
UUG Holdings (No 1) Limited

(Formerly LCCG UK (RL) Limited)

GROUP SOLVENCY AND FINANCIAL CONDITION REPORT 2018



Registered in England No: 11163964
Saddlers' House, 5th Floor Gutter Lane
London, England EC2V 6BR
www.utmost.co.uk

SOLVENCY AND FINANCIAL CONDITION REPORT 2018

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SOLVENCY AND FINANCIAL CONDITION REPORT 2018

EXECUTIVE SUMMARY

INTRODUCTION

The purpose of this Group Solvency and Financial Condition Report (SFCR) is to provide information on the financial and capital position of UUG Holdings (No 1) Limited ('UUG'), the Group's Holding Company and its subsidiaries (collectively, the Group) for the year ended 31 December 2018. The report provides detail of the group's business and its performance, systems of governance, risk profile, valuation for solvency purposes and capital management for the financial year ended 31 December 2018. This is the first SFCR produced by the Group.

UUG 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 (ULP) 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 group founded in 2013, with the aim of acquiring and managing life insurance business across the UK and Europe. The ultimate parent company that is registered in the UK is UUG Holdings (No 1) Limited. 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 ULP, an authorised insurer regulated by the PRA in the UK. The group structure also includes ULP's 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.

BUSINESS AND PERFORMANCE

Delivering the strategy

On 20 March 2018 UUG issued £31m of ordinary share capital to UUG Holdings (No 3) Limited (previously LCCG Holdings (No 8) Limited), its Guernsey-based parent and on 23 March 2018 drew down a Tier 2 loan capital of £35m from its parent. On 23 March 2018 UUG then issued £35m of senior debt to ULPH and subscribed for £26.3m of additional capital in ULPH. On the same date ULPH subscribed for an additional £26m of additional ordinary share capital in ULP, and ULP issued £35m of Tier 2 of loan capital to ULPH. This investment and working capital was applied by ULP on 1 April 2018 to the acquisition of the entire business and substantially all assets and liabilities of Reliance Mutual Insurance Society Limited ('RMIS').

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.

On 15 June 2018, ULP announced that it had signed an agreement with the Equitable Life Assurance Society ("Equitable Life") under which it is proposed to convert Equitable Life's with-profit policyholder contracts to unit linked contracts, and transfer substantially all of the Equitable Life business to ULP. The proposed transaction remains subject to member, regulatory and Court approvals, and has a target completion of 1 January 2020.

The Group continues to actively evaluate other acquisition opportunities.

Re-branding Activity

One of the strands of work within the ongoing strategic development was to reassess the Reliance Life brand name, and decide whether it remained fit for purpose to support the vision and mission statement.

Towards the end of 2018 the decision was made to change the Group's authorised insurance company's (Reliance Life Limited) name to Utmost Life and Pensions Limited, and develop an appropriate brand identity that would be adopted for ULP's website and all outward facing communications with policyholders and third parties. ULP formally changed its name with effect from 4 March 2019, and launched its new website on the same day.

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

The Group's growth focus will include enhancing its product offering. Resources will be focused in 2019 on this area, with a view in particular to widening the choice available to customers seeking to access their pension savings.

Investment Management changes

In preparation for the proposed transfer of all of Equitable Life's business to ULP, and in particular the conversion of with-profits policyholders to unit-linked contracts, a selection process was run in the latter part of 2018 to select an investment manager for the combined Utmost Life and Pensions/Equitable Life unit-linked business.

The selection of J.P. Morgan Asset Management ("JPMAM") was approved by the Board on 27 March 2019 and ULP will now work closely with Equitable Life and JPMAM through 2019 to agree and deliver customers current and future requirements.

Business Performance

Since the transfer of business from 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 2018 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 its Solvency Capital Requirement ('SCR') of £2.8m.

Operating profit

Overall, operating profit after tax on the long term business account was £8.3m in the nine month trading period after the transfer of the business from RMIS.

Capital Position

The Group maintained capital sufficient to meet the SCR throughout the period since the transfer of business. As at 31 December 2018 the Group had a solvency coverage ratio of 179%, representing the ratio of its eligible Own Funds of £115.5m compared to its SCR of £64.6m. This is detailed further in Section D of this report.

Matching Adjustment

The Group has two matching adjustment portfolios that back some of the annuity business and Funeral Plan policies. The matching adjustment enables the Group to benefit from a higher discount rate that reduces the value of the liabilities. The Group solvency coverage ratio is 179% due to the benefit of the matching adjustment. Without the matching adjustment the Group solvency coverage ratio would be 64%.

Transitional Measures

The Group does not apply the transitional risk-free interest rate-term structure. The Group does apply a transitional measure to the technical provisions, which increases Own Funds by £33.6 Million. The Group solvency coverage ratio of 179% reflects the transitional measures. Without the transitional measure on technical provisions the Group solvency coverage ratio would be 128%.

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 was the case, then the Group would look to 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.

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 and sound financial management.

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

Governance Framework

The Group operates in a UK regulated environment with a system of governance consistent with the Enterprise Risk Management (ERM) framework and Solvency II requirements. The Group's administrative, management or supervisory body (AMSB) comprises the Boards at the Group and subsidiary levels, with delegation to Committees to ensure risks are monitored, managed and reported on a timely basis. 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 ULP. The Board and governance structure became fully operational on the acquisition of the RMIS business on 1 April 2018.

