available concerning such offences. HR will co-ordinate the documentation of the assessments of competence, fitness and propriety before an application is submitted for approval to the regulatory authorities.

All regulatory applications will be submitted to the Regulators for approval by the Compliance team, once the due diligence process has been completed and wishes to proceed with the appointment of the candidate as an SMF Holder.

For employed staff, Utmost Life and Pensions uses a semi-annual written appraisal process to manage performance and to ensure continued suitability for each role (in addition to the regular fitness and propriety checks). Board members are appraised annually through a transparent self-assessment process, with results aggregated and discussed by the whole Board. The Chairman supplements this with individual interviews.

B.3 Risk Management System

The Boards within the Group have ultimate responsibility for the management of all risks across the Group. The main risks that the Group is exposed to are those which are faced by its major insurance subsidiary Utmost Life and Pensions, which accounts for over 98% of the Group's solvency position and risk profile.

The Risk Management function is principally responsible for the ongoing implementation of Utmost Life and Pensions' Risk Management Framework ("RMF"): the framework in place to identify and effectively manage the risks of Utmost Life and Pensions and support the achievement of Utmost Life and Pensions' corporate objectives.

The following table describes the elements of Utmost Life and Pensions' RMF.

RMF Overview	
Area	**Description**
Risk Universe	Identification of all the risks that could affect Utmost Life and Pensions.
Risk Strategy	Articulates the approach to the taking on and management of risk.
Risk Appetite Statement	Utmost Life and Pensions' view on the level and type of risk that it is willing to take on in the pursuit of achieving its strategic objective and business plan.
Risk Governance	The method used for directing and controlling the management of risk.
Risk Policies	Utmost Life and Pensions maintains a policy for each risk class in its risk universe. Each policy documents the approach to the management of the individual risk class.
Risk Culture	Determines the values, knowledge, understanding and behaviour with regard to risk.
Risk Management Process	Identifies and articulates the key elements of the Risk Management Process. These key elements are described in the table below.
Risk Management Information	Underpins the Board/senior management's: (i) understanding of the business; and (ii) decision-making capabilities.
Stress Testing Framework	Provides insight into how Utmost Life and Pensions may be affected by alternative and typically adverse conditions.
Capital Management	Articulates the approach to the management of capital and the responsibilities of the Capital Management function.

The following table summarises the processes used to identify, measure, monitor, manage and report the risks of the Group.

Process	Description
Risk Identification	Key elements of the process include: control risk self-assessment, Risk Management function analysis, senior management analysis, SMC review, Risk and Compliance Committee review, and ORSA analysis.
Risk Measurement	Section C provides details of the risk measures for each material/relevant risk class identified by Utmost Life and Pensions.
Risk Monitoring	Senior management and Board level review of the risk measures articulated for each risk class.
Risk Management	The management and mitigation techniques used for each risk class are articulated.
Risk Reporting	Regular review by senior management and the Utmost Life and Pensions Board of risk reporting, which includes: risk profile, ORSA reporting, risk reports, Key Risk Indicators ("KRIs") and loss data. Risk reports are also provided to the Group board.

Risk management is the responsibility of all functional managers, with the Risk function providing oversight and reporting to the Risk and Compliance Committee of the Utmost Life and Pensions Board. The Chief Risk Officer is a member of the SMC, and reviews the risks with the senior team at least monthly, and at every Board meeting. The Risk and Compliance Committee provides oversight of Utmost Life and Pensions' risk management.

The Group operates the 'three lines of defence' model for risk management and oversight:

- Line 1 has responsibility for the management of risk across the organisation and comprises executive committees, management and staff;
- Line 2 is responsible for the provision of oversight to ensure that the first line is managing risk within the Board-approved risk appetite and in line with the RMF; this line consists of the Risk function and the Risk and Compliance Committee; and
- Line 3 is responsible for providing independent assurance on the effectiveness of internal controls and risk management processes across the first and second line, and is performed by the Internal Auditors reporting to the Audit Committee.

Consideration of the risk appetite statement is a key component of the decision-making process. Material decisions are fully considered, documented and evidenced in terms of alignment with the risk appetite. The risk appetite statement articulates the process to be followed if any prospective actions or decisions have the potential to lead to non-alignment with the risk appetite.

B.4 Own Risk and Solvency Assessment

The Own Risk and Solvency Assessment ("ORSA") framework is the primary means by which the Board and other key stakeholders are provided with a comprehensive understanding of the risk profile and expected capital needs over the business planning period. Two ORSA reports are produced, one for Utmost Life and Pensions and one for Group. The analysis, findings and recommendations (i.e. the output) from the ORSAs are therefore a key part of the Board's strategic decision-making process and the way in which these decisions are implemented by senior management.

Equally, the current strategic objectives, business plan and target risk profile are also key inputs into the scope and focus of the ORSA. The Group and Utmost Life and Pensions Boards, together with senior management, play a significant and ongoing role in determining the set of scenarios which will be included in the ORSA, the assumptions for each of these scenarios, and the criteria against which the results will be assessed.

The following table sets out the main components of the ORSA process.

ORSA Process		
Work Stream	**Activity**	**Description**
Design	Process and Document Design	Review of existing ORSA process and documentation to ensure the ORSA remains fit for purpose and compliant with current guidelines.
Reporting and Documentation	Quarterly ORSA Bulletin	A regular update on the forecast solvency position and risk profile, and an update on any investigations or actions.
	ORSA Policy	Update of the existing ORSA Policy to ensure that it reflects the purpose, scope, process and aims of the ORSA.
	Annual ORSA Report	A full reforecast of the solvency position and risk profile of, under base and alternative scenario conditions.
Standard Formula Testing	Standard Formula Appropriateness Exercise	Analysis of the Standard Formula SCR relative to the current and emerging risk profile, to ensure that it remains appropriate.
Scenario Development	Scenario Design and Definition	Development of the alternative scenarios which will be assessed within the ORSA framework.
Model Development and Inputs	ORSA Basis	Basis setting exercise to define the parameters and assumptions to use in the ORSA balance sheet projections.
	ORSA Model Development	Further development of the existing ORSA projection models.
	ORSA Data	Exercise to gather, check and validate the data feeding into the ORSA process.
Projections	ORSA Projection Runs	Projection of the balance sheet and risk profile under base and alternative scenarios, before and after management actions.
	ORSA Control and Validation	Control and validation process applied to the ORSA projection runs to ensure that they are free from error.
Use	Strategy and Business Plan	Insight from the ORSA informs the strategic direction and business planning.
	Risk Appetite and Limits Review	ORSA forecasts used to assess the alignment with risk appetite and the individual risk limits. The ORSA is also used to review the appropriateness of the current limits.
	Investigation	ORSA analysis used to identify areas for further investigation, typically carried out by either the Risk or Actuarial functions.
	Decision Making	The ORSA is a key management tool in the Group's decision-making processes.

All components of the Utmost Life and Pensions ORSA undergo an initial review by the Chief Actuary, the Chief Risk Officer and the Capital Management Actuary. Depending on the component concerned, the scope of this initial review ensures that the structure, style and content will be understood and correctly interpreted by the Utmost Life and Pensions Board, the Risk and Compliance Committee, senior management and any other users (for example, department heads and the Regulators).

The output undergoes a thorough review process, which affords the Boards, committee members, and senior management the opportunity to interrogate, challenge and feedback on the various inputs into and outputs from the ORSA analysis.

The ORSA is carried out annually, and is updated during the year in the event of any material change to the risk profile. The Utmost Life and Pensions Chief Risk Officer has overall responsibility for the Utmost Life and Pensions ORSA process and the ORSA report. The Actuarial function carries out the calculations. The 2019 ORSAs (solo and Group) were submitted to the PRA on 23 December 2019 and 28 February 2020 respectively.

B.5 Internal Control System

The Internal Control Function for the operating entities within the Group forms part of the second line, whilst the control and process owners form part of the first line. The responsibility of the Internal Control System also lies on the Boards to ensure that all internal processes are in line with professional and ethical standards; as well as to enhance or protect the value of the business. Oversight of compliance with these standards remains the responsibility of both the Compliance Function and the Internal Audit Function.

The Group, through Utmost Life and Pensions, maintains an Internal Control Policy to ensure that internal control practices are established, implemented and maintained in line with the objectives, strategy, risk appetite and long-term interests of the Group as a whole. The policy describes the controls and procedures in place to ensure:

- The effectiveness and efficiency of operations;
- Compliance with applicable regulations; and
- Availability and reliability of financial and non-financial information.

The policy applies to all activities and processes undertaken by Utmost Life and Pensions to ensure that it operates an effective internal control system, and sits within the internal controls framework which collates the sub-policies and processes to which this policy applies.

The Group's Board is ultimately responsible for ensuring that there is an effective internal control framework, and for establishing a culture that emphasises and demonstrates to all levels of personnel the importance of internal controls. Management is responsible for the implementation of the relevant rules and guidance. All employees need to understand their role in the internal control framework and be fully engaged in the process.

The policy forms a part of the Group's System of Governance. It is owned and approved by delegated authority to the Utmost Life and Pensions Board. Individual policies within the framework are subject to their own governance requirements, as specified in the individual policies.

The policy is reviewed on an annual basis by the Board, or more frequently where necessary, to ensure that it remains up to date and relevant to the processes which it is intended to control. Strategy, organisational structure and risk profile changes may trigger ad hoc reviews of this policy.

The purpose of internal control is to support the Group in the achievement of its objectives. The Group has identified five key components of the internal control framework, as follows:

- Corporate Governance;
- Risk Management;
- Compliance;
- Information and Communication; and
- Information and Communication Technologies.

Each of the internal control components is described in more detail in the Internal Controls Policy.

The Group operates the 'three lines of defence' model for oversight:

- Line 1 has the responsibility for the management of controls across the organisation, and comprises executive committees, management and staff;

- Line 2 is responsible for the provision of oversight to ensure that the first line is managing controls within the internal control system and associated policies. This is performed by the Risk function, Compliance the Risk and Compliance Committee;
- Line 3 is responsible for providing independent assurance on the effectiveness of internal controls across the first and second lines. This is performed by Internal Audit, reporting to the Audit Committee.

B.6 Internal Audit Function

The Internal Audit function is part of the third line of defence of the Group.

Internal Audit is an integral part of the Group's Internal Control system and provides independent and objective assurance over the design and effectiveness of controls in place to manage the key risks impacting the Group's business performance.

Internal Audit provides assurance over the operation of governance, risk management and the system of internal control. During 2019, the Internal Audit function was outsourced to Deloitte LLP to capitalise on their breadth of experience in relation to similar businesses. The decision to outsource the function, and to whom, is reviewed by the Audit Committee. During Quarter 4 2019, recruitment commenced for an internal Head of Internal Audit role. From 1 January 2020, the entire function will comprise in-house full-time employees.

Internal Audit is an independent, effective and objective function established by the Board to examine and evaluate the adequacy, functioning, effectiveness and efficiency of the internal control system and all other elements of the System of Governance, with a view to improving the efficacy and efficiency of the internal control system, of the Group and of the governance processes. This is set out in the Internal Audit Policy and Charter and the Audit Committee's Terms of Reference.

Internal Audit supports the Board in identifying the strategies and guidelines on internal control and risk management, ensuring that they are appropriate and valid over time, and provides the Board with analysis, appraisals, recommendations and information concerning the activities reviewed. It also carries out assurance and advisory activities for the benefit of the Board, the SMC and other departments.

Internal Audit's authority is enshrined in its Charter, which is reviewed and approved annually by the Audit Committee and the Board. As a result, Internal Audit has full, free, unrestricted and timely access to any and all the organisation's records, physical properties, and personnel pertinent to carry out any engagement, with strict accountability for confidentiality and safeguarding records and information.

Internal Audit governs via the Group's Internal Audit methodology. This methodology is aligned with the Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of auditing and for evaluating the effectiveness of the audit activity's performance. Given the delicate and important nature of the assurance role carried out within the business, all Internal Audit staff must have specific fit and proper requirements, as requested by the Group's Fit and Proper Policy.

Internal Audit remains free from interference by any internal element, including matters of audit selection, scope, procedures, frequency, timing or report content to permit maintenance of a necessary independent and objective mental attitude. On an annual basis, the in-house Head of Internal Audit will confirm his/her independence and that of Internal Audit to the Audit Committee. Independence and objectivity from the activities that Internal Audit reviews is achieved by ensuring that:

- There is a direct reporting line from Internal Audit to the Audit Committee;
- All Internal Audit activities are free from influence from anyone in the organisation, including matters of audit selection, scope, procedures, frequency, timing or report content;
- Members of the Internal Audit function are able to meet with the Audit Committee in private session if required;

- Internal Audit has the resources and necessary skills required to deliver the Audit plan, both in general audit and technical areas, and support facilities;
- Internal Audit has the authority to audit all parts of the organisation; and
- Internal Audit has full and complete access to all information, records, facilities and personnel relevant to the performance of an audit.

On an annual basis, the Head of Internal Audit presents a proposed 12-month plan to the Audit Committee requesting approval. This plan is developed based on an audit universe using a risk-based methodology, taking into account all past audit activities, the complete System of Governance output, the expected developments of activities and innovations and including input from the SMC and the Board.

The Head of Internal Audit reviews the plan on an ongoing basis and adjusts it in response to changes in the Group's business, risks, operations, programs, systems, controls and findings.

This review is informal and any change to the plan is first approved by the Chair of the Audit Committee. Following the conclusion of each Internal Audit engagement, a written audit report is prepared and issued to the auditee and the auditee's hierarchy. The Head of Internal Audit, on a quarterly basis, provides the Audit Committee with a report on activities, status of open and overdue audit issues, any significant issues and audit reports issued during the period. However, in the event of any particularly serious situation, such as the emergence of a conflict of interest, the Head of Internal Audit will immediately inform the Audit Committee and the Board.

B.7 Actuarial Function

The Actuarial Control Function forms part of the second line of defence for the Group.

The Actuarial function consists of employees of the Group, supplemented by external consultants to provide additional resource when needed. The Chief Actuary has overall responsibility for the output from the Actuarial function. The Chief Actuary is a Fellow of the Institute and Faculty of Actuaries and holds a Chief Actuary (Life) Practising Certificate. He is also the approved person for the Senior Managers Function Chief Actuary. The current responsibilities of the Actuarial function are detailed in the following table.

Balance Sheet Valuation	Carry out annual and quarterly valuations of the Group's assets and other liabilities, Technical Provisions, and capital requirements consistent with Solvency II.
Balance Sheet Forecasting	Carry out a forecast of the Group's projected solvency position over its business planning period under central best estimate and alternative scenario assumptions for consideration within the ORSA framework.
Transitional Measures	Calculate the Group's Transitional Measure on Technical Provisions ("TMTPs"') and monitor the metrics against the triggers for recalculation.
Matching Adjustment	Recalculate the MA and monitor the Group's compliance with the rules required to continue to use the MA.
Solvency Monitoring	Estimate the Solvency II balance sheet on a monthly basis to monitor the Group's solvency position.
Data Quality	Assess the sufficiency and quality of the data used in the calculation of the Group's technical provisions.
Experience Analysis	Analyse the Group's recent historic demographic experience (for example, mortality and persistency) to inform assumption setting.

Assumption Setting	Recommend the demographic, expense and economic assumptions to be used in the Group's balance sheet valuation and forecasting based on internal experience analysis and reference to relevant external market or industry variables.
Model Development	Maintain and develop the model required to value the Group's policyholder liabilities under central best estimate assumptions and the Solvency II Standard Formula stress tests.
Bonus Setting	Recommend the regular and terminal bonuses to be paid to the Group's with-profits policyholders.
Run-Off Planning	Prepare the recommended run-off plans for the Group's with-profits funds including, for each fund, a description of the governance of the fund, details of how the Group intends to manage the risk profile and funding position, and a projection of the fund's expected financial position.
Reinsurance and Underwriting	Provide an opinion to the Board on the adequacy of the Group's reinsurance arrangements and underwriting policy.

B.8 Assessment of Governance

Outsourcing Policy

The Group's Outsourcing Policy applies to both existing and proposed outsourcing arrangements, as well as to contracts with third-party suppliers, which are not considered outsourcing by the Group.

The key elements of the policy cover requirements for:

- Decision making;
- Negotiation;
- Outsourcing procedures;
- Re-evaluation;
- Contractual arrangements;
- Transition planning;
- Supplier management and monitoring (see below); and
- Policy breaches.

Supplier management and monitoring

With regard to ongoing management and monitoring of outsourced functions or activities, the following is required:

- They must retain the necessary expertise to supervise the supplied functions effectively and to manage the associated risks;
- The outsourcing business owner of each arrangement must retain responsibility for the activity and must ensure that any ongoing risks are properly managed;
- A proportionate supplier management and oversight regime must be defined at the outset;
- The business owner must ensure that the supplier management and oversight regime operates effectively and that any appropriate remedial action is taken;
- The effectiveness of the service or activity provided by the supplier must be reviewed at least annually by the sponsor or business owner. This should include an assessment of the requirement for an appropriate level of fresh due diligence and a review of the suitability of the existing contractual arrangements;
- The decision to continue with the arrangement must be reviewed at least triennially;
- The measures of performance of the supplier should be both qualitative and quantitative; and
- The approved control regime, service reports, meeting minutes and other items relating to the monitoring and execution of each contract must be retained by the authoriser of each arrangement.

Key outsourced functions

During 2019, one material new outsourcing activity was agreed by the Group's indirect subsidiary, Utmost Life and Pensions. In preparation for the acquisition of Equitable Life, the Utmost Life and Pensions Board approved a new agreement with Atos Consulting to provide outsourced IT services in regards for the combined organisation going forward through a migration in 2020.

There were changes to the outsourcing service providers; namely investment management, from Schroder's Investment Management to J.P. Morgan Asset Management. On 27 March 2019, the Board approved the appointment of J.P. Morgan Asset Management as an investment manager.

The Internal Audit outsourcing service provider, Deloitte LLP resigned during the third quarter of the year and was replaced by an in-house specialist team on 1 January 2020.

All of the outsourced functions are within the jurisdiction of the UK.

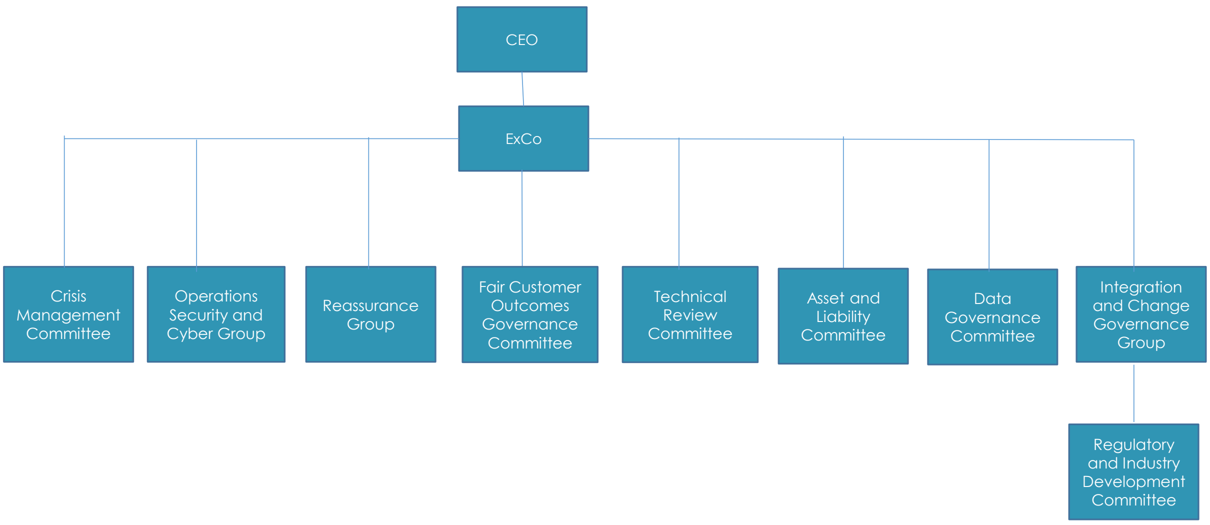
Assessment of Governance

Key elements of the Group's System of Governance including the risk management system (including ORSA), the Internal Control System, and the Internal Audit function are all subject to ongoing oversight and review by senior management and the Board to ensure that they remain effective and fit for purpose. As at 31 December 2019, the Board was of the view that the System of Governance is at an appropriate level and was in line with requirements. The Board delegates authority to the Chief Executive to facilitate the day-to-day management of the Group, subject to the limits and terms set out in a delegated authority schedule. The Board may still determine any matter it wishes within its constitutional and statutory powers.

B.9 Other Information

Acquisition of Equitable Life

Following the acquisition of the Equitable Life, the executive committees of Utmost Life and Pensions will increase, as shown below.



The FCOGC, ALCO, Operations and Security Cyber Group and Data Governance Committees will continue their duties as described above, although there will be small changes to their composition to reflect changes in role titles. The FVPC has been renamed the Crisis Management Committee and as detailed above, SMC has been renamed to ExCo.

For the new committees, a brief description is given below.

Reassurance Group

This committee is to be chaired by the Chief Actuary and exists to review the management of the reassured book in accordance with the requirements of the Reassurance Agreements.

Technical Review Committee

This committee exists to debate, challenge, approve and, where necessary make recommendations to SMC on key model calculation methodologies, technical assumptions and limitations for finance and actuarial models. This committee is chaired by the Chief Financial Officer.

Integration and Change Governance Group

The Integration and Change Governance Group Committee ("ICGGC") is chaired by the Chief Financial Officer and is a cross function, cross department meeting with representatives from areas impacted or participating in integration and business-as-usual projects. The main objectives are to: provide guidance that fit with business strategic objectives; prioritise and schedule change initiatives in conjunction with project sponsors; and have overall responsibility for the delivery and direction of projects.

Regulatory and Industry Development Committee

The Regulatory and Industry Development Committee ("RIDCo") is an important element of the Group's systems and controls, and is responsible for ensuring that regulatory or industry-wide changes relevant to the Group are identified in order to enable the business to respond appropriately. It reports into the ICGGC with any change programmes as a result of regulatory or industry developments.

Impact of COVID-19

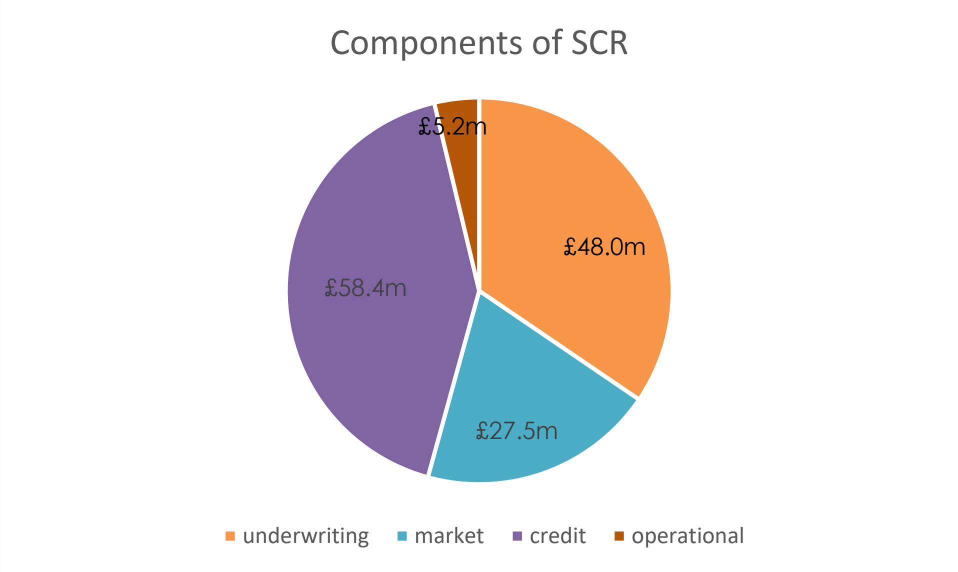
There is not expected to be any material impact on the Systems of Governance due to COVID-19. The Risk Management System will continue to operate as detailed above and will take account of the risks posed by COVID-19, including any changes to controls.

C. RISK PROFILE

All of the Group's material risk exposures are within Utmost Life and Pensions. In particular, there are no material concentration risks for the Group other than those allowed for within Utmost Life and Pensions.

Risks and risk exposures are managed through a well-defined RMF, as detailed in Section B.

The chart below shows the component risks which make up Utmost Life and Pensions' pre-diversified SCR.



The largest risk exposure is to credit risk, due to the large portfolio of corporate bonds which match fixed/guaranteed liabilities, primarily annuities. Underwriting risk is the second largest, covering Utmost Life and Pensions' exposure to longevity risks in the annuity portfolio, lapse risk and expense risk. Market risk is the next largest arising from the exposure to adverse changes in UK risk-free interest rates and gilt and swap rates.

In addition, a register of qualitative business risks is maintained.

Descriptions of the categories of risks to which the Group is exposed are detailed below, together with the measurement, management and mitigation followed.

Post 1 January 2020, the Group risk profile will change materially due to the acquisition and integration of the business from Equitable Life.

Most of the acquired policies under the acquisition are unit-linked and so the financial risks associated with this type of business are much reduced compared to the policies serviced by the Group during the reporting period.

After acquisition, the Group's greatest risk exposures are lapse and equity risk. Credit risk reduces as a proportion of the total SCR because there is relatively little additional credit risk with the acquisition.

The table below shows the change in the composition of the pre-diversified SCR after the acquisition of the Equitable

SCR risk (pre-diversified)	GROUP 31/12/19	ULP 31/12/19	ULP 01/01/20
Underwriting	34%	35%	47%
Market	20%	20%	26%
Credit	42%	42%	24%
Operational	4%	3%	3%

C.1 Underwriting Risk

C.1.1 Risk exposures

The table below provides a description of the material underwriting risk exposures as determined by the Risk Management function.

Risk Category	Risk Sub-Category	Description
Longevity	Baseline Longevity Risk	The risk that the best estimate assumptions for the level of base mortality are too high relative to actual experience.
	Longevity Improvements Risk	The risk that the best estimate assumptions for future mortality improvements are too low relative to actual experience.
Persistency	Baseline Persistency Risk	The risk that the best estimate assumptions for the long-term level of lapse, surrender and paid-up rates are different to actual experience.
	Mass Lapse Risk	The risk of an immediate withdrawal of a significant proportion of Utmost Life and Pensions' in-force business.
	Maintenance Expense Risk	The risk of higher than expected expenses related to the maintenance of the in-force book, which includes general business overheads but excludes project costs.
Expense	Expense Inflation Risk	The risk that the best estimate assumptions for the future rate of expense inflation are too low relative to actual experience.
	Project Cost Risk	The risk of higher than expected costs associated with the development and delivery of projects.
	Claims Management Expense Risk	The risk of higher than expected expenses relating to servicing claims on the in-force book.
Option Take-Up	Baseline GAO Take-Up Risk	The risk that the best estimate assumptions for the level of GAO take-up are too low relative to actual experience.

The most material underwriting risk exposure in terms of risk capital during the reporting period was longevity risk (which arises primarily on Utmost Life and Pensions' significant in-force book of in-payment annuities). Utmost Life and Pensions has in place a longevity swap for the annuitant liability in the NPF to manage its risk exposure. The other material underwriting risks are expense risk (which arises because the majority of operational activity is carried out in house) and persistency and option take-up risk.

After 1 January 2020, the Group's most material underwriting risk exposure will be persistency risk from the larger unit-linked book of business. The additional exposure relates almost entirely to the risk that early terminations reduce annual management charges. This makes mass lapse the most onerous test going forwards.

C.1.2 Risk measures

The table below sets out the main tools used to measure underwriting risks.

Measurement Tool	Measure
Stress Testing	Impact on the Own Funds of a 99.5th percentile one-year level change in the risk variable(s) corresponding to each underwriting risk (carried out using the Solvency II Standard Formula calibration).

Measurement Tool	Measure
Reverse Stress Testing	Severity of risk event/deterioration in experience in respect of a particular underwriting risk exposure that would be required to breach the Group's point(s) of non-viability or other limits.
Scenario Testing	Potential effect on the solvency position and risk profile of alternative scenarios involving short or long-term changes to one or more of the underwriting risk variables.
Sensitivity Testing	Impact on the solvency position of changes in the risk variable(s) corresponding to each underwriting risk.
Experience Analysis	Comparison of recent demographic and expense experience with historic internal experience, wider industry experience, and current best estimate assumptions.
Experience Monitoring	Quarterly/monthly review of recent experience.
Budget Analysis	Comparison of recent experience with budgeted or forecast amounts.

Not all of the above risk measures are used to measure all of the different underwriting risk exposures.

C.1.3 Risk concentrations

The Group, through Utmost Life and Pensions does not currently carry out any formal investigation into or analysis of concentrations of underwriting risk, on the basis that these are not considered to be material.

In particular, the Group does not believe that the current in-force book contains any material concentrations of policyholders by location, health, lifestyle or socio-economic group. To the extent that the current in-force book is sufficiently large and well diversified, it should be protected by short-term variations in experience.

C.1.4 Risk management and mitigation

The table below sets out the specific risk management and risk mitigation approaches Utmost Life and Pensions uses in respect of its underwriting risk exposures.

Risk Mitigation	Description
Risk Appetite	Statements covering the approach towards underwriting risk.
Economic Capital	Economic Capital held on the regulatory balance sheet in respect of each of its material underwriting risk exposures (derived using the Solvency II Standard Formula approach).
Reinsurance	Full or partial transfer of underwriting risk to reinsurance counterparties, including the use of longevity-swap arrangements on the in-payment annuities.
Assumption Setting	Annual assumption-setting exercise to ensure that the assumptions used to determine the Technical Provisions appropriately reflect the current best estimate of future underwriting experience.
Claims Underwriting	Underwriting to determine the initial or ongoing validity of claims relating to exclusion clauses, non-disclosure, fraud, etc.
Budget Reforecasting	Regular updates to the business plan and expense budget to ensure that forecasts continue to reflect expected experience.

Cost Control	Cost control activity to ensure that expenditure remains within plan.
Risk Monitoring	Regular senior management and Board level review of the risk measures discussed in section C.1.2.

Not all of the above risk management and mitigation approaches are used in respect of all of the different underwriting risk exposures.

The Group does not anticipate making any material changes to its current approach to managing and mitigating its underwriting risk exposures. In particular, it currently has no plans to either introduce any new or stop using any existing risk mitigation practices.

C.2 Market Risk

C.2.1 Risk exposures

The table below provides a description of the material market risk exposures as determined by the Risk Management function.