The Group operates within a dynamic business environment and 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 Group's Enterprise Risk Management ('ERM') Framework provides the framework for the management of these risks and supports the attainment of the Group's strategic objectives. The framework is designed to support the identification of all material risks - including medium and long term risks. The Framework also 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 the framework mechanisms, quantifiable risks are quantified and are subject to stress test and scenario analyses. 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 Group's Systems of Governance and Risk Profile are set out in sections B and C within this report.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Directors Statement

The Directors are responsible for ensuring the Solvency and Financial Condition Report has been properly prepared in all material respects in accordance with the Prudential Regulatory Authority ("PRA") rules and Solvency II Regulations as applicable to the insurer.

The Directors are satisfied that, throughout the year UUG Holdings (No 1) Limited has complied in all material respects with the applicable requirements of the PRA rules and Solvency II Regulations, and it is reasonable to believe that compliance has continued since the reporting date and will continue in the future.

By order of the Board

Ian Maidens
Group Chief Financial Officer
3 June 2019

SOLVENCY AND FINANCIAL CONDITION REPORT 2018

A. BUSINESS AND PERFORMANCE

A.1 Business

The principal activity of the Group, through its main operating entity ULP, is the provision and administration 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 policyholders and shareholders. The Group is part of the Utmost Group of Companies, a specialist life insurance group founded in 2013, with the aim of acquiring and managing life insurance business across the UK and Europe.

A.1.1 Legal Form

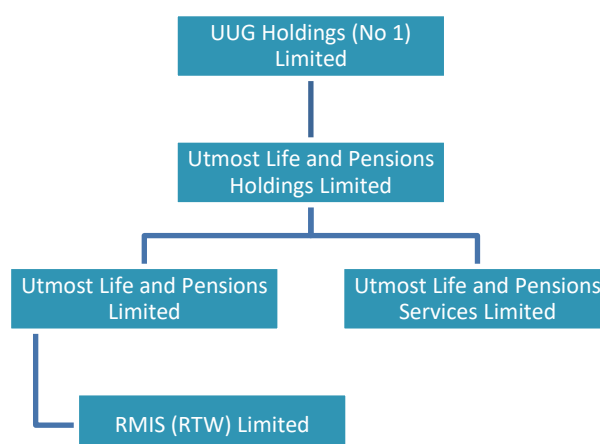
The ultimate EEA parent company of the Group registered in the UK is UUG Holdings (No 1) Limited (Registration No. 11163964). It is a company limited by shares incorporated in England and Wales and its registered office address is Saddlers' House, 5th Floor, 44 Gutter Lane, London, England EC2V 6BR.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

A.1.2 Supervisory Authority 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

A.1.3 Simplified 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 ULPH which in turn is the parent company of ULP and ULPS and other minor subsidiaries. ULP is the parent company of RMIS (RTW) Limited ('RMIS'), formerly Reliance Mutual Insurance Society Limited which, following the transfer of business to ULP on 1 April 2018, does not undertake trading activities.



The ultimate controlling party for the Group is Oaktree Capital Group LLC, (OCG), a Delaware company publicly traded on the New York Stock Exchange (NYSE: OAK). Funds are invested into the Group through its founders, and from OCM LCCG Holdings Limited by funds managed by subsidiaries of OCG.

As UUG 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 UUG's subsidiaries as at 31 December 2018 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

A.1.4 Lines of Business

Substantially all of the Group's in-force business has been written in the UK.

The Group 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 (WPSF1, 2, 4 and 6) – primarily with-profits business. The NPF contains two matching adjustment ("MA") portfolios of assets used to back immediate annuities and funeral plans.

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

The following table summarises the Group's material lines of business as at 31 December 2018.

Line of Business	Contract Type	Product(s)	% of Technical Provisions
Unit-Linked and Index-Linked Insurance	Unit-Linked	Life and Pensions Savings	41%
Other Life Insurance	Non-Linked	Annuities	34%
Other Life Insurance	Non-Linked	Funeral Plan	5%
Other Life Insurance	Non-Linked	Term and endowment assurances	5%
Insurance with profit participation	Conventional with profit	Endowment assurances, Annuities and other	15%

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

On 20 March 2018 UUG issued £31m of ordinary share capital to UUG Holdings (No 3) Limited (previously LCCG Holdings (No 8) Limited), its Guernsey-based parent and on 23 March 2018 drew down a Tier 2 loan capital of £35m from its parent. On 23 March 2018 UUG then issued £35m of senior debt to ULPH and subscribed for £26.3m of additional capital in ULPH. On the same date ULPH subscribed for an additional £26m of additional ordinary share capital in ULP, and ULP issued £35m of Tier 2 of loan capital to ULPH. This funding capitalised ULP in advance of the transfer on 1 April 2018 of the entire business and substantially all assets and liabilities of Reliance Mutual Insurance Society Limited ('RMIS').

On 1 April 2018, and pursuant to a High Court Sanctioned Part VII transfer of business, ULP acquired the entire business and substantially all assets and liabilities of RMIS, including approximately 120,000 policies, a historic book of industrial branch business and assets of £1.8bn.

All employees of RMIS were transferred under the Transfer of Undertakings (Protection of Employment) Regulations 2006 ("TUPE") from RMIS to ULPS. On the same date ULP entered into a Secondment Agreement with ULPS for the secondment of employees to perform all services within ULP, and for which a management charge is incurred. ULP has no employees and ULPS remains the employer during the secondment term.

At the effective date of the transfer of business, ULP also acquired RMIS as a subsidiary, at which date the Society's assets were comprised entirely of cash in respect of the proceeds to be paid to its former members.