Risk Category	Risk Description
Interest Rates	Risk of unexpected changes in the level and/or shape of the term structure of UK risk-free interest rates which adversely affects the value of assets, liabilities, capital requirements and/or cash flows.
Gilt – Swap Spread	Risk that the spreads between gilt rates and swap rates (based on the EIOPA curve) widens, increasing the level of volatility on the balance sheet. Risk of inconsistent movements in UK gilt yields and swap rates (based on the EIOPA curve), leading to inconsistent movements in the value of the assets and Technical Provisions.
Equity Prices	Risk of adverse changes (i.e. falls) in the level of equity prices, which reduces the value of the assets or increases the value of its liabilities.
Currency Movements	Risk of loss or of adverse change in the financial situation (for example, decreasing the value of the assets or increasing the value of liabilities) resulting, directly or indirectly, from fluctuations in the level and in the volatility of foreign exchange rates.

Despite having a relatively low level of capital impact under the Solvency II Standard Formula stress tests, interest rate risk is one of the most material market related risk (excluding spread widening and concentration risks [see section C.3.1 below]). The assets and Best Estimate Liabilities ("BELs") are well matched, which means that that movements in interest rates have a similar impact on the assets and liabilities and so the net impact on the balance sheet is small. However, the presence of the Risk Margin within the Technical Provisions introduces significant balance sheet sensitivity to changes in interest rates. In addition, movements in interest rates, by increasing or decreasing the value of assets and liabilities, will increase or decrease the size of the balance sheet. This will have a secondary impact on other SCR capital requirements by applying the SCR stresses to a larger or smaller balance sheet.

Post 1 January 2020, equity risk exposure will increase for the Group. Utmost Life and Pensions will collect Annual Management Charges ("AMCs") as a percentage of unit-linked funds. The unit-linked funds typically have high equity exposures, making the AMCs dependent on equity markets. This will be the primary equity exposure.

C.2.2 Risk measures

The table below sets out the main tools used to measure market risk.

Measurement Tool	Measure
Stress Testing	Impact on Own Funds of a 99.5th percentile one-year level change in the risk variable(s) corresponding to each market risk (carried out using the Solvency II Standard Formula calibration).
Reverse Stress Testing	Severity of risk event/deterioration in experience in respect of a particular market risk exposure that would be required to breach the point(s) of non-viability or other limits.
Scenario Testing	Potential effect on the solvency position and risk profile of alternative scenarios involving short or long-term changes to one or more of the market risk variables.
Sensitivity Testing	Impact on the solvency position of small changes in the risk variable(s) corresponding to each market risk.
Portfolio Reporting	Measures and metrics contained within the asset and investment reports which cover its asset portfolios, asset and liability management ("ALM"), and hedging activity.
Market Monitoring	Market performance and risk variables, such as interest rates, equity indices, spreads and volatility indices.

Not all of the above risk measures are used to measure all the different market risk exposures.

C.2.3 Risk concentrations

The market and credit-related risk concentrations are covered in section C.3.3 below.

C.2.4 Risk management and mitigation

The table below sets out the specific risk management and risk mitigation approaches used in respect of market risk exposures.

Risk Mitigation	Description
Risk Appetite	Statements covering the approach towards market risk.
Economic Capital	Economic Capital held on the regulatory balance sheet in respect of each of its material market risk exposures (derived using the Solvency II Standard Formula approach).
Asset Liability Management	The Group actively pursues an asset liability matching strategy. In particular, within the NPF, Utmost Life and Pensions operates two MA portfolios which have strict matching requirements.
Investment Guidelines – Limit Structures	The Investment Guidelines for each of the investment portfolios sets out limit structures for the assets permitted within each portfolio. Market risk is an important factor in the choice of available assets.
Capital Management of WPSFs	The Group aims to have the WPSFs standing alone and meeting their own capital requirements (excluding operational risk). As a result, the market risk exposure of the WPSFs is controlled to facilitate this.
Risk Monitoring	Regular senior management and Board level review of the risk measures discussed in section C.2.2.

Risk management and mitigation

Not all of the above risk management and mitigation approaches are used in respect of all the different market risk exposures.

The Group does not anticipate making any material changes to its current approach to managing and mitigating its market risk exposures. In particular, it currently has no plans to either introduce any new, or stop using any existing, risk mitigation practices.

C.3 Credit Risk

C.3.1 Risk exposures

The table below provides a description of the material credit risk exposures as determined by the Risk Management function.

Risk Category	Risk Description
Counterparty Default (Fixed-interest and other money market instruments, cash deposits)	Risk of default on interest or capital repayments on corporate debt and other bond instruments, and cash deposits.
Counterparty Downgrade	Risk of negative impacts on the solvency position as a result of asset downgrades. Increased exposure to credit spread widening and counterparty default if any downgrade reflects a genuine increase in the riskiness of the counterparty.
Concentration (Fixed-interest and other money market instruments, cash deposits)	Additional risk stemming either from lack of diversification in the asset portfolio or from large exposure to default risk by a single issuer of securities or a group of related issuers.
Credit Spreads	Risk that the value of future cash flows is exposed to fluctuations in spreads on corporate bonds, resulting in changes in the value of corporate bond holdings.
Derivative Counterparty Default	Risk that derivative counterparties default on contracts that are 'in-the-money' causing financial loss to the Group.
Reinsurance Counterparty Default	Risk that one (or more) of the reinsurance counterparties is unable to meet its financial obligations to the Group.

Consistent with the above presentation of the credit risk profile, it should be noted that spread risk, which is assessed within the market risk module of the Standard Formula SCR, is considered by the Group to belong to the credit risk class.

Similarly, concentration risk, which is also assessed within the market risk module of the Standard Formula SCR, primarily relates to the risk of concentrated counterparty exposures on bond holdings and cash deposits. Concentration risk is therefore also considered by the Group to belong to the credit risk class.

Assessed in terms of undiversified risk capital, spread risk is the most material credit risk to which the Group is currently exposed. However, the balance sheet would also be significantly affected if one or more of its material counterparty exposures were to default. All of these risks primarily arise due to the significant holdings of corporate bonds which are used to back the large block of in-payment annuities.

C.3.2 Risk measures

The table below sets out the main tools used to measure credit risks.

Measurement Tool	Measure
Stress Testing	Impact on the Own Funds of a 99.5th percentile one-year level change in the risk variable(s) corresponding to each credit risk (carried out using the Solvency II Standard Formula calibration).
Reverse Stress Testing	Severity of risk event/deterioration in experience in respect of a particular credit risk exposure that would be required to breach the point(s) of non-viability or other limits.
Scenario Testing	Potential effect on the solvency position and risk profile of alternative scenarios involving short or long-term changes to one or more of the credit risk variables, for example, credit spreads and defaults.
Sensitivity Testing	Impact on the solvency position of small changes in the risk variable(s) corresponding to each credit risk.
Portfolio Reporting	Measures/metrics contained within the asset and investment reports which cover exposure limits, credit rating information, downgrades, counterparty exposure and other information relevant to credit risk.
Market Monitoring	Credit risk variables including corporate bond spread indices split out by duration and credit rating.

Not all of the above risk measures are used to measure all of the different credit risk exposures.

C.3.3 Risk concentrations

Financial instruments

Utmost Life and Pensions has substantial holdings in UK government issued assets (i.e. gilts) and in a single short-term money market instrument. However, the former it considers to be risk free and the latter is well-diversified at an underlying level. As such, the Group does not consider that either of these exposures poses a material concentration of risk.

The direct investment holdings and bank deposits are well diversified. The top five counterparty exposures by value across its non-linked investments as at 31 December 2019 were, by issuer, as follows: HSBC (£44.1m); Lloyds Banking Group (£31.1m); French Republic (£25.0m); GlaxoSmithKline (£19.1m); General Electric (£18.8m).

Each of these top holdings individually contributes less than 5% to total non-linked investments and, whilst the complete default of any one would have a significant impact on Own Funds, the issuers are sufficiently highly rated that they are not considered to be above an acceptable level.

Reinsurance counterparties

The table below shows the 'net exposure' (i.e. the value of reinsurance assets and liabilities) in respect of the Group's most material reinsurance arrangements as at 31 December 2019, under both base and longevity stress scenarios.

Reinsurance Counterparties

The Group does not consider the level of exposure to any one particular reinsurer to be excessive or to represent a concentration of risk. The negative RGA Global reinsurance value arises because the cost of the reinsurance arrangement exceeds the benefit it provides. The recent slow-down in the rate of longevity improvement has reduced the expected income from the reinsurer ('the floating leg') but the payments made to the reinsurer ('the fixed leg') have not changed because these were fixed when the expected cost of future payments was higher. After 1 January 2020, Utmost Life and Pensions' reinsurance counterparty risk increased due to additional annuity reinsurance with Lloyds Banking Group.

Reinsurer	Net exposure 2019 (£m)	
	Base	Longevity Stress (20% stress on mortality rates)
TRZ	-	12.6
RGA Global	(42.6)	(24.6)
London Life	(1.5)	1.7
Swiss Re	3.9	3.9
Pacific Life	2.7	2.7
Hanover Re	5.3	5.9

C.3.4 Risk management and mitigation

The table below sets out the specific risk management and risk mitigation approaches used in respect of its credit risk exposures.

Risk Mitigation	Description
Risk Appetite	Statements covering the approach towards credit risk.
Economic Capital	Economic Capital held on the regulatory balance sheet in respect of each of its material credit risk exposures (derived using the Solvency II Standard Formula approach).
Investment Guidelines: Limit Structures	The Investment Guidelines for each of the investment portfolios include credit-related exposure limits which constrain the assets permitted within each portfolio.
Asset Optimisation	Optimisation of assets within specific portfolios, including the sale of assets which result in a disproportionate or unwanted level of exposure to credit spread risk or concentration risk relative to the objectives of those portfolios.
Matching Adjustment	Adherence to the requirements necessary to maintain approval to use the MA, which includes close Asset Liability Management.
Collateral Arrangements	See below for the reporting period.
Risk Monitoring	Regular senior management and Utmost Life and Pensions Board level review of the risk measures discussed in section C.3.2.

Not all of the above risk management and mitigation approaches are used in respect of all of the different credit risk exposures. The Group does not anticipate making any material changes to its current approach to managing and mitigating its credit risk exposures. In particular, it currently has no plans to either introduce any new or stop using any existing risk mitigation practices for the business in force during the reporting period. There will be changes post 1 January 2020 in line with the acquired business of Equitable Life.

C.4 Operational Risk

C.4.1 Risk exposures

The Group, through Utmost Life and Pensions has identified 11 operational risk categories, as follows: business operations; financial/actuarial; legal/regulatory; outsourcing; investment; governance; people;

IT; cyber security; financial crime; and external. All operational risks identified by the Group are allocated to one of these categories.

All material operational risk exposures are recorded in the Group's functional risk registers and are allocated a first line risk owner.

C.4.2 Risk measures

The Group monitors and assesses operational risk using the tools in the following table.

Measurement Tool	Measure
Risk and Control Self-Assessment Process	Operational risk exposures are identified and assessed as part of a periodical cycle in place within the Group. This includes: a description of risks, the causes and consequences; a gross risk assessment of impact and likelihood; a list of 'prevention and detection' controls; and a 'net' assessment taking into consideration the effectiveness of the controls in place.
Key Risk Indicators	A wide range of KRIs are used to measure operational performance and areas of operational risk, which include service levels, business/IT incidents, financial crime, third-party performance and staff/resourcing.
Loss Data	The Group collects and reports loss information and data around operational risk events that have crystallised or nearly crystallised (so-called 'near misses').
Scenario Testing	Potential effect on the Group's solvency position and risk profile of alternative scenarios involving operational risk events or deteriorations in operational performance/controls.

C.4.3 Risk concentration

Given the wide scope of operational risk, any concentration of operational risk is monitored and managed as per sections C.4.2 and C.4.4.

C.4.4 Risk management and mitigation

The table below sets out the specific risk management and risk mitigation approaches used in respect of operational risk exposures.

Risk Mitigation	Description
Risk Appetite	Statements covering the approach towards operational risk.
Individual controls	Individual controls applied to specific operational activities.
Control Processes	Operational controls in place to manage operational risks.
Control Policies	Record of the objectives, processes, responsibilities and reporting procedures in respect of operational controls.
Management and Monitoring	Review of operational risk reporting and management information, including regular senior management and Utmost Life and Pensions Board level review of the risk measures discussed in section C.4.2.
Compliance Monitoring	Compliance reviews of operational processes.
Root Cause Analysis	The Group investigates business incidents and upheld complaints, to ensure that the root causes have been identified and that mitigating actions are implemented.

Risk Mitigation	Description
Assurance	Reviews of operational areas by Internal Audit.
Economic Capital	Economic Capital held on the regulatory balance sheet in respect of the overall exposure to operational risk (derived using the Solvency II Standard Formula approach).

Not all of the above risk management and mitigation approaches are used across all of the individual operational risk exposures.

The Group does not anticipate making any material changes to its current approach to managing and mitigating its operational risk exposures. However, post 1 January 2020, it will be adapting its approach in line with the increased risk as it integrates the acquired business of the Equitable Life.

C.5 Liquidity Risk

C.5.1 Risk exposure

Liquidity risk is not one of the primary risk exposures on the basis that:

- Utmost Life and Pensions' in-payment annuities, which form the bulk of the non-linked contracts in force, may not be surrendered or transferred at the policyholder's option.
- There are other policies which do include the right to surrender or transfer the policy on demand, with the surrender or transfer value calculation method being determined by the policy conditions.

  However, the majority of such contracts are unit-linked, where:

  - The liabilities are matched by assets held in internal linked funds; and
  - All linked assets are readily marketable, except for direct properties held in the property funds, where Utmost Life and Pensions has the right to defer payment of surrender or transfer values by up to six months.

C.5.2 Risk measures

In order to monitor and measure its exposure to liquidity risk, the level of investment in cash and gilt holdings is measured with reference to a defined liquidity buffer. The investment management reports from investment managers also include metrics that allow the Group to monitor adherence to the liquidity-related limits within each portfolio's investment guidelines.

C.5.3 Risk management and mitigation

The Group has an active liquidity risk management process. The table below sets out the specific risk management and risk mitigation approaches used in respect of its exposure to liquidity risk.

Risk Mitigation	Description
Risk Appetite	Statements covering the approach towards liquidity risk.
Close Asset Liability Matching	A process is in place to ensure that its asset holdings are appropriate to the nature, term, currency and liquidity of its liabilities.
Investment Guidelines: Limit Structures	The Investment Guidelines for each portfolio set out limit structures for the assets permitted within the portfolio. Liquidity risk is an important factor in the choice of available assets.
NPF (Non-MA) Cash Buffer	The NPF is required to hold in excess of £10m gilts and/or cash at all times.

The Group does not anticipate making any material changes to its current approach to managing and mitigating its liquidity risk. In particular, it currently has no plans to either introduce any new or stop using any existing risk mitigation practices.

C.5.4 Expected Profit in Future Premiums

The Group calculates Expected Profit in Future Premiums ("EPIFPs") in accordance with the requirements of Article 260 of the Solvency II Delegated Acts. The regulation stipulates that the EPIFP shall be set equal to the difference between:

1. BEL calculated in accordance with Solvency II requirements; and
2. BEL calculated under the assumption that future premiums are not received for any reason other than the insured event having occurred (i.e. all policies are effectively treated as paid up at the valuation date).

EPIFP is calculated separately for different Homogenous Risk Groups ("HRGs"), provided that grouped contracts are also homogenous in relation to EPIFP. Within the same HRG, profit-making policies are used to offset loss-making policies.

As at 31 December 2019, the value of the Group total EPIFP was £8.5m; the vast majority of which was from unit-linked business.

C.6 Stress and Scenario Testing Results

Stress testing

The Group, through Utmost Life and Pensions, stress tests its solvency balance sheet to calculate the SCR; ensuring that it has sufficient capital to withstand an extreme 1 in 200 year event measured over a 1 year time horizon. Stress testing is performed to establish the sensitivity of the organisation's solvency to individual extreme events and quantifies each risk exposure in terms of capital impact, where capital impact is defined as the change in the value of asset holdings less the change in the value of its best estimate liabilities.

As described earlier, the largest risks that the Group is exposed to are longevity, lapse, expense, spread and concentration. The 1 in 200 year event assumptions and percentage change in Own Funds is set out in the following table.

Sensitivity Testing

Risk	Calibration	% change in own funds
Longevity	Instantaneous permanent decrease of 20% in mortality rates.	-6.6%
Lapse	The more onerous of: i) a permanent 50% increase in lapse rates, ii) a permanent 50% decrease in lapse rates; and iii) a mass lapse of 40%.	-5.2%
Expense	Instantaneous permanent: i) increase of 10% to future expenses: and ii) increase of 1% point to the expense inflation rate.	-3.7%
Spread	An instantaneous relative decrease in the value of each bond varying between 0% and -70% (by credit quality and duration).	-15.9%
Concentration	An instantaneous decrease in the value of the assets corresponding to the single name exposures varying by credit quality.	-2.0%

The Group also tests the sensitivity of the solvency to adverse experience.

The following table summarises the results of the sensitivity testing in respect of its material quantifiable risks. This testing was carried out as part of 2019 Utmost Life and Pensions ORSA analysis. The results include the change in Own Funds and the change in the SCR under each sensitivity, and are shown in respect of the forecast balance sheet as at 31 December 2019.

Risk Class	Risk	Calibration	% Change in Own Funds	% Change in SCR
Life Underwriting	Expense	Instantaneous and permanent 5% increase in total expenses.	(5.6%)	2.1%
Market	Interest rate (Up)	50 basis points ("bps") upward parallel shift to risk-free yield curve.	1.1%	(4.4%)
	Interest rate (Down)	50 bps downward parallel shift to risk-free yield curve.	(1.4%)	5.9%
	Equity	Instantaneous 10% decrease in equity prices.	(0.1%)	(3.5%)
	Spread	Credit spread widening: AAA +2 bps, AA +10 bps, A +30bps, BBB and below +60 bps. MA: full offsetting movement.	(1.2%)	(3.1%)

C.7 Prudent Person Principle: investments

The Board and Investment Committee have delegated authority for investment decision making and management to external investment managers. Each investment manager operates subject to:

- Constraints set out in contractual Investment Management Agreements, which were developed with reference to the requirements of the Prudent Person Principle; and
- The oversight of the ALCO.

The Group has a number of documents, for example, guidelines, policies, agreements and reports, which collectively support and reinforce compliance with the EIOPA guidelines in respect of the Prudent Person Principle. The key documents are as follows:

- Investment Policy and Strategy;
- Investment Management Agreements with external investment managers;
- Asset Liability Matching reporting;
- MA portfolio documentation;
- Conflicts of Interest Policy;
- Investment Governance Framework; and
- Portfolio reporting produced the Investment Oversight Team for ALCO and the Utmost Life and Pensions Board based upon information from the external investment managers.

The performance of and risk associated with investments are subject to regular reporting to the ALCO, the Risk and Compliance Committee, the Investment Committee and compliance/investment oversight reviews.

C.8 Any Other Material Information

COVID-19

The outbreak of COVID-19 has the potential to impact the risks that the Group faces, although, as detailed below, it is expected that all the risks will be managed and mitigated using the methods already used by the Group and as described above.

Underwriting Risk

The Group has limited direct exposure to an increase in mortality rates as a result of COVID-19. Exposure to mortality risk is limited due to the low exposure to term assurance business and the use of reinsurance.

Overall, an increase in mortality would not adversely affect the solvency or liquidity positions of Utmost Life and Pensions or the Group.

Market Risk

The volatility in the external environment due to COVID-19 does have an impact on Utmost Life and Pensions' solvency due to changes in interest rates and equity markets and as described above. The fall in the value of equity markets will reduce the value of annual management charges and falls in interest rates increase the risk margin.

These changes are monitored regularly.

Credit Risk

As a result of the Part VII transfer from Equitable Life, Utmost Life and Pensions has a reassurance agreement with Lloyds Banking Group and this is Utmost Life and Pensions' largest exposure to downgrades. The COVID-19 outbreak has not caused any interruption to the operation of this reinsurance and Utmost Life and Pensions continues to monitor the financial strength of all its reinsurers. The Group continues to monitor all credit risk exposures.

Operational Risk

Following government guidance, new measures and controls have been put into place for the Group, making the safety and well-being of staff a priority; by stopping all non-essential business travel, and providing IT support to enable staff to work from home.

This brings with it changes to the operational risks that the Group faces, however, these are managed through the Group's current processes.

Liquidity Risk

There has not been a material change to the liquidity risk that the Group faces due to COVID-19. However, this will be monitored in line with the approaches used by the Group to manage and mitigate liquidity risk and as described above.

D. VALUATION FOR SOLVENCY PURPOSES

D.1 Assets Valuation Basis, Methods and Main Assumptions

The table below sets out the Group assets and liabilities (including outstanding claims) at 31 December 2019, other than technical provisions (see Section D.2). These have been valued in accordance with UK GAAP statutory accounts and Solvency II regulations as applicable, and explanations of asset reclassifications and valuation differences between UK GAAP and Solvency II are set out in this section. Similar details for 'Other Liabilities' and 'Long Term Creditors' (subordinated loan) are set out in Sections D.3 and E.1.1 respectively.

The table below summarises, for each material asset class, the values according to Solvency II and on an UK GAAP basis as at 31 December 2019.

Assets and liabilities other than technical provisions (£ms)	UK GAAP Statutory Accounts	Reclassifications	Accounting Policy differences	Solvency II value
Assets held for index-linked and unit-linked contracts	644.1	-	-	644.1
Corporate Bonds	529.0	8.3	-	537.3
Government Bonds	457.7	2.3	-	460.0
Collective Investments Undertakings	106.3	-	-	106.3
Equities	4.4	-	-	4.4
Derivatives	17.2	-	-	17.2
Deposits other than cash equivalents	0.3	-	-	0.3
Cash and cash equivalents	68.5	-	-	68.5
Intangible assets	23.0	-	(23.0)	-
Property, plant & equipment Including for own use	3.6	-	-	3.6
Prepayments and accrued income	10.6	(10.6)	-	-
Reinsurance recoverables	17.4	-	(51.8)	(34.5)
Reinsurance receivables	0.3	-	-	0.3
Receivables (trade, not insurance)	10.5	-	0.1	10.6
Loans on policies	0.7	-	-	0.7
Insurance and intermediaries receivables	0.2	-	-	0.2
Total assets	**1,893.8**	**-**	**(74.9)**	**1,819.0**
Payables (trade, not insurance)	(18.7)	-	-	(18.7)
Deposits from reinsurers	(5.8)	-	-	(5.8)
Pension benefit obligations	(3.3)	-	-	(3.3)
Reinsurance payables	(0.6)	-	-	(0.6)
Provisions other than technical provisions	(1.7)	-	-	(1.7)
Insurance and intermediaries payable	(9.0)	-	-	(9.0)
Deferred tax liabilities	(0.3)	-	(13.9)	(14.2)
Total current liabilities, other than technical provisions	**(39.3)**	**-**	**(13.9)**	**(53.2)**
Long term creditors (Subordinated loan treated as Tier 2 Capital for SII purposes)	**(60.0)**	**-**	**60.0**	**-**
Assets less liabilities, excluding technical provisions	**1,795.5**	**-**	**(28.8)**	**1,766.7**

All asset categories are valued in line with UK GAAP, which other than reclassifications (see D.1.6), is consistent with the basis required for Solvency II valuation other than for intangible assets (see D.1.4) and reinsurance recoverables (see D.1.7).

D.1.1 Investments, including held for unit-linked contracts

The Group's investments comprise government bonds, corporate bonds, collective investment undertakings, derivatives, deposits other than cash equivalents, other investments and investments held for unit-linked contracts.

a) Active market

Quoted price: Fair values of assets traded on active markets are determined using quoted market prices when available. An instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis between a willing seller and a willing buyer. For financial instruments traded in active markets, quotes received from external pricing services represent consensus prices, i.e. using similar models and inputs resulting in a very limited dispersion.

Investments, including held for Unit-linked Contracts

b) Active versus inactive markets: financial instruments

Equity instruments quoted on exchange traded markets and bonds actively traded on liquid markets are generally considered as being quoted in an active market when: quotes that represent consensus are regularly provided by external pricing services with limited dispersion; and prices are readily available. Liquidity for debt instruments is assessed using a multi criteria approach, including the number of quotes available, the place of issuance and the evolution of the widening of bid/ask spreads.

A financial instrument is regarded as not quoted in an active market:

- If there is little observation of transaction prices as an inherent characteristic of the instrument;
- When there is a significant decline in the volume and level of trading activity;
- In case of significant illiquidity; or
- If observable prices cannot be considered as representing fair value because of dislocated market conditions. Characteristics of inactive markets can therefore be very different in nature, inherent to the instrument or indicative of a change in the conditions prevailing in certain markets.

c) Assets and liabilities not quoted in an active market

The fair values of assets and liabilities that are not traded in an active market are estimated:

- Using external and independent pricing services; or
- Using valuation techniques.

d) No active market: use of external pricing services

External pricing services may be fund asset managers in the case of investments in funds. To the extent possible, the Group collects quotes from external pricing providers as inputs to measure fair values. Prices received may form tight clusters or dispersed quotes which may then lead to the use of valuation techniques. The dispersion of quotes received may be an indication of the large range of assumptions used by external pricing providers given the limited number of transactions to be observed or reflect the existence of distress transactions. In addition, given current market conditions since the financial crisis and the inactivity of some markets since then, many financial institutions ceased to be engaged in the origination or trading of structured assets deals and are as a result no longer in a position to deliver meaningful quotes for such assets.

e) No active market: use of valuation techniques

The objective of valuation techniques is to arrive at the price at which an orderly transaction would take place between market participants (a willing buyer and a willing seller) at the measurement date.

Valuation technique models include

- Market approach: the consideration of recent prices and other relevant information generated by market transactions involving substantially similar assets or liabilities;
- Income approach: use of discounted cash flow analysis, option pricing models, and other present value techniques to convert future amounts to a single current (i.e. discounted) amount; and
- Cost approach: the consideration of amounts that would currently be required to construct or replace the service capacity of an asset. Valuation techniques are highly subjective in nature, and significant judgment is involved in establishing fair values. The use of valuation techniques and the related underlying assumptions could produce different estimates of fair value. Valuations are determined using generally accepted models (discounted cash flows, Black & Scholes models, etc.) based on quoted market prices for similar instruments or underlying factors (index, credit spread, etc.) whenever such directly observable data are available and valuations are adjusted for liquidity and credit risk.

Investments are classified into three tiers of fair value hierarchy based on the characteristics of inputs available in the marketplace. The following valuation hierarchy is used:

- Level 1: quoted prices in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included with Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

Except as noted below, all assets are classified as Level 2 assets under the fair value.

The Group, within Utmost Life and Pensions, holds derivatives (swaptions) totalling £17.2m on its balance sheet to back its GAO liabilities that are classed as Level 3 under the fair value hierarchy on the basis that there are no observable ('publicly available') prices. The swaptions are Over the Counter ("OTC") instruments, for which the fair value is provided to Utmost Life and Pensions by the counterparty. The fair value of such swaptions is assessed by Utmost Life and Pensions for reasonableness using observable market inputs, including interest rates and market volatility. The sensitivity of these assets is such that an increase in risk-free rates of 100 bps would decrease the value by £7.9m, which would be offset by a decrease in the liabilities they are backing of £6.7m. The assets are not materially sensitive to other market movements.

The other investments include one equity holding of £4.4m and unit-linked assets of £1.2m that are also classified as Level 3 under the fair value hierarchy on the basis there are no observable ('publicly available') prices. These assets are not materially sensitive to changes in interest rates or other market movements.

f) Valuation and Recognition of assets

There are no differences between the bases, methods and main assumptions used in the valuation for solvency purposes and those used for valuation in the Financial Statements of Utmost Life and Pensions except for:

- Goodwill and Intangibles – generally valued at Nil

- Reinsurance recoveries which are treated as an asset.

Asset values in the Solvency II Balance Sheet are shown including accrued interest thereon, in accordance with EIOPA guidelines, whereas In the Financial Statements, the accrued interest is shown separately. This is a difference in presentation and not a valuation difference. There have been no changes to the recognition and valuation bases used, or to estimations, during the reporting period.

D.1.2 Credit ratings

Credit ratings are used for the calculation of the MA and in the relevant modules of the Standard Formula SCR calculations

For these purposes, credit ratings are obtained from External Credit Assessment Institutions ("ECAIs" or 'rating agency') nominated by the Group. Once a rating agency has been nominated, ratings provided by that agency are used consistently by the Group across calculations. If more than one rating is available from the nominated rating agencies, the Group uses the second-best rating.

The Group's current nominated rating agencies are Standard & Poor's, Moody's, and Fitch. The use of three rating agencies provides good coverage of Utmost Life and Pensions' corporate bond portfolio and limits the number of unrated bonds. The agency AM Best (which focuses on the insurance industry) is also considered for reinsurance counterparties only.

Any internally rated bonds are assessed by the Board in relation to the appropriateness of the ratings assigned to the bonds, and used in the calculation of the MA only. Any internally rated bonds are treated as unrated in the Standard Formula spread risk modules.

D.1.3 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and demand deposits with banks aggregating £68.8m, (2018: £82.1m) where they have maturity dates of three months or less from date of acquisition.

D.1.4 Intangible assets

Under Solvency II, only intangible assets related to the business in force, that are separable and for which there is evidence of transactions for the same or similar assets, indicating that they are saleable in the market place, are recognised. As a result of Solvency II principles, goodwill and other intangible assets recognised under UK GAAP have no value in the Solvency II consolidated balance sheet.

Intangible assets comprising AVIF policies and negative goodwill, both arising from the transfer of acquired business from RMIS, are fair valued at £23.0m for UK GAAP purposes and nil under Solvency II.

D.1.5 Property held for own use and other fixed assets

Under Solvency II, property, plant and equipment held for own use is recognised at fair value. Asset components are depreciated over their estimated useful lives under UK GAAP, and a reversible impairment is recognised if specific conditions are met. Property held for own use is stated at its revalued amount of £3.6m. (2018: £3.5m) The fair value is reliably measured and provided by an external professional valuation in accordance with market practice and the guidelines of the Royal Institute of Chartered Surveyors.

D.1.6 Prepayments and accrued income

On a UK GAAP basis, accrued income aggregating £10.6m (2018: £11.5m) is disclosed under 'Prepayments and accrued income'. Under Solvency II, accrued income is required to be included under the relevant investments category and has been reclassified under government bonds and corporate bonds.