Following the acquisition of RMIS, the Group has focused on developing its strategy. This led to the definition of the Group's vision and mission statement as below:

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 ULP 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, ULP announced that it had signed an agreement with the Equitable Life Assurance Society ('Equitable Life') under which it is proposed that Equitable Life and substantially all its business will be transferred to ULP. The proposed transaction remains subject to a member vote, regulatory and Court approvals, and has a target completion of 1 January 2020.

The parties are progressing a Scheme of Arrangement and a Part VII transfer under the Financial Services and Markets Act 2000, which includes a vote by creditors of Equitable Life on the conversion of their "with-profit" policies.

The Group continues actively to evaluate acquisition opportunities.

A.1.5.2 Re-branding Activity

One of the strands of work within the ongoing strategic development was to reassess the Reliance Life brand name, and decide whether it remained fit for purpose to support the vision and mission statement Towards the end of 2018 the decision was made to change the Reliance Life brand name to Utmost Life and Pensions, and develop an appropriate brand identity that would be adopted for the Group website and all outward facing communications with policyholders and third parties.

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 ULP as they receive further details on the proposed transfer during 2019.

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

A.1.5.3 Product Development and Marketing

The Group accepts that as it grows it will need to invest in enhancing its product offering. Resources will be focused in 2019 on this area, with a view in particular to widening the choice available to customers seeking to access their pension savings.

A.1.5.4 Investment Management changes

In preparation for the proposed transfer of all of Equitable Life's business to ULP, and in particular the with-profits policyholders converting to unit-linked products, an investment manager selection process was undertaken in the latter part of 2018 to select a manager for the combined Utmost Life and Pensions/Equitable Life unit-linked business.

After a due diligence exercise the appointment of J.P. Morgan Asset Management ('JPMAM') was approved by the Board on 27 March 2019. The Group will now work closely with Equitable Life and JPMAM through 2019 to agree and deliver customers current and future requirements.

A.1.6 Business Performance

UUG 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), which is the basis used for this report. Financial performance is also presented on a Solvency II basis, with the changes from UK GAAP and Solvency II detailed in section D of this report.

The three most significant differences between the Solvency II reporting and UK GAAP statutory basis is that (a) actuarial liabilities are calculated on a best estimate basis for Solvency II and a prudent basis for UK GAAP (b) intangible assets including goodwill and the Present Value of Acquired In-force business have no value for Solvency II reporting, and (c) Tier 2 debt capital is treated as a liability for UK GAAP reporting.

The Group's solvency coverage ratio at 31 December 2018 was 179%, which was successfully ahead of the Board's stated risk appetite of 135%. The table below shows both the Group solvency position of 179% at 31 December 2018, as well as the solvency position of ULP, 178%. Fundamentally, there are minimal own funds and risks outside of ULP, in the calculation of the Group solvency.

SII Pillar 1 Solvency (£'m)	Utmost Life and Pensions		Group	
	2018	2017	2018	2017*
Eligible Own Funds	115.0	4.0	115.5	n/a
<i>Solvency Capital Requirement (SCR)</i>	<i>64.6</i>	<i>0.3</i>	<i>64.6</i>	<i>n/a</i>
<i>Minimum Capital Requirement (MCR)</i>	<i>21.1</i>	<i>3.3</i>	<i>21.1</i>	<i>n/a</i>
Required Capital (higher of SCR and MCR)	64.6	3.3	64.6	n/a
Excess Available Capital (after capital support)	50.4	0.7	50.9	n/a
Solvency Coverage ratio	178%	121%	179%	n/a

*UUG Holdings (No 1) Limited was incorporated on 22 January 2018; therefore this is the first year of reporting for the Group.

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 the Group manages the business. Financial performance focuses on the movement in the Group's economic value and solvency coverage ratio.

The Group wrote £7.5m of new business in respect of annuities sold to existing policyholders on the vesting of their pension savings contracts (including contracts with guaranteed annuity options). The Group has no other new business.

A.3 Investment Performance

Net return on investments includes investment return to both policyholders and shareholders. Net investment income consists of dividends and interest receivable for the period, realised gains and losses, and unrealised gains and losses on fair value through profit or loss investments. Net investment return is broadly offset by corresponding changes in liabilities. 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:

	Debt Securities £m	Equity Securities £m	Other Financial Investments £m	Total £m
Dividends	0.0	0.2	9.0	9.2
Interest	23.8	0.0	0.7	24.5
Net realised gains / (losses)	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 2018 the Group had no material securitised investments.

A.4 Performance of Other Activities

There are no other activities 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 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 leave the EU.

B. SYSTEM OF GOVERNANCE

B.1 General Information

In the year ended 31 December 2018, 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
- Harry Smith
- 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 ULP, 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 ULP, where over 99% of the business is conducted from, is noted below:

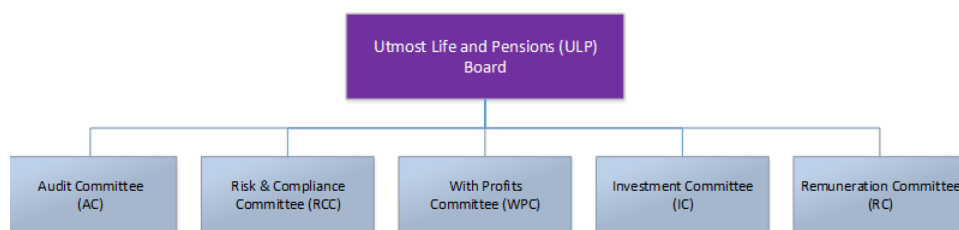
The Board of ULP consists of seven Non-Executive Directors (five of whom are Independent, with one being the Chairman, and one the Senior Independent Director) and two Executive Directors. This Board structure was put in place on 1 April 2018, being the effective date of the transfer of all of the long-term insurance business from RMIS. For the period in 2018 prior to that date, the ULP's Board consisted of four Directors.