D.1.7 Reinsurance recoverable and receivables

Reinsurance recoverable related to insurance Technical Provisions are calculated in accordance with Solvency II valuation principles. The amounts recoverable from reinsurers are based on gross provision, having due regard to collectability. As at 31 December 2019, the value of the Group's reinsurance recoverable based upon UK GAAP was a net payable £17.6m, disclosed as an asset of £17.5m and liability of £34.9m in accordance with UK GAAP. (2018: Net receivable of £5.1m, asset of £28.4m and liability of £23.3m)

The resulting reinsurance cash flows are adjusted to allow for the risk of a reinsurer default. Standard & Poor's and AM Best are the current nominated rating agencies for this purpose.

Consistent with Solvency II requirements, the Group treats the value of these reinsurance arrangements as an asset, where the valuation is based on the projected liabilities associated with the reinsurance on a gross of reinsurance basis. On a Solvency II valuation basis there was a liability value of £34.5m, (2018: £15.3m), which has been reported in the table shown in section D.1 as a negative asset to be consistent with the Solvency II reporting within Quantitative Reporting Template ("QRT") S.02.01.02. This comprises a negative asset of £46.3m (2018: £21.4m) representing the net position of the longevity swaps (see section D.1.8) offset by a recoverable amount of £11.8m (2018: £6.1m) in respect of Assurance products.

D.1.8 Longevity swaps

The Group holds a number of longevity swaps for its annuity portfolios, where the payments to the reinsurance counterparties are made on the basis agreed at the outset of the reinsurance treaty. In return, payments based on the actual experience of the corresponding annuity portfolios are made by the reinsurers to Group over the remaining lifetime of the annuities.

The value of these longevity swaps is calculated as the difference between the present value of the variable annuity payments received from the reinsurer and the present value of the fixed annuity payments (agreed at the treaty outset) made to the reinsurer, where discounting is at the basic risk-free interest rate term structure.

Allowance for reinsurer default is made to the cash flows using Solvency II probability of default for corporate bonds, with an allowance for recovery given default, as prescribed by EIOPA.

D.1.9 Receivables (trade, not insurance)

Cost is used as an approximation of fair value for current cash settled receivables and payables, having due regard to collectability. The amount of £8.7m (2018: £5m) on the UK GAAP basis comprises largely cash collateral received under derivative arrangements from counterparty of £7.8m (2018: £4.3m).

D.1.10 Loans on policies

Amortised cost is used as an approximation of fair value for loans on policies for both UK GAAP and Solvency II, having due regard to collectability. Loans on policies had an aggregate value of £1.0m. (2018: £0.7m)

D.1.11 Deferred taxation

Differences arise between Statutory Reporting and Solvency II deferred tax balances due to differences in underlying valuation principles for assets and liabilities. However, recognition and valuation principles of deferred taxes under both UK GAAP and Solvency II frameworks are similar.

Deferred tax assets and liabilities emerge from temporary differences with tax values of assets and liabilities, and, when applicable, from tax losses carry forwards.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available to offset the temporary differences, taking into account the existence of tax groups and any legal or regulatory requirements on the limits (in terms of amounts or timing) related to the carry forward of unused tax losses or the carry forward of unused tax credits.

Projections made for future taxable profits are broadly consistent with assumptions used for other projected cash flows. The recoverability of deferred tax assets recognised in previous periods is reassessed at each closing period.

The deferred tax assets and liabilities are netted off if the counterparty is the same tax authority and there is an ability to settle net.

D.1.12 Insurance and intermediary receivables

As a 31 December 2019 and 31 December 2018, insurance receivables for premiums and recovery of pension relief at source were valued at £0.2m for UK GAAP and Solvency II purposes.

D.2 Technical Provisions

Liabilities	Solvency II	Statutory Reporting
Technical Provisions – life (excluding index-linked and unit-linked)	**(824.7)**	**(888.9)**
Technical Provisions – health (similar to life)	**(0.3)**	-
Technical Provisions calculated as a whole	(0.3)	-
Best Estimate	-	-
Technical Provisions – life (excluding health and index-linked and unit-linked)	**(824.4)**	**(888.9)**
Best Estimate	(801.6)	-
Risk Margin	(22.8)	-
Technical Provisions – index-linked and unit-linked	**(635.9)**	**(640.9)**
Technical Provisions calculated as a whole	(635.5)	-
Best Estimate	(0.4)	-
Other Technical Provisions – Reinsurance	-	(34.9)
Provisions other than Technical Provisions	(1.7)	(1.7)
Pension benefit obligations	(3.3)	(3.3)
Deposits from reinsurers	(5.8)	(5.8)
Deferred tax liabilities	(14.2)	(0.3)
Insurance and intermediaries payables	(9.0)	(9.0)
Reinsurance payables	(0.6)	(0.6)
Payables (trade, not insurance)	(18.7)	(18.7)
Any other liabilities, not elsewhere shown	-	(130.8)
Total liabilities	**(1,513.9)**	**(1,734.7)**
Excess of assets over liabilities	305.1	159.1

D.2.1 Material lines of business

Under Solvency II, Technical Provisions are split amongst Life With-Profits Participation, Linked Life and Other Life Insurance.

Technical Provisions are measured using a two-fold 'building block' approach:

- BEL; and
- Risk Margin for non-hedgeable risks, which is added to the BEL. The valuation of Technical Provisions requires in-depth analysis of the underlying obligations, collection of qualitative and quantitative information, projection tools and models, and expert judgement in a number of areas.

The table below shows the segmentation of the Utmost business into lines of business for Solvency II purposes.

Category	Description
Life With-Profits Participation	All products falling within this category are within one of the WPSFs. Some business within the WPSFs falls within the Other Life Insurance category.
Linked Life	This includes unit-linked business, but excludes index-linked annuities and index-linked funeral plan business, which increase in line with inflation indices.
Other Life Insurance	This includes all other business, including annuities and funeral plan business.

The table below sets out the Technical Provisions as at 31 December 2019 for each of, including the TMTPs (also referred to as Transitional Deduction, "TD") as at 31 December 2019.

Technical Provisions			
Sub-Fund	BEL	Risk Margin	Technical Provision
	£m	£m	£m
Non-Profit Fund	1,230.2	25.2	1,255.4
WPSF1	13.0	-	13.0
WPSF2	12.9	-	12.9
WPSF4	108.2	0.2	108.4
WPSF6	101.7	0.3	102.0
Group TP Before TD	**1,466.0**	**25.8**	**1,491.8**
TD (unaudited)	(28.2)	(3.0)	(31.2)
Total Group After TD (unaudited)	**1,437.8**	**22.8**	**1,460.6**

A summary by line of business is provided below.

Technical Provisions			
Sub-Fund	BEL	Risk Margin	Technical Provisions
	£m	£m	£m
Life With-Profits Participation	220.6	0.6	221.1
Linked Life	636.4	-	636.4
Other Life Insurance	609.1	25.2	634.3
Total Group Before TD	**1,466.0**	**25.8**	**1,491.8**
TD (unaudited)	(28.2)	(3.0)	(31.2)
Total Group After TD (unaudited)	**1,437.8**	**22.8**	**1,460.6**

Other Life Insurance includes NPF policies in both non-profit and WPSFs.

The Risk Margin and the TMTPs are both calculated at a sub-fund level.

Comparison with Financial Statements

The bases, methods and assumptions used for the Solvency II regulatory valuation of the Group's Technical Provisions uses BEL with a Risk Margin, whereas valuation for financial reporting under UK GAAP uses a more prudent basis. Other sources of differences between the two bases include differences due to discount rates and allowance for contract boundaries within the calculation of the BEL.

Whilst there is prudence throughout the UK GAAP statutory basis, explicit margins of prudence exist, as follows:

- An explicit prudence margin of 5% on ongoing expenses, and a 5% margin on one-off expenses has been allowed for. In addition, a more prudent approach to the calculation of diseconomies of scale has been adopted. The overall margin for prudence (explicit and implicit) exceeds 10%;
- Assurance and annuities in payment assumptions have a margin of 10% with this increasing to 20% where there are limitations on the data. There is further prudence in the long-term improvement rates for annuities in-payment (0.25% pa increase in the rate of improvement);
- No reduction is made for persistency; and
- The assumption for the take-up of GAOs contains additional prudence in that the take-up rate increases linearly to 95% over 20 years.

D.2.2 Valuation methodology

Under Solvency II, the investment contract benefits and insurance contract liabilities required by UK GAAP are replaced by an assessment of the Technical Provisions, comprising BEL and the Risk Margin. The table below shows a comparison between the two reporting metrics. The Solvency II values are after allowance for TMTPs.

	Technical Provision Differences				
Figures in £m	Statutory Accounts FRS102	Reallocation	Recognition of Discretionary Elements	Accounting Policy Differences	Solvency II Value
Unit-linked Technical Provisions					
-BEL	641.0	27.0		(32.1)	635.9
Life and Health Technical Provisions					
-BEL	888.8	(27.0)	66.0	(125.9)	801.9
Risk Margin				22.8	22.8
Gross Technical Provisions	**1,529.8**	**-**	**66.0**	**(135.2)**	**1,460.6**
Reinsurance					
-BEL	17.6			16.9	34.5
Net Technical Provisions	**1,547.4**	**-**	**66.0**	**(118.3)**	**1,495.1**

The reallocation column shows differences in the categorisation of liabilities between the UK GAAP statutory accounts and Solvency II. The values shown are based on the basis used for the UK GAAP statutory accounts. The accounting policy differences reflect the differences between the two bases due to moving to the Solvency II basis and methodology. The reassessment of participations shows the allowance for future discretionary benefits allowed for within the calculation of the BEL.

* Risk Margin is net of TMTPs, which is applied to the Risk Margin first before Technical Provisions.

Level of uncertainty in the technical provisions

The projection of the monthly cash flows used in the assessment of the Technical Provisions and Risk Margin requires management to make assumptions about future demographic and economic experience. The assumptions are based on historical experience, expected future experience, and various other factors that are believed to be reasonable under the circumstances. The assumptions are reviewed on a regular basis. Uncertainty arises from actual future experience being different from that assumed.

For the Group, the key areas of uncertainty relate to the items listed below.

- Life underwriting risk, which includes mortality experience, longevity experience, and policyholder behaviour in respect of exercising guarantees and options;
- Market conditions, including change in credit spreads, long-term interest rates and equities; and
- Future expenses incurred in servicing insurance obligations, including administrative, investment and claims management expenses plus provision for related overheads.

Provision for future expenses: assumptions

The expenses contain a degree of uncertainty in relation to the future development of the business. The assumptions used to determine the Solvency II Technical Provisions and SCR have been set based upon the business plan for the Group, without taking into account any cost benefits that might arise from future acquisitions. In doing so, the Board has set the expense assumptions taking into consideration the impact on expenses of adopting alternative scenarios and strategies (including outsourcing administration or managing the diseconomies that arise as the business runs off).

Best estimate liabilities

The BEL correspond to the probability-weighted average of future cash flows, including policyholders' benefit payments, expenses, taxes, premiums related to existing insurance and reinsurance contracts, taking into account the time value of money (i.e. by discounting these future cash flows to present value). The calculation of the BEL is based upon up-to-date reliable information and realistic assumptions. The cash flow projection model used in the calculation includes all the cash in- and out-flows required to settle the insurance and reinsurance obligations over their lifetime. The BEL is recognised on a gross of reinsurance basis, without deduction of amounts recoverable from reinsurance contracts

Appendix A shows the material assumptions used to calculate the BEL for the Group as at 31 December 2019. In particular, it covers the assumptions used for interest rates, inflation, mortality, expenses and option take-up rates.

The model discounts these monthly cash flows using the Solvency II basic risk-free term structure of interest rates applying at the valuation date, prescribed by EIOPA, to calculate the BEL. For the MA portfolios (described in section D.2.3), the corresponding MA is added to the basic risk-free curve at all durations. The same model is used to project the reinsurance premiums and claim cash flows, which are then discounted in the same way to determine the value of the reinsurance asset.

Expenses

Expenses include administrative, investment management, claims management and acquisition expenses which relate to recognised insurance and reinsurance obligations. The assumptions underlying expense projections are consistent with the Group's strategy, taking into account future new business and any change in expenses as decided by management. The cash flow projection model allocates the total annual (business-as-usual) budgeted expenses across the policies to which they relate. Investment management charges are based on the level of assets backing Technical Provisions, and unit costs are based on the business-as-usual budget (net of charges received from the with-profits sub-funds) and the number of policies in force at the valuation date.

In setting the expense assumptions, the Group has used its view on the expected future costs. The sensitivity of the Group to changes in expenses can be seen in the unaudited section C.7.

Future discretionary benefits ("FDB")

In line with Solvency II requirements, the BEL for the Group's with-profits business contains an allowance for FDBs: the payment of bonuses that are expected to be declared in the future. FDBs consists of future reversionary bonuses, terminal bonuses and other non-guaranteed bonuses.

For WPSF1, the FDB is based on the asset share plus the cost of guarantees less the best estimate value of the corresponding guaranteed liabilities. Where asset shares are not available, a proxy for the asset share is calculated by scaling the Bonus Reserve Value ("BRV") for each contract by the average increase in the asset shares that are available for the similar type of product and year of inception.

For WPSF2, WPSF4 and WPSF6, asset shares are not available and therefore a prospective BRV approach is used. An iterative surplus minimisation process is initially carried out, which searches for a terminal bonus rate that, when applied, results in a BRV that matches the (net of current liabilities) asset value for each fund (subject to a tolerance). For these funds, the FDB is calculated to be the value of the assets less the value of the guaranteed liabilities.

Manual reserves

The Group determines the value of certain liabilities (referred to as 'manual reserves') outside of its policy level cash flow projection model. The cash flows determined in respect of each manual reserve are imported into the model so that they can be included in the final BEL calculation as appropriate.

Allowance for deferred tax asset

The approach is a simplification of the underlying tax calculation because the amount is immaterial and assumes that full tax relief is available on all future expenses.

Risk Margin

The Risk Margin is defined as the cost of non-hedgeable risk, i.e. a margin in addition to the expected present value of liability cash flows required to manage the business on an ongoing basis. It is deemed to be the present value of the cost of future economic capital requirements for non-hedgeable risks. A best estimate assumption is defined as one where there is the same probability that the actual experience develops more or less favourably than the assumption. It is neither a prudent nor an optimistic assumption. It is set at a level that is neither deliberately overstated nor deliberately understated. Due to the inherent uncertainties, if two assumptions are equally reasonable the more prudent one is retained.

In line with Solvency II requirements, the Group calculates the Risk Margin by determining the expected cost of providing capital to cover the non-hedgeable part of its SCR over the remaining lifetime of the in-force business.

The Group assumes that all market risks are hedgeable and therefore excludes them from the SCR used in the Risk Margin calculation. Underwriting, operational and counterparty default risks are considered non-hedgeable.

The Solvency II requirements define a hierarchy of simplifications which may be used to determine the Risk Margin that remove the need to perform a full projection of the SCR (excluding hedgeable market risk) at each future time period.

Rather than performing a full projection of the SCR at each future time period, the Group uses a simplified approach to determine the Risk Margin for all risks apart from longevity. Under the simplified methodology, each component of the Basic Solvency Capital Rate ("BSCR") (excluding market risk) is projected by assuming that the initial value runs off in line with an appropriate component of the BEL. For the longevity risk sub-module, instead of using a component of the BEL to estimate future risk capital, a full projection of the longevity risk capital is carried out.

This approach is consistent with Method 1 of the Hierarchy of Simplifications outlined in the Solvency II Guidelines.