More precisely, the ULP Board's role is to:

- Provide entrepreneurial leadership of ULP 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;
- 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 ULP's values and standards and ensure that its obligations to its shareholder and others, particularly the obligation to treat customers fairly, are understood and met;
- Ensure that the necessary resources are in place for ULP to meet its objectives; and
- Review management performance.

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

ULP's 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 ULP's Board of Directors and has been delegated responsibility for monitoring the integrity of ULP's financial statements and the adequacy and effectiveness of internal controls and the risk management system. This includes the 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 ULP 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 of ULP, 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.

ULP's Chief Executive, Chief Financial Officer and 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 Internal and External Audit Partners 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 ULP's financial control affairs and/or related matters.

Risk and Compliance Committee

The Risk and Compliance Committee is a sub-committee of ULP's Board of Directors and has been delegated responsibility for assisting the Board of ULP 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 ULP's risk appetite and risk, control and compliance exposure;
- setting and monitoring the ULP's 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 ULP.

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 ULP, 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.

ULP's Chief Executive, Chief Risk Officer ('CRO'), Chief Financial Officer and 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 CRO 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 ULP's risk and compliance affairs and/or related matters.

With Profits Committee

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

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

For the first two years' of its existence the Committee also has the additional responsibilities of supporting the implementation of the Reliance Mutual scheme and adherence to the Principles of Financial Management and the Distribution Plan following the Effective Date of the scheme on 1 April 2018, as these documents apply to all of the Policyholders of the Transferred Policies of RMIS.

The Committee Chairman and other members of the Committee will be appointed by the Board of ULP in consultation with the Chairman. A majority of the members of the Committee shall, at all times, be independent of ULP and its group of companies.

During the first two years of its existence, the With Profits Committee will consist of no more than six members, three of whom shall be former RMIS directors or RMIS nominees who shall not be removed during such two year period other than for gross misconduct or if the Regulators indicate to ULP in writing that such a member is not suitable to remain a member of the With Profits Committee. The Chairman, during this period will be selected from one of these former RMIS directors or RMIS nominees, and the Chairman shall be entitled to a casting vote in addition to any other vote he/she may have.

At least one member of the With Profits Committee shall have recent and relevant financial experience and shall, preferably, hold a professional qualification from the professional actuarial body.

The Chairman of the Board of ULP shall not be 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 shall meet 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 ULP's Board of Directors and has been delegated responsibility for recommending the overall strategic investment policy for the Board's consideration, and oversight and control of ULP's 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 ULP 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 ULP 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 of ULP, 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.

ULP's Chief Executive, Chief Financial Officer, Chief Actuary, With-Profits Actuary, Chief Risk Officer and 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, Chief Risk Officer and 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 ULP's investment affairs and/or related matters.

Remuneration Committee

The Remuneration Committee is a sub-committee of ULP's Board of Directors and has been delegated responsibility for overseeing the Remuneration Policy, particularly for all executive directors and ULP's Chairman. The Board itself should determine the remuneration of the Non-Executive Directors within the limits set in the Board Terms of Reference and those matters reserved for group ULP 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.

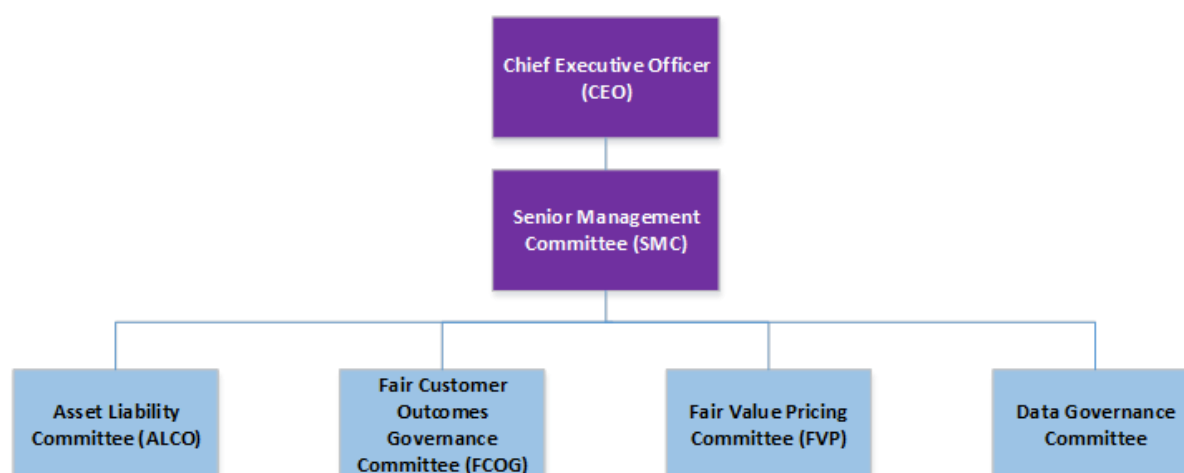
In addition to appointed members, the Chairman may invite other persons to attend all or part of any meeting.