To arrive at the Risk Margin, the projected non-hedgeable SCRs at each future time-step are multiplied by a 6% cost of capital rate and discounted using the Solvency II basic risk-free term structure of interest rates

Consistent with Solvency II rules, the Group's Risk Margin is calculated without taking credit for the effects of the MAs in NPF1 and NPF2.

D.2.3 Matching Adjustment

The following table summarises the Group's two MA portfolios, as at 31 December 2019.

MA Portfolio Liabilities at 31 December 2019 (£'m)			
Contract Type	Contracts	BEL (with MA)	BEL (no MA)
Annuities (NPF MA1)	26,836	468.0	514.8
Funeral Plan (NPF MA2)	14,151	69.7	70.5
Total	**40,987**	**537.7**	**585.3**

In each of the two MA portfolios, the liabilities and the assets held to match those liabilities satisfy the specific requirements that must be met in order to apply the MA.

For each MA portfolio, the corresponding MA is added to the basic risk-free term structure of interest rates at all durations. The adjusted interest rate curve is then used to discount the BEL cash flows projected to emerge in that portfolio.

No allowance for the MA is made in the calculation of the Risk Margin in respect of the MA portfolios, and the MA is not applied when discounting the reinsurance cash flows associated with this business.

The table below sets out the MA used in the 31 December 2019 valuation in respect of each of the two MA portfolios.

Matching Adjustment Rates			
Component	Description	NPF MA1	NPF MA2
Rate 1	Single annual discount rate that equates the discounted value of the expected liability cash flows to the market value of the assets held to match those cash flows.	2.38%	1.06%
Rate 2	Single annual discount rate that equates the discounted value of the expected liability cash flows to the BEL calculated using the basic risk-free interest rate term structure with no adjustments.	0.94%	0.96%
Fundamental Spread	A component of credit spreads that reflects the cost of downgrades and a long-term average spread underpin. It varies by: currency, asset class, credit rating and duration	0.43%	0.01%
Matching Adjustment		**1.01%**	**0.09%**

The following table summarises the assets held in the two NPF MA1 and NPF MA2 portfolios as at 31 December 2019.

Assets in the MA portfolios (£m)		
Asset Type	Value at 31 December 2019 (£m)	
	NPF MA1	NPF MA2
Corporate bonds	410.6	2.4
Government bonds	132.4	71.5
Cash, Deposits and Other	9.2	1.7
Total	**552.2**	**75.6**

The table below shows the impact on the Group's Solvency II Pillar 1 balance sheet as at 31 December 2019 of zeroing the MA.

SII Pillar 1 Balance Sheet (£m)			
Balance Sheet Component	Value at 31 December 2019 (£m)		
	with MA	without MA	Impact of MA
Assets	1,765.6	1,765.6	-
Technical Provisions	(1,460.6)	(1,508.2)	47.6
Own Funds	**305.1**	**257.4**	**47.6**
Restricted (With-Profits) Own Funds	(18.2)	(17.8)	(0.3)
Tier 2 Restriction	(33.1)	(21.3)	(11.9)
Eligible Own Funds	253.8	218.4	35.4
Solvency Capital Requirement	53.8	77.4	(23.6)
Solvency Ratio	**471%**	**282%**	**189%**
Minimum Capital Requirement	20.3	20.4	-

The benefit of the MA is largely due to the Group's significant exposure to annuities in payment. The combined value of the BEL in the two MA portfolios is £538m. Due to the long-term nature of these liabilities, an uplift in the discount rate has a material impact on the BEL, reducing them by £48m.

D.2.4 Volatility Adjustment

As at 31 December 2019, the Group did not make use of the Volatility Adjustment for the purpose of determining its Technical Provisions.

D.2.5 Transitional measures (Unaudited)

Transitional risk-free interest rate term: structure

As at 31 December 2019, Utmost Life and Pensions did not apply the transitional risk-free interest rate term structure in the discounting of best estimate cash flows when calculating its Technical Provisions.

TMTPs (also referred to as the Transitional Deduction ["TD"])

Following the acquisition of the former RMIS insurance business, the PRA approved UUG's subsidiary Utmost Life and Pensions' application to recalculate the TMTPs within its Technical Provisions. The Transitional Deduction ("TD") is not subject to audit.

The calculation of the recalculated TD was carried out in line with the Group's TD recalculation policy, in two stages:

1. Calculation of an 'unlimited' TD set equal to the difference between the Technical Provisions on a Solvency II and Solvency I Pillar 2 basis, with appropriate allowance for business run-off since 31 December 2015.

2. Calculation of a limitation on the TD, to ensure that the total Technical Provisions plus capital requirements on a Solvency II basis, after the application of TD, are not lower than the equivalent Solvency 1 bases (both Pillars 1 and 2).

The table below shows the impact of excluding the TD from the Group's Solvency II Pillar 1 balance sheet as at 31 December 2019.

Balance Sheet Component	Value at 31 December 2019 (£m)		
	with TMTP	without TMTP	Impact of TMTP
Assets	1,765.7	1,765.7	-
Technical Provisions	(1,460.6)	(1,491.8)	31.2
Own Funds	**305.1**	**273.9**	**31.2**
Ring-Fenced Fund Restriction to Own Funds	(51.3)	(51.3)	-
Eligible Own Funds	253.7	222.5	31.2
Solvency Capital Requirement	53.8	53.8	-
Solvency Ratio	**471%**	**413%**	**58%**
Minimum Capital Requirement	20.3	20.4	0.1

D.3 Other Liabilities

The following section references the 'current liabilities, other than Technical Provisions' table in section D.2.

D.3.1 Insurance and intermediaries payables

This balance of £9.0m (2018: £9.3m) comprises claims outstanding relating to insurance and participating investment contracts. Death claims, maturities, annuity payments due and surrenders are recognised when due or at the earlier of the date when paid or when policy ceases to be included in the Technical Provisions (including for linked contracts).

The Group makes a provision for outstanding claims based on a realistic assessment of the likelihood of payment, which varies in line with the age of the debt and the Group's ability to make contact with the policyholder.

D.3.2 Payables (trade, not insurance) and other liabilities

These payables of £18.7m (2018: £9.8m) comprise amounts which fall due within 12 months from the balance sheet date and are considered to be held at fair value. These payables are due to employees, suppliers, public entities and reinsurers, including £7.8m liability for collateral creditor held under derivative arrangements with a counterparty (2018: £4.3m).

D.3.3 Deposits from reinsurers

These comprise the liability to Hannover Re of £5.8m (2018: £6.2m) under the deposit back arrangement and are valued in accordance with the agreement on a payable basis and considered as a fair approximation of the fair value under Solvency II. Utmost Life and Pensions holds an equivalent amount of assets as collateral received, which are included under Government Bonds, Corporate Bonds and Cash.

D.3.4 Pension Scheme benefit obligations

As part of the transfer of business from RMIS on 1 April 2018, UUG's subsidiary Utmost Life and Pensions entered into a Flexible Apportionment Arrangement, whereby it was admitted as the principal employer to the defined benefit pension scheme ("the Scheme") and all RMIS Scheme liabilities were apportioned to Utmost Life and Pensions.

The Scheme has been closed to future accrual since June 2010.

The value of the Defined Benefit ("DB") pension scheme is recognised on the liability side of the Solvency II balance sheet and is calculated as the difference between:

- the market value of assets backing the liabilities of the DB pension liabilities; and,
- the DB pension liabilities calculated under the International Accounting Standard 19 ("IAS 19"), including International Financial Reporting Interpretations Committee 14 ("IFRIC 14").

The valuation allows for the full cost of pensions equalisations (being the financial impact on the Reliance Pension Scheme of benefits being provided on and from 17 May 1990 with the same normal retirement age of 60 for male and female members and on and from 30 March 1995 with the same normal retirement age of 65 for male and female members). The asset valuation is carried out by Schroder's and the value of the DB pension liabilities is calculated by Willis Tower Watson, an employee benefits consultancy.

As at 31 December 2019, the DB pension scheme was in deficit valued at £3.3 million, (2018: £6m) applicable for both UK GAAP and Solvency II purposes, as follows:

Pension Scheme assets	£33.8m
Pension Scheme liabilities	(£37.1m)
Deficit	(£3.3m)

D.3.5 Accruals and deferred Income

Amounts of £1.7m relate to pensions mis-selling accrual reflected in both UK GAAP and Solvency II.

D.3.6 Reinsurance payables

As at 31 December 2019, the value of the Group's reinsurance payables was £0.6m, for both UK GAAP and Solvency II reporting. (2018: £0.4m)

D.3.7 Provisions other than Technical Provisions

Disclosed separately for UK GAAP purposes, the balance at 31 December 2019 of £1.7m has been reclassified for Solvency II as a deferred tax liability. (2018: £0.3m)

D.3.8 Deferred taxation Liability

Differences arise between UK GAAP and Solvency II deferred tax balances due to differences in underlying valuation principles for assets and liabilities. However, recognition and valuation principles of deferred taxes under both UK GAAP and Solvency II frameworks are similar.

Deferred tax assets and liabilities emerge from temporary differences with tax values of assets and liabilities, and, when applicable, from tax losses carry forwards.

The deferred tax liability is calculated by reference to temporary difference between the values ascribed to assets and liabilities for UK GAAP and the value ascribed to those assets and liabilities under Solvency II. The deferred tax liabilities under Solvency II include additional liabilities recognised in respect of positive valuation differences between the Solvency II balance sheet and the UK GAAP statutory accounts.

Projections made for future taxable profits are broadly consistent with assumptions used for other projected cash flows. The recoverability of deferred tax assets recognised in previous periods is reassessed at each closing period.

The deferred tax assets and liabilities are netted off if the counterparty is the same tax authority and there is an ability to settle net.

At 31 December 2018 the Group had carried forward losses of £2,038k and was able to offset the deferred tax asset recognised in respect of these losses (£346k) against its deferred tax liabilities. However, the Group fully utilised the latter losses against its taxable profits in 2019, ensuring that at 31 December 2019 it was not carrying forward any tax losses.

D.3.9 Valuation and Recognition of liabilities

The Group has no material liabilities arising as a result of leasing arrangements.

There are also no significant uncertainties regarding the timing or amounts of other liabilities.

There have been no changes made to the recognition and valuations bases, or estimates used, of other liabilities during the reporting period.

There are no differences between the bases, methods and main assumptions used in the valuation for solvency purposes and those used for valuation in the Financial Statements. Aside from assumptions used for valuation models, as noted above, there are no significant assumptions or uncertainties regarding the valuation of assets.

D.4 Alternative Methods for Valuation

D.4.1 Participation in related undertakings

Participation in related undertakings aggregate £nil and are not material to the Group's balance sheet and accordingly, are valued at net asset value.

D.4.2 Loans on policies and outstanding premiums

Loans on policies and outstanding premiums are valued for UK GAAP at amortised cost of £0.7m, (2018: £0.7m), and this is not considered to be materially different to their fair value for Solvency II purposes.

D.5 Any Other Information

The coronavirus outbreak has resulted in a fall in asset values in 2020. The COVID-19 outbreak has not had a material impact on liabilities. The Group remains well above its Solvency II Capital Coverage Targets.

E. CAPITAL MANAGEMENT

E.1 Own Funds

Capital is determined and monitored for the Group on the regulatory basis, as stipulated in the PRA Rulebook. This primarily focused upon the Total Available Own Funds ("TAOF") and the Solvency Capital Requirement ("SCR") of the Group. The SCR was determined on a monthly basis and impact of market volatility monitored daily, ensuring that adequate capital requirements are met. The Group's capital position was formally reviewed and approved on a quarterly basis by delegated authority from the Board to the management and the solvency position monitored by ALCO. The Total Available Own Funds for year end 31 December 2019 were £286.8 (2018: £115.0m). The Group had an SCR of £53.8m at year end 2019 (2018: £64.6m), with a Solvency Coverage Ratio of 471% (2018: 178%), which reflects the injection of capital received in December 2019 ahead of the Equitable Life transfer. Following the acquisition of Equitable Life, the SCR requirements of the Group increased from £53.8m to £171.4m. The Group's Eligible Own Funds ("EOF") increased from £251.4m to £309.2m, resulting in an estimated Solvency Coverage Ratio of approximately 180%, as at 1 January 2020 for the combined business.

The Utmost Life and Pensions Capital Management Framework and risk appetite set out the Group's approach for managing Own Funds. The Group aims to maintain an appropriate buffer of capital resources over the regulatory capital requirements. The Group projects over the five-year business planning period. Solvency and liquidity levels are monitored on a regular basis, and are used to inform the dividend capacity and the ability to service the subordinate debt. There have been no material changes over the reporting period to the management of Own Funds.

The Group is required to hold capital at a level of financial resources that do not fall below a minimum as determined in accordance with the PRA Regulations and EU Directives for insurance and other PRA-regulated business. For the purposes of determining its regulatory capital, the Group uses the Solvency II Standard Formula without adjustment. The appropriateness of the Standard Formula approach has been reviewed by management and the Actuarial function and approved by the Board.

The capital of the Group comprises ordinary shares, loan capital and retained earnings. The loan capital from the immediate parent company qualifies as Tier 2 capital under Solvency II.

On 16 December 2019, Utmost Life and Pensions increased its issued ordinary share capital from £30m to £142.6m, and, on the same date, Utmost Life and Pensions repaid its £35m term loan facility from Utmost Holdings and new debt of £60m was drawn down. The new loan, which matures on 9 December 2030, qualifies as Tier 2 capital under Solvency II reporting guidelines. This was in advance of the Part VII Transfer of business from Equitable Life on 1 January 2020 to meet the increase in Utmost Life and Pensions' regulatory capital obligations arising therefrom.

E.1.1 Description of Own Funds

The Group's Own Funds are allocated to tiers, as set out in the Solvency II regulations.

Own Funds (£m)	Tier	31 December 2019	31 December 2018
Paid in ordinary share capital	1	145.8	31.0
Surplus funds	1	18.4	18.2
Reconciliation reserve	1	62.6	34.0
Tier 2 capital	2	60.0	35.0
Total Available Own Funds		**286.8**	**118.2**
SCR Eligibility restrictions on Tier 2 capital		(33.1)	(2.7)
Eligible Own Funds to meet the SCR		**253.7**	**115.5**
Additional MCR Eligibility restrictions on Tier 2 capital		**(22.8)**	**(30.8)**
Eligible Own Funds to meet the MCR		**230.9**	**84.7**

The change in surplus funds and reconciliation reserves is set out in more detail in sections E.1.3 and E.1.4.

The Group currently has no Ancillary Own Funds items. Additional share capital and subordinated liabilities were issued in December 2019. This comprised of:

Issued by	Own Funds (£ms)	Tier	Amount
UUG Holdings (No 1) Ltd	Paid in Ordinary Share Capital	1	145.8
UUG Holdings (No 1) Ltd	Tier 2 loan	2	60.0
Utmost Life and Pensions Holdings Limited	Paid in Ordinary Share Capital	1	142.9
Utmost Life and Pensions Holdings Limited	Senior Debt	2	60.0
Utmost Life and Pensions Limited	Paid in Ordinary Share Capital	1	142.6
Utmost Life and Pensions Limited	Tier 2 Capital	2	60.0

Only the UUG Holdings (No 1) Ltd issues were to a company outside the Group, the rest were intra-group transactions. This enabled the Group to be ready to accept the assets and liabilities from Equitable Life and comply with its capital policy. The change in surplus funds and reconciliation reserves is set out in more detail in section E.1.3 and E.1.4.