The membership and chairmanship of the Committee will be reviewed each year by the Board of ULP 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 3 years, extendable up to 2 further periods of 3 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 ULP's remuneration affairs and/or related matters.

Executive Sub-Committees

In addition to the above Board sub-committees, a range of Executive committees are in place to support ULP's Chief Executive Officer in his decision-making, as shown below.



These committees have no delegated authority (with the exception of ALCO as outlined below) but make recommendations to the CEO.

Senior Management Committee ("SMC")

The committee assists the CEO 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.

The committee is comprised of the Chief Executive Officer, Chief Risk Officer, Head of Operations, Chief Actuary, ULP Secretary, Head of ALM and Investments and With Profit Actuary and Chief Financial Officer. The ULP Secretary will act as Secretary to the Committee.

The committee meets at least twelve times a year.

Asset Liability Committee ("ALCO")

This committee supports the 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 Board and the Investment Committee. It also oversees all related cashflow requirements.

It makes recommendations to the With-Profits Committee, Investment Committee, SMC and 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 ULP.

The committee is comprised of the Chief Financial Officer, the Chief Actuary, the Chief Risk Officer, the Head of ALM and Investments and With Profit Actuary, the Capital Management Actuary and the Investment Oversight Manager, and meets at least twelve times a year.

Fair Customer Outcomes Governance Committee

This committee 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.

The committee is comprised of the Head of Operations as chair, the CEO, the Manager of Operations Actuarial, the Client Services Manager, Client Services Team Leader (secretary), the Chief Actuary, the Investment Oversight Manager, the Compliance Manager and the Chief Financial Officer.

The committee meets at least five times a year.

Fair Value Pricing Committee ('FVP')

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

The committee is comprised of the Chief Financial Officer, Chief Actuary, Financial Controller and 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. This 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 ULP's legal and regulatory responsibilities for data are met.

The committee is comprised of the Head of Operations as chair, Chief Actuary, Chief Risk Officer, Compliance Manager, Enterprise Architect, Chief Financial Officer, Head of Operations, ULP Secretary, Information Security Officer and Data Owners (as required).

The committee meets at least four times a year.

Individual Responsibilities

The structure of the delegated responsibilities to individuals 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.

The 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

ULP's Enterprise Risk Management framework 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 of the Board. The CRO is a member of the Senior Management Committee, and reviews ULP's 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 CRO.

The Internal Audit function is outsourced to Deloitte LLP, who report directly to the Audit Committee.

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

Remuneration policy and practices

The remuneration of ULP's Directors and employees is overseen by the Remuneration Committee, as outlined above. The Committee aims to ensure ULP's various remuneration structures encourage and support alignment between business decisions, individual behaviour, business performance and ULP's values, risk appetite and capital management strategy.

The remuneration of the Chairman, Chief Executive, Executive Directors and Senior Managers is set by the Remuneration Committee in accordance with ULP's 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 ULP.

The principles underpinning the remuneration of ULP's Executive Directors/Senior Managers are as follows:

- Remuneration in general should reflect individual performance and support the delivery of benefits and services to ULP and all its stakeholders.
- Remuneration should enable ULP to attract, retain and motivate Executive Directors of the quality required to run ULP effectively.
- 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 our customers and take into account ULP's 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 ULP has a Fit and Proper Policy in place that sets out the way in which ULP complies with the PRA's and FCA's Fit and Proper requirements, with particular emphasis on the SM&CR.

As a result ULP will ensure that its Senior Management Function ('SMF') Holders, Notified Non-Executive Directors ('NEDs'), Key Function Holders ('KFHs'), Persons 'performing a key function' ('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 ULP's Conflicts of Interest policies).

In addition, ULP 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.

ULP currently has no standalone NEDs, as all such positions are carried out by SMF Holders. The ULP currently has no standalone KFPs.

ULP 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 qualification, experience and knowledge about:

- insurance and financial markets, including the wider business, economic and market environment in which ULP 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 ULP is facing and its capability of managing them; together with an ability to assess the effectiveness of ULP's 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 ULP's 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 a NED.

HR maintains a central register of SMF Holders, KFHs and CF Holders in the Management Responsibilities Map (MRM). The MRM records the names and positions of those SMF Holders that run ULP as and when appointed.

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

Once ULP has decided at the most senior level that it wishes to appoint a 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 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, ULP uses a semi-annual written appraisal process to manage performance and 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 ULP, which accounts for over 99% of the Group's solvency position and risk profile.

The Risk Management Function is principally responsible for the ongoing implementation of the Enterprise Risk Management Framework - the framework in place to identify and effectively manage the risks and support the achievement of the corporate objectives.

The following table describes each element of the Enterprise Risk Management Framework.

ERM Framework Overview	
Area	Description
Risk Strategy	Articulates the approach to the taking on and management of risk
Risk Culture	Determines the values, knowledge, understanding and behaviour with regard to risk
Risk Governance	The method used for directing and controlling the management of risk
Risk Appetite Statement	The level and type of risk that a company is willing to take on in the pursuit of achieving its strategic objective and business plan
Risk Management Process	Identifies and articulates the key elements of the Risk Management Process. These key elements are described in the table below.
Risk Classes/ Risk Policies	Identifies individual risk classes (Credit, Market, Liquidity, Insurance, Operational and Business). A policy is maintained for each Risk Class. Each policy documents the approach to the management of the individual risk class.
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 the balance sheet 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, Senior Management Committee Review, Risk and Compliance Committee Review, ORSA Analysis
Risk Measurement	Section C provides details of the risk measures for each material/relevant risk class
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 ULP Board of risk reports including: Risk Profile, ORSA Reporting, Risk Reports, Key Risk Indicators 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 ULP Board. The Chief Risk Officer is a member of the Senior Management Committee, and reviews the risks with the senior team at least monthly, and at every ULP Board meeting. The Risk and Compliance Committee provides oversight of risk management.

A “three lines of defence” model is used 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 the first line is managing risk within the Board-approved Risk Appetite and in line with the Enterprise Risk Management framework; this line consists of the Risk Function and the Risk and Compliance Committee
- Line 3 is responsible for providing independent assurance on the effectiveness of internal controls and risk management processes across 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 ORSA framework is the primary means by which the Boards 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 ULP and one for the Group. The analysis, findings and recommendations (i.e. the output) from the ORSAs are a key part of the Board’s strategic decision making processes and the way in which these decisions are implemented by Senior Management.

Equally, the strategic objectives, business plan and target risk profile are also key inputs into the scope and focus of the ORSA. The Group and ULP 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 it reflects the purpose, scope, process and aims of the ORSA.
	Annual ORSA Report	A full reforecast of the solvency position and risk profile, 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 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 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 decision-making processes.

All components of the ULP ORSA undergo an initial review by the ULP Chief Actuary, the Chief Risk Officer, and the Capital Management Actuary. Depending on the component concerned, the scope of this initial review ensures the structure, style and content will be understood and correctly interpreted by the ULP Board, ULP Risk and Compliance Committee, ULP Senior Management, and any other users (e.g. department heads, the regulators, etc.)

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 updated during the year in the event of any material change to the risk profile. The ULP Chief Risk Officer has overall responsibility for the ULP ORSA process and the ORSA report. The actuarial function carries out the calculations. The 2018 ORSAs (solo and group) were submitted to the PRA on 19 December 2018 and 4 March 2019 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 maintains an Internal Control Policy to ensure that internal control practices in the Group 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 the Group to ensure 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 within the Group 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 the 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, being:

- Corporate Governance
- Risk Management
- Compliance
- Information and Communication
- 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 the first line is managing controls within the Internal; Control System and associated policies – this is performed by the Risk function, Compliance, Senior Management Committee and the Risk and Compliance Committee
- Line 3 is responsible for providing independent assurance on the effectiveness of internal controls across first and second line – 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. The Group generally outsources its internal audit function to third party professional audit firms, which further promotes independence and objectivity of the internal audit function.

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 is responsible for developing and delivering a risk-based programme of assurance aimed at validating the effectiveness of key controls across the whole Group. In particular, Internal Audit is responsible for challenging the Group’s Enterprise Risk Management Framework, including how risks are identified and evaluated. Audit findings, conclusions and recommendations are reported by Internal Audit to the Audit Committee.

Internal Audit is currently outsourced to Deloitte LLP to capitalise on the breadth of experience this brings to the Group. The decision to outsource Internal Audit, and to whom, is reviewed by the Audit Committee.

The responsibilities of the Internal Audit Function are carried out in accordance with an annual Audit Plan that is agreed by the Audit Committee.

The Audit Plan is developed based on the prioritisation of the audit universe using a risk-based methodology. Independence and objectivity from the activities that the Internal Audit Function reviews is achieved by ensuring that:

- there is a direct reporting line from the Internal Audit function to the Audit Committee;
- all internal audit activities are free of 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;
- the Internal Audit Function has the resources and necessary skills required to deliver the Audit Plan, both in general audit and technical areas, and support facilities;
- the Internal Audit Function has the authority to audit all parts of the organisation; and
- the Internal Audit Function has full and complete access to all information, records, facilities and personnel relevant to the performance of an audit.

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 ('SMF') - Chief Actuary.

The current responsibilities of the Actuarial Function are:

Balance Sheet Valuation	Carry out annual and quarterly valuations of the Group's assets and other liabilities, technical provisions, and capital requirements consistent with the 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 ('TMTP') and monitor the metrics against the triggers for recalculation.
Matching Adjustment	Recalculate the Matching Adjustment ('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 (e.g. mortality, persistency, etc.) 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.

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 for details)

- Policy breaches

Supplier Management and Monitoring

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

- the Group must retain 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 2018 the Group outsourced the following functions:

- Investment management, to Schroders Investment Management, and Goldman Sachs Asset Management
- Investment administration, accounting and unit pricing, to HSBC Security Services
- Internal Audit, to Deloitte LLP
- ADP for payroll processing

On 27 March 2019, the Board approved the appointment of JP Morgan Asset Management as an investment manager.

All of the outsourced functions are within the jurisdiction of the United Kingdom.

B.8 Assessment of Governance

Key elements of the Group's System of Governance including the Risk Management System (including ORSA), Internal Control System, Internal Audit and Actuarial Function are all subject to ongoing oversight and review by the Senior Management and the Board to ensure they remain effective and fit for purpose. As at 31 December 2018 the Board is of the view that the System of Governance is at an appropriate level and is in line with requirements.

The Board delegates' authority to the Chief Executive to facilitate the day-to-day management of the Group subject to limits and terms set out in a delegated authority schedule.

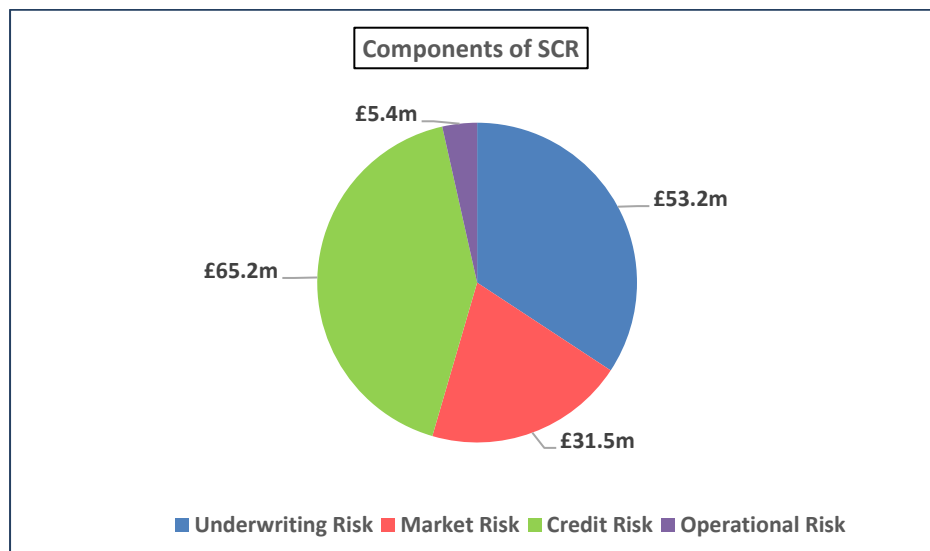
The Board may still determine any matter it wishes within its constitutional and statutory powers.

C. RISK PROFILE

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

Risks are managed through a well-defined Enterprise Risk Management Framework detailed in Section B.

The chart below shows the component risks which make up the pre-diversified Solvency Capital Requirement ('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 the ULP's 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.

Over the short-medium term covered by the business planning period, risk profile is expected to change materially due to the acquisition and integration of business from Equitable Life.

Given that most of the acquired policies under the acquisition will be unit-linked, some of the financial risks associated with this type of business are much reduced compared to the current policies serviced by the Group.

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
Persistence	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 in-force business
Expense	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 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 Guaranteed Annuity Option ('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 is longevity risk (which arises primarily on the significant in-force book of in-payment annuities). ULP 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 (which arises primarily on the large block of in-force unit-linked business).

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 SII Standard Formula calibration
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

Measurement Tool	Measure
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 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 socioeconomic group. To the extent that 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 used in respect of the 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 the 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 re. exclusion clauses, non-disclosure, fraud, etc.
Budget Reforecasting	Regular updates to the business plan and expense budget to ensure forecasts continue to reflect expected experience.
Cost Control	Cost control activity to ensure expenditure remains within plan.
Risk Monitoring	Regular senior management and ULP 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 liabilities.
Currency Movements	Risk of loss or of adverse change in the financial situation (e.g. decreasing the value of 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 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.

C.2.2 Risk Measures

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

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 SII 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, ALM management, 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 of 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 its 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 the material market risk exposures - derived using the Solvency II Standard Formula approach.
Asset Liability Management	Asset liability matching strategies are in place - in particular, within NPF, ULP operates two MA portfolios which have strict matching requirements.
Investment Guidelines - Limit Structures	The Investment Guidelines for each of the investment portfolio set 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 With Profit Sub Funds	The aim is 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 ULP Board level review of the risk measures discussed in Section C.2.2.

Not all of the above risk management and mitigation approaches are used in respect of all of 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 & 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 & 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) reinsurance counterparties is unable to meet its financial obligations required under the reinsurance treaties.

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 SII 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 credit risk variables, e.g. credit spreads, defaults, etc.
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

The Group 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, these exposures are not considered to pose 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 2018 were, by issuer, as follows:

HSBC (£36.9m), French Republic (£31.7m), General Electric (£21.1m), AT&T (£16.1m) and GlaxoSmithKline (£17.5m).

Each of these top holdings individually contribute 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 most material reinsurance arrangements as at 31 December 2018, under both base and longevity stress scenarios.

Reinsurer	Net exposure, £m, 2018	
	Base	Longevity Stress (20% stress on mortality rates)
TRZ	6.6	20.0
RGA Global	(32.3)	(19.1)
London Life	0.0	3.2
Swiss Re	3.7	3.7
Pacific Life	2.5	2.5
Hanover Re	5.9	6.6

The level of exposure to any one reinsurer is not considered to be excessive or represent undue 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.

C.3.4 Risk Management and Mitigation

The table below sets out the specific risk management and risk mitigation approaches used in respect of 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 Matching Adjustment, which includes close Asset Liability Management.
Collateral Arrangements	See below.
Risk Monitoring	Regular senior management and ULP 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.

C.4 Operational Risk

C.4.1 Risk Exposures

Eight operational risk categories have been identified – Business Operations, Financial/Actuarial, Legal/Regulatory (including Conduct), Governance, People, IT, Financial Crime and External. All operational risks are allocated to one of these categories.

All material operational risk exposures are recorded in the Governance, Incidents, Risks and Controls ('GIRC') system and are allocated a first line risk owner.

C.4.2 Risk Measures

Operational risks are monitored and assessed using the tools in the following table.

Measurement Tool	Measure
Key Risk Indicators	A wide range of key risk indicators ('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	Loss information and data around operational risk events that have crystallised or nearly crystallised (so-called 'near misses') is collected and reported.
Scenario Testing	Potential effect on the 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 using the details in 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 ULP Board level review of the risk measures discussed in Section C.4.2.
Compliance Monitoring	Compliance reviews of operational processes.