The majority of the own funds sits within Utmost Life and Pensions. There are no availability issues relating to the utilisation of the own funds within Utmost Life and Pensions, where the majority of the Group risk resides. If capital support was needed within the Group from Utmost Life and Pensions then there are restrictions, as set-out in the Utmost Life and Pensions capital policy, on the availability of the own funds from Utmost Life and Pensions. Given the size of the Group risks it is not anticipated that there would be any material restrictions.

Ordinary share capital

The Group's issued and fully paid ordinary share capital is treated as Tier 1 unrestricted Own Funds.

Surplus Funds

The PRA has set out a mandatory calculation of Surplus Funds for UK Solvency II firms to ensure consistency across the industry[1]. For these funds, Surplus Funds should be calculated as the difference between the

[1] https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/supervisory-statement/2015/ss1315

assets in a with-profits fund (except those meeting liabilities in respect of non-profit insurance) and the value of with-profit liabilities (including the value of any other liabilities properly attributable to that with-profits fund).

With-profits Surplus Funds satisfy the characteristics of Tier 1 because they will only be distributed to policyholders in the future if it is appropriate to do so and are loss-absorbent because future distributions can be reduced if the amount of accumulated profits reduces due to future losses.

The PRA has specified that the default basis for the calculation of the value of with-profit liabilities (for the purposes of Surplus Funds) is a retrospective (i.e. asset share) approach. However, where a retrospective approach is impracticable or would not lead to a fair value of the liabilities, a prospective approach can be used.

For WPSF1, asset share has been used in the calculation of Surplus Funds in line with the PRA calculation and guidance. Where asset shares are not available, a proxy for the asset share is calculated by scaling the BRV for each contract by the average increase in the asset shares that are available for the same type of product and year of inception.

For WPSF2, 4 and 6, the Group does not maintain asset shares and, due to the treatment of FDB in these funds, the PRA calculation of Surplus Funds results in a value of zero.

The Surplus Funds exist in the with-profit funds, which, under Solvency II Regulations, are subject to Ring Fenced Fund ("RFF") restriction. The Surplus Funds are therefore only available to meet losses arising within the relevant with-profits fund. This limitation is taken into account by restricting the Own Funds of each fund to the amount required to cover that fund's BSCR.

Intra-group loans

The Group currently has in place a series of intra-group loans in order to provide financing. Equivalent to equity funding being passed down the Group via capital injections into subsidiaries, debt is flowed down the Group via intra-group loan agreements. Tier 2 debt between ULPHL and Utmost Life and Pensions qualifies as eligible regulatory capital for Solvency II purposes.

The Group has 3 intra-group loans in place as at 31 December 2019, summarised as follows:

1. A £60m Tier 2 loan between UUG Holdings (No 3) Ltd and UUG Holdings (No 1) Ltd;
2. UUG Holdings (No 1) Ltd then issued £60m of senior debt to ULPHL;
3. ULPHL then issued a £60m Tier 2 Loan to Utmost Life and Pensions, which qualifies as regulatory capital in Utmost Life and Pensions under Solvency II regulations and is therefore included within Own Funds.

As at 1 January 2020 all of these facilities had been fully utilised. The payment of interest due in April 2019 and September 2019 was made in full for all loans then existing. Interest under the three new loans is payable in June and December at a coupon rate of 7% per annum. The exact structure of any debt would influence the classification for own funds purposes. The loans mentioned in items 1 and 3 above are Tier 2 subordinated liabilities; the loan in item 2 is classified as senior debt.

The Group's capital management policy is designed such that there is no need for additional capital for its existing business, assuming that its strategic aims are achieved. As noted above capital within the Group is primarily directed down to Utmost Life and Pensions to support its strategic acquisition strategy whilst adhering to the Group's capital policy. Outside of Utmost Life and Pensions, other Group entities have Own Funds (primarily cash balances) largely to cover their expenses; UUG Holdings (No 1) Ltd holds sufficient cash to pay Group expenses (circa <£1m at any time) and Utmost Life and Pensions Services Limited holds sufficient cash to pay staff costs and other such administrative costs to keep Utmost Life and Pensions running, which are then wholly recharged to Utmost Life and Pensions through a service agreement. The Group does not currently have any intra-group reinsurance arrangements. A further example of the use of existing capital within Utmost Life and Pensions is to pay the interest on intra-group loans noted above as these fall due in 2020.

The Group can raise additional capital through issuing new equity in its Guernsey-based holding companies. The mechanism to transfer this capital into the Group is via intra-group capital injections, which effectively means UUG Holdings (No 1) Ltd issuing new ordinary shares to its parent. UUG Holdings (No 1) Ltd then flows the capital down by subscribing for additional shares in its subsidiary Utmost Life and Pensions Holdings, and Utmost Life and Pensions Holdings in Utmost Life and Pensions as the authorised insurance entity. The ultimate source of equity funding comes from the founders (Ian Maidens and Paul Thompson), and funds managed by Oaktree Capital Management LP, the private equity backer of the Utmost Group which is majority owned by Brookfield Asset Management.

The Equitable Life acquisition was funded by a combination of existing surplus and a capital injection totalling £137.6m into Utmost Life and Pensions. This included a share capital injection of £112.6m and a loan of £60m with a loan repayment of £35m.

Subordinated liabilities

As discussed in the Intra-group loans section, on 16 December 2019 Utmost Life and Pensions drew down a new £60m Tier 2 loan facility and repaid the £35m Tier 2 loan from its parent undertaking, ULPHL. ULPHL also has a senior debt facility in place with UUG Holdings (No 1) Ltd of £60m, and whilst both of these intra-group loans eliminate on consolidation, the £60m of Tier 2 notes issued by UUG Holdings (No 1) Ltd to UUG Holdings (No 3) Ltd (its parent which sits outside the EEA group covered in this Group SFCR) also qualifies as eligible capital and is included within Group Own Funds as at 31 December 2019.

The loan, within Utmost Life and Pensions, which matures on 16 December 2030, qualifies as Tier 2 capital under Solvency II. Interest is paid at the rate of 7% pa and is payable bi-annually. Early repayment is permitted with the consent of the PRA provided Utmost Life and Pensions' Capital Management Policy is maintained, which is:

(i) To seek to maintain Solvency Coverage Ratio cover of at least 135% at all times; and
(ii) To maintain Solvency Coverage Ratio of at least 150% immediately after the payment of a dividend or the payment of interest under any regulatory capital instrument issued by Utmost Life and Pensions.

E.1.2 Reconciliation reserve

The reconciliation reserve is a balancing item which ensures that the total Own Funds equal the excess of assets which are available to absorb unexpected losses over liabilities. This reserve is used to reflect the restrictions on the availability of Own Funds from ring-fencing (see below). It also includes any 'foreseeable' distributions or charges that would reduce the value of the Own Funds available to absorb losses.

E.1.3 Eligibility restrictions of Own Funds

The following table details the restrictions on the Own Funds.

Own Funds (£m)	31 December 2019	31 December 2018
With-Profits Surplus	17.8	15.9
Matching adjustment portfolio Own Funds in excess of SCR	0.4	-
Tier 2 capital restriction	33.1	2.7
Eligibility restriction	51.3	18.6

The Group's WPSFs (WPSF1, 2, 4, and 6) and MA portfolios (NPF MA1 and NPF MA2) are all treated as ring-fenced for Pillar 1 valuation purposes. This means that Own Funds are restricted by the amount of any surplus assets in excess of the notional SCR that exists within each of these RFFs.

The subordinate loan value exceeds the eligible Tier 2 limit for the coverage of the SCR and MCR under the Solvency II rules. The eligible amount has therefore been restricted.

The following table sets out the capital requirements over the reporting period allowing for the eligibility restrictions.

SII Pillar 1 Solvency (£ms)	2019	2018	Change
Eligible Own Funds	**254**	**115**	**139**
SCR	(54)	(65)	11
Excess Available Capital	200	50	150
Solvency Ratio	**471%**	**178%**	**293%**
MCR	(20)	(21)	1
Unused Future Discretionary Benefit / Restricted surplus	37	25	12

Further details on the components of the capital requirements and potential volatility can be found in section E.2 and in respect of asset liability matching in C2.2.

E.1.4 Reconciliation between UK GAAP equity and Solvency II Own Funds

The differences between the Group's UK GAAP and Solvency II valuations are quantified and explained within section D. The following tables summarise those movements and determine the difference in the Group's UK GAAP equity and Solvency II Own Funds and the sources of those differences.

SII Pillar 1 Solvency (£ms)	2019	2018	Change
UK GAAP Equity	159	36	123
Own Funds (Unrestricted)	306	134	172

SII Pillar 1 Solvency (£ms)	UK GAAP Statutory	Solvency II	Change
Valuation of Assets	1,894	1,819	75
Valuation of Technical Provisions	(1,565)	(1,461)	(104)
Subordinated Loan	(60)		(60)
Funds for future appropriations	(71)	-	(71)
Valuation of other liabilities	(39)	(53)	14
Total Own Funds (unrestricted)	159	305	(146)
Fund Restriction		(18)	18
Loan Restriction		(33)	33
Own Funds	159	254	(95)

E.2 Solvency Capital Requirement and Minimum Capital Requirement

E.2.1 SCR calculation and results

The Group uses the Standard Formula approach to calculate its SCR. The appropriateness of the Standard Formula approach with respect to the Group's risk profile has been reviewed by the Risk Management and Actuarial functions and approved by the Board.

The SCR amount for the Group at 31 December 2019 has been calculated to be £53.8m. (2018: £64.6m)

Group SCR as at 31 December 2019 – (£m)		
SCR Module	31/12/2019	31/12/2018
Life Underwriting	39.5	42.5
Market	68.8	76.9
Counterparty Default	3.8	4.4
Base SCR: Diversification	(23.5)	(22.6)
Base SCR	**88.8**	**101.2**
Operational	5.2	5.4
Loss Absorbency Adjustment	(40.1)	(42.0)
Total SCR	**53.8**	**64.6**

The loss-absorbency adjustment of £40.1m (2018: £42m) (as shown in S.25.01) arises from the Group's WPSFs, and reflects the ability of the Group to apply management actions in these sub-funds under stress conditions. It reflects the Group's loss absorbing capacity of technical provisions and of deferred taxes.

E.2.2 Simplifications used in the calculation of the SCR

For the lapse risk sub-module, the Group applies the Standard Formula stresses to persistency rates, paid-up rates and take-up rates on GAOs. The most onerous stress (out of the permanent increase and decrease to rates, and a mass lapse) is assessed at a product code level rather than at an individual policy level. The Group does not consider that this simplification results in a material misstatement of the lapse risk capital.

To calculate counterparty default risk capital, the Group uses a simplification to determine the risk-mitigating effect of reinsurance, whereby the effect of removing reinsurance contracts at treaty level is considered rather than counterparty. The resulting risk mitigation effect is spread across the reinsurance counterparties in line with the base value of the reinsurance asset. The Group does not consider that this simplification will have a material impact on the level of counterparty default risk capital held.

The Group does not use Group specific parameters, pursuant to Article 104(7) of Directive 2009/138/EC.

E.2.3 MCR calculation and results

The Group's MCR is calculated in line with the linear formula set out in the Solvency II Regulations.

The MCR amount for the Group as at 31 December 2019 has been calculated to be £20.3m. (2018: £21.1m) The table below sets out the components of the MCR. The amounts include reinsurance recoverable and liabilities.

Component	Value (£m)	
	31 December 2018	31 December 2019
Technical Provision (Life, 1)	165.0	160.7
Technical Provision (Life, 2)	57.9	65.9
Technical Provision (Life, 3)	623.3	636.3
Technical Provision (Life, 4)	646.8	632.2
Capital at Risk	101.1	**110.3**
SCR	64.6	53.8
MCR	21.1	20.3

E.3 Use of the Duration-based Equity Sub-module in the Calculation of the Solvency Capital Requirement

The Group did not make use of the duration-based equity sub-module in the calculation of the SCR.

E.4 Differences between the Standard Formula and any Internal Model used

An internal model is not used by the Group.

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

The SCR and the MCR were complied with at all times during the reporting period. There is no expectation of any future non-compliance by the Group.

E.6 Any Other Information

The outbreak of COVID-19 is having a significant impact in the UK. The COVID-19 outbreak has also caused a high degree of volatility in the financial markets.

The Group entered 2020 with a strong Balance Sheet and with a Solvency II coverage ratio of approximately 180% as outlined in E.1. As at the date of approving this SFCR and related Quantitative Reporting Templates ("QRTs"), whilst this Solvency ratio has fallen, mainly as a result of lower interest rates, it is still comfortably well above required capital levels and we remain in a strong and resilient position, able to meet our capital requirements.

Appendix A: Valuation Basis

Details of assumptions which are significant for the Group for Solvency II reporting are provided below.

INTEREST RATE TERM STRUCTURE

The Group uses the unadjusted EIOPA term structure for the UK for all lines of business. For business which is in its Matching Adjustment MA portfolios, the EIOPA curve is uplifted by the appropriate MA rate, as shown in section D.2.3. The MA portfolio are:

- The non-profit annuities in-payment in Non-Profit Fund 1 (I1"); and
- The funeral plan business in Non-Profit Fund 2 ("MA2").

INFLATION

Inflation is a significant assumption for the Group because it impacts the value of the projected expenses as well as benefits which are linked to inflation, including inflation-linked annuities in-payment and funeral plans. The inflation assumption used by the Group at year end 2019 was 3.12%. Appropriate allowance is also made to reflect the difference between earnings and price inflation.

MORTALITY

Assurances

For contracts where differential rates were offered to smokers and non-smokers, the appropriate versions of the standard tables have been used.

Different percentages of standard tables, ELT16 and AC00 ranging from 50% to 130% (50% to 130% at yearend 2017) are used depending upon the risk group.

Industrial Branch conventional non-profit contracts are adjusted to allow for 'gone-aways'. These arise where the policyholder is no longer aware of the policy's existence (and may have already died) and where it is not practical to trace the policyholder (or next-of-kin). All Industrial Branch conventional contracts where the policyholder is aged over 100 are excluded. Reduction factors are applied to the remaining non-profit contracts.

Annuities

All mortality tables use the gender-specific PCA00 tables for males and females.

Different percentages of standard tables, PCA00 ranging from 80% to 180% (90% to 180% at year-end 2017), are used depending upon the risk group.

Utmost Life and Pensions has adopted the CMI 2018 mortality improvement factors published by the Institute of Actuaries in 2019 for the valuation of annuity liabilities at year end 2019.

EXPENSES

The table below shows the unit cost assumptions for the NPF. The expenses for WPSF1, WPSF2, WPSF4 and WPSF6 are governed by the Scheme of Arrangement, as described in the Group's PPFM. These unit costs are weighted depending on individual products, based on the amount of resources required to administer the particular products.

Unit Cost Assumptions (£m)	2019	2018
Renewal Expenses: Premium Paying	53.25	60.92
Renewal Expenses: Paid Up	45.26	45.69
Claim Expenses	-	82.16

OPTIONS AND GUARANTEES

In NPF and WPSF6 there are a number of unit-linked and with-profits pension contracts, respectively, where the unit fund may be converted to an annuity on guaranteed terms. The Group uses policyholder fund value dependent take-up rates, which vary between 25% and 60% (year end 2018: 25% and 60%).