Risk Mitigation	Description
Root Cause Analysis	Business incidents and upheld complaints are investigated to ensure the root causes have been identified. Mitigating actions are then implemented.
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, in particular it currently has no plans to either introduce any new or stop using any existing risk mitigation practices.

C.5 Liquidity Risk

C.5.1 Risk Exposure

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

- The 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 ULP 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 against a defined liquidity buffer. The reports from investment managers also include metrics to monitor adherence to the liquidity related limits within each portfolio's investment guidelines.

C.5.3 Risk Management and Mitigation

There is an active liquidity risk management process in place. 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 asset holdings are appropriate to the nature, term, currency, and liquidity of the 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 fund 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 Expected Profit in Future Premium ('EPIFP') is calculated 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. The Best Estimate Liabilities ('BEL') calculated in accordance with the Solvency II requirements; and
2. A 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 HRGs (Homogenous Risk Groups), 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 2018, the EPIFP was £8.9m, the vast majority of which was from unit-linked business.

C.6 Business Risk

C.6.1 Risk Exposures

In addition to the other risk categories articulated in Sections C.1 to C.5, a number of business related risks have been identified during 2018 which primarily relate to the proposed acquisition of Equitable Life.

C.6.2 Risk Measures

The most material business risks are measured on an expert judgement and relative basis and form part of the regular risk reporting.

C.6.3 Risk Concentration

The Group does not currently carry out any formal investigation into or analysis of concentrations of business risk; however the relative importance of business risk is reflected in risk reporting.

C.6.4 Risk Management and Mitigation

The table below sets out the specific risk management and risk mitigation approaches used in respect of exposure to business risk.

Risk Mitigation	Description
Risk Oversight	Management and monitoring of individual business risk exposures, with consideration of appropriate management action
Risk Controls	Individual controls applied to specific business processes or in respect of specific business risks, these are documented in risk reports

The Group does not anticipate making any material changes to its current approach to managing and mitigating its business risk.

C.7 Stress and Scenario Testing Results

Stress Testing

The balance sheet is stress tested to calculate the SCR – ensuring there is sufficient capital to withstand an extreme 1 in 200 year event measured over a one year time horizon. Stress testing is performed to establish the sensitivity of the solvency to individual extreme events and quantify each risk exposure in terms of capital impact, where capital impact is defined as the change in the value of the asset holdings less the change in the value of the best estimate liabilities.

As described earlier, the largest risk exposures 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.

Risk	Calibration	% change in own funds
Longevity	- instantaneous permanent decrease of 20% in mortality rates.	-12.6%
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%.	-10.7%
Expense	- instantaneous permanent: i) increase of 10% to future expenses, ii) increase of 1 percentage point to the expense inflation rate.	-15.6%
Spread	- an instantaneous relative decrease in the value of each bond varying between 0% and -70% (by credit quality and duration).	-38.6%
Concentration	- an instantaneous decrease in the value of the assets corresponding to the single name exposures varying by credit quality.	-7.1%

Sensitivity Testing

The sensitivity of the solvency to adverse experience is also tested.

The following table summarises the results of the sensitivity testing in respect of material quantifiable risks. This testing was carried out as part of the 2018 ULP 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 2018.

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 upward parallel shift to risk-free yield curve	1.5%	-6.5%
	Interest rate (Down)	50 basis points downward parallel shift to risk-free yield curve	-2.3%	8.4%
	Equity	Instantaneous 10% decrease in equity prices	-0.8%	0.3%
	Spread	Credit Spread widening: AAA +2 bps, AA +10 bps, A +30bps, BBB and below +60 bps Matching Adjustment: full offsetting movement	-4.2%	-4.7%

C.8 Prudent Persons Principle - Investments

The Board and Investment Committee has 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 Persons Principle; and
- the oversight of the Asset and Liability Committee ('ALCO').

A number of documents, e.g. guidelines, policies, agreements, reports, etc., 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 ('ALM') reporting;
- Matching Adjustment ('MA') portfolio documentation;
- Conflicts of Interest Policy;
- Investment Governance Framework; and
- Portfolio reporting produced by the Investment Oversight Team for ALCO and the ULP 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, Risk and Compliance Committee, Investment Committee and compliance/investment oversight reviews.

D. VALUATION FOR SOLVENCY PURPOSES

D.1 Asset valuation basis, methods and main assumptions

The table below sets out the Group assets and liabilities (including outstanding claims) at 31 December 2018, 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.

Assets and liabilities other than technical provisions (£ millions)	UK GAAP Statutory Accounts	Reclassifications	Accounting Policy differences	Solvency II value
Assets held for index-linked and unit-linked contracts	621.8	0.0	0.0	621.8
Corporate Bonds	504.1	8.5	0.0	512.6
Government Bonds	322.8	2.4	0.0	325.2
Collective Investments Undertakings	95.7	0.0	0.0	95.7
Equities	4.5	0.0	0.0	4.5
Derivatives	14.4	0.0	0.0	14.4
Deposits other than cash equivalents	3.7	0.0	0.0	3.7
Cash and cash equivalents	82.1	0.0	0.0	82.1
Intangible assets	24.7	0.0	(24.7)	0.0
Property, plant & equipment Including for own use	3.5	0.0	0.0	3.5
Prepayments and accrued income	11.5	(11.5)	0.0	0.0
Reinsurance recoverables*	5.1	0.0	(20.4)	(15.3)
Reinsurance receivables	0.5	0.0	0.0	0.5
Receivables (trade, not insurance)	5.0	0.7	0.