LAPSE ASSUMPTIONS

The Group's lapse assumptions are set using historic experience, with the lapse rates rounded to the nearest 0.5%. The rates vary by product, ranging from 0% to 7.5% (year end 2018: 0% to 7.5%).

Appendix B: Quantitative Reporting Templates

The following pages contain QRTs for the Group.

All figures are presented in thousands of pounds with the exception of ratios that are in decimal. Please note that totals may differ from the component parts due to rounding. All items disclosed are consistent with the information provided privately to the Regulators.

The following QRTs are provided:

- S.02.01.02: Balance sheet information.
- S.05.01.02: Information on premiums, claims and expenses.
- S.23.01.01: Information on Own Funds.
- S.25.01.21: Information on the SCR, calculated using the Standard Formula.
- S.28.01.01: Specifying information on the MCR for insurance.
- S.12.01.02: Information on the Technical Provisions relating to life insurance and health insurance.
- S.22.01.21: Information on the impact of long-term guarantees and transitional measure

GLOSSARY OF TERMS

AFR	Available Financial Resources
ALCo	Asset and Liability Committee
ALM	Asset and Liability Management
AMC	Annual Management Charge
AVIF	Acquired Value In-Force
BEL	Best Estimate Liability
bps	basis points
BRV	Bonus Reserve Value
BSCR	Basic Solvency Capital Rate
CF	Certification Function
CMS	Capital Management Strategy
DB	Defined Benefit
ECAI	External Credit Assessment Institution
EIOPA	European Insurance and Occupational Pensions Authority
EOF	Eligible Own Funds
EPIFP	Expected Profit in Future Premium
EU	European Union
ExCo	Executive Committee
FCA	Financial Conduct Authority
FCOGC	Fair Customer Outcomes Governance Committee
FDB	Future Discretionary Benefits
FRS	Financial Reporting Standard under UK GAAP
FVPC	Fair Value Pricing Committee
GAAP	Generally Accepted Accounting Principles
GAO	Guaranteed Annuity Option
GDPR	General Data Protection Regulation
HRG	Homogeneous Risk Group
IAS	International Accounting Standard
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standard
KF	Key Function
KFP	Key Function Person
KRI	Key Risk Indicator
MA	Matching Adjustment
MCR	Minimum Capital Requirement
NNED	Notified Non-Executive Director
NPF	Non-Profit Fund
ORSA	Own Risk and Solvency Assessment
OTC	Over the Counter
PPFM	Principles and Practices of Financial Management
PRA	Prudential Regulation Authority

QRT	Quantitative Reporting Template
RFF	Ring Fenced Fund
RIDCo	Regulatory and Industry Development Committee
RMF	Risk Management Framework
RMIS	RMIS (RTW) Limited – formerly Reliance Mutual Life Insurance Society Limited
SCR	Solvency Capital Requirement
SFCR	Solvency and Financial Condition Report
SM&CR	Senior Managers and Certification Regime
SMC	Senior Management Committee
SMF	Senior Management Function
TMTP	Transitional Measure on Technical Provisions
TP	Technical Provisions
Utmost Life and Pensions	Utmost Life and Pensions Limited
Utmost Holdings	Utmost Life and Pensions Holdings Limited "ULPHL"
Utmost Services	Utmost Life and Pensions Services Limited
WPSF1	With Profits Sub-Fund 1
WPSF2	With Profits Sub-Fund 2
WPSF4	With Profits Sub-Fund 4
WPSF6	With Profits Sub-Fund 6

UUG Holdings (No1) Ltd

Solvency and Financial Condition Report

Disclosures

31 December

2019

(Monetary amounts in GBP thousands)

General information

Participating undertaking name	UUG Holdings (No1) Ltd
Group identification code	213800DZ5XY8AG5COI19
Type of code of group	LEI
Country of the group supervisor	GB
Language of reporting	en
Reporting reference date	31 December 2019
Currency used for reporting	GBP
Accounting standards	IFRS
Method of Calculation of the group SCR	Standard formula
Method of group solvency calculation	Method 1 is used exclusively
Matching adjustment	Use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	Use of transitional measure on technical provisions

List of reported templates

S.02.01.02 - Balance sheet
S.05.01.02 - Premiums, claims and expenses by line of business
S.22.01.22 - Impact of long term guarantees measures and transitionals
S.23.01.22 - Own Funds
S.25.01.22 - Solvency Capital Requirement - for groups on Standard Formula
S.32.01.22 - Undertakings in the scope of the group

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	3,602
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	1,125,468
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	0
R0100	*Equities*	4,425
R0110	*Equities - listed*	0
R0120	*Equities - unlisted*	4,425
R0130	*Bonds*	997,217
R0140	*Government Bonds*	459,929
R0150	*Corporate Bonds*	537,289
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	106,349
R0190	*Derivatives*	17,165
R0200	*Deposits other than cash equivalents*	312
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	644,110
R0230	Loans and mortgages	676
R0240	*Loans on policies*	676
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	
R0270	Reinsurance recoverables from:	-34,457
R0280	*Non-life and health similar to non-life*	0
R0290	*Non-life excluding health*	
R0300	*Health similar to non-life*	
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	-34,457
R0320	*Health similar to life*	0
R0330	*Life excluding health and index-linked and unit-linked*	-34,457
R0340	*Life index-linked and unit-linked*	
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	198
R0370	Reinsurance receivables	319
R0380	Receivables (trade, not insurance)	10,573
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	68,485
R0420	Any other assets, not elsewhere shown	
R0500	**Total assets**	1,818,975

S.02.01.02

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	0
R0520	*Technical provisions - non-life (excluding health)*	0
R0530	*TP calculated as a whole*	
R0540	*Best Estimate*	
R0550	*Risk margin*	
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	
R0580	*Best Estimate*	
R0590	*Risk margin*	
R0600	Technical provisions - life (excluding index-linked and unit-linked)	824,698
R0610	*Technical provisions - health (similar to life)*	310
R0620	*TP calculated as a whole*	285
R0630	*Best Estimate*	26
R0640	*Risk margin*	
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	824,388
R0660	*TP calculated as a whole*	
R0670	*Best Estimate*	801,578
R0680	*Risk margin*	22,809
R0690	Technical provisions - index-linked and unit-linked	635,933
R0700	*TP calculated as a whole*	635,471
R0710	*Best Estimate*	462
R0720	*Risk margin*	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	1,688
R0760	Pension benefit obligations	3,269
R0770	Deposits from reinsurers	5,812
R0780	Deferred tax liabilities	14,242
R0790	Derivatives	0
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	8,964
R0830	Reinsurance payables	594
R0840	Payables (trade, not insurance)	18,726
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	
R0900	**Total liabilities**	1,513,925
R1000	**Excess of assets over liabilities**	305,050

S.05.01.02

Premiums, claims and expenses by line of business

Life

		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									
R1410	Gross	43	871	3,444	8,070					12,428
R1420	Reinsurers' share	11	5	80	19,179					19,276
R1500	Net	32	866	3,363	-11,110					-6,848
	Premiums earned									
R1510	Gross	43	871	3,444	8,070					12,428
R1520	Reinsurers' share	11	5	80	19,179					19,276
R1600	Net	32	866	3,363	-11,110					-6,848
	Claims incurred									
R1610	Gross	5	20,960	54,627	42,983					118,575
R1620	Reinsurers' share	2	788	70	17,176					18,036
R1700	Net	2	20,172	54,557	25,807					100,539
	Changes in other technical provisions									
R1710	Gross									0
R1720	Reinsurers' share									0
R1800	Net	0	0	0	0					0
R1900	**Expenses incurred**	2	1,215	5,784	2,808					9,808
R2500	**Other expenses**									4,197
R2600	**Total expenses**									14,005

S.22.01.22

Impact of long term guarantees measures and transitionals

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
R0010	Technical provisions	1,460,631	31,214	0	0	47,539
R0020	Basic own funds	286,817	-31,180	0	0	-47,124
R0050	Eligible own funds to meet Solvency Capital Requirement	253,736	-31,174	0	0	-35,376
R0090	Solvency Capital Requirement	53,837	12	0	0	23,496

S.23.01.22

Own Funds

	Basic own funds before deduction for participations in other financial sector	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	145,800	145,800		0	
R0020	*Non-available called but not paid in ordinary share capital at group level*	0				
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0060	*Non-available subordinated mutual member accounts at group level*	0				
R0070	Surplus funds	18,417	18,417			
R0080	*Non-available surplus funds at group level*	0	0			
R0090	Preference shares	0		0	0	0
R0100	*Non-available preference shares at group level*	0				
R0110	Share premium account related to preference shares	0		0	0	0
R0120	*Non-available share premium account related to preference shares at group level*	0				
R0130	Reconciliation reserve	62,600	62,600			
R0140	Subordinated liabilities	0		0	0	0
R0150	*Non-available subordinated liabilities at group level*	0				
R0160	An amount equal to the value of net deferred tax assets	0				0
R0170	*The amount equal to the value of net deferred tax assets not available at the group level*	0				0
R0180	Other items approved by supervisory authority as basic own funds not specified above	60,000	0	0	60,000	0
R0190	*Non available own funds related to other own funds items approved by supervisory authority*	0				
R0200	Minority interests (if not reported as part of a specific own fund item)	0				
R0210	*Non-available minority interests at group level*	0				
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**					
R0230	**Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities**	0				
R0240	*whereof deducted according to art 228 of the Directive 2009/138/EC*	0				
R0250	Deductions for participations where there is non-availability of information (Article 229)	0				
R0260	Deduction for participations included by using D&A when a combination of methods is used	0				
R0270	**Total of non-available own fund items**	0	0	0	0	0
R0280	**Total deductions**	0	0	0	0	0
R0290	**Total basic own funds after deductions**	286,817	226,817	0	60,000	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0380	Non available ancillary own funds at group level	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Own funds of other financial sectors					
R0410	Credit Institutions, investment firms, financial institutions, alternative investment fund managers, UCITS management companies	0				
R0420	Institutions for occupational retirement provision	0				
R0430	Non regulated entities carrying out financial activities	0				
R0440	**Total own funds of other financial sectors**	0	0	0	0	0

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Own Funds

	Basic own funds before deduction for participations in other financial sector	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
	Own funds when using the D&A, exclusively or in combination of method 1					
R0450	Own funds aggregated when using the D&A and combination of method	0				
R0460	Own funds aggregated when using the D&A and combination of method net of IGT	0				
R0520	Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	286,817	226,817	0	60,000	0
R0530	Total available own funds to meet the minimum consolidated group SCR	286,817	226,817	0	60,000	
R0560	Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	253,736	226,817	0	26,919	0
R0570	Total eligible own funds to meet the minimum consolidated group SCR (group)	230,882	226,817	0	4,065	
R0610	**Minimum consolidated Group SCR**	20,324				
R0650	**Ratio of Eligible own funds to Minimum Consolidated Group SCR**	1136.02%				
R0660	**Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&A)**	253,736	226,817	0	26,919	0
R0680	**Group SCR**	53,837				
R0690	**Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A**	471.30%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	305,050
R0710	Own shares (held directly and indirectly)	
R0720	Forseeable dividends, distributions and charges	
R0730	Other basic own fund items	224,217
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	18,233
R0750	Other non available own funds	
R0760	**Reconciliation reserve**	62,600
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	8,480
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	
R0790	**Total Expected profits included in future premiums (EPIFP)**	8,480

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Solvency Capital Requirement - for groups on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	68,767		
R0020	Counterparty default risk	3,810		
R0030	Life underwriting risk	39,529		
R0040	Health underwriting risk	132		
R0050	Non-life underwriting risk	0		
R0060	Diversification	-23,475		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	88,763		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	5,188
R0140	Loss-absorbing capacity of technical provisions	-29,078
R0150	Loss-absorbing capacity of deferred taxes	-11,035
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency Capital Requirement excluding capital add-on**	53,837
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement for undertakings under consolidated method**	53,837
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	12,021
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	1,061
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	40,756
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0
R0470	Minimum consolidated group solvency capital requirement	20,324
	Information on other entities	
R0500	Capital requirement for other financial sectors (Non-insurance capital requirements)	0
R0510	*Credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies*	0
R0520	*Institutions for occupational retirement provisions*	0
R0530	*Capital requirement for non- regulated entities carrying out financial activities*	0
R0540	Capital requirement for non-controlled participation requirements	0
R0550	Capital requirement for residual undertakings	0
	Overall SCR	
R0560	SCR for undertakings included via D&A	0
R0570	**Solvency capital requirement**	53,837

USP Key

For life underwriting risk:
1 - Increase in the amount of annuity benefits
9 - None

For health underwriting risk:
1 - Increase in the amount of annuity benefits
2 - Standard deviation for NSLT health premium risk
3 - Standard deviation for NSLT health gross premium risk
4 - Adjustment factor for non-proportional reinsurance
5 - Standard deviation for NSLT health reserve risk
9 - None

For non-life underwriting risk:
4 - Adjustment factor for non-proportional reinsurance
6 - Standard deviation for non-life premium risk
7 - Standard deviation for non-life gross premium risk
8 - Standard deviation for non-life reserve risk
9 - None

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Undertakings in the scope of the group

Row	Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory Authority
	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080
1	GB	213800DZ5XY8AG5COI19	LEI	UUG Holdings (No1) Ltd	Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC	Company limited by shares	Non-mutual	
2	GB	213800DZ5XY8AG5COI19GB000	Specific code	Utmost Life and Pensions Holdings Limited	Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC	Company limited by shares	Non-mutual	
3	GB	213800I1ZCFT62P9P534	LEI	Utmost Life and Pensions Limited	Life insurance undertaking	Company limited by shares	Non-mutual	Bank of England Prudential Regulation Au
4	GB	213800211J26KBNINV56	LEI	Reliance Pension Scheme Trustee Limited	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares	Non-mutual	
5	GB	213800DZ5XY8AG5COI19GB000	Specific code	Reliance Unit Managers Limited	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares	Non-mutual	
6	GB	213800DZ5XY8AG5COI19GB000	Specific code	Reliance Administration Services Limited	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares	Non-mutual	
7	GB	213800DZ5XY8AG5COI19GB000	Specific code	F S Management Ltd	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares	Non-mutual	
8	GB	213800DZ5XY8AG5COI19GB000	Specific code	Utmost Life and Pensions Services Limited	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares	Non-mutual	
9	GB	213800XC51Q1FRX9I853	LEI	RMIS (RTW) Limited	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by guarantee	Non-mutual	

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Undertakings in the scope of the group

Row				Criteria of influence						Inclusion in the scope of Group supervision		Group solvency calculation
	Country	Identification code of the undertaking	Type of code of the ID of the undertaking	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	YES/NO	Date of decision if art. 214 is applied	Method used and under method 1, treatment of the undertaking
Row	C0010	C0020	C0030	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
1	GB	213800DZ5XY8AG5COI19	LEI							Included in the scope		Method 1: Full consolidation
2	GB	213800DZ5XY8AG5COI19GB000(	Specific code	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
3	GB	213800I1ZCFT62P9P534	LEI	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
4	GB	213800211J26KBNINV56	LEI	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
5	GB	213800DZ5XY8AG5COI19GB000(	Specific code	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
6	GB	213800DZ5XY8AG5COI19GB000(	Specific code	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
7	GB	213800DZ5XY8AG5COI19GB000(	Specific code	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
8	GB	213800DZ5XY8AG5COI19GB000(	Specific code	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
9	GB	213800XC51Q1FRX9I853	LEI		100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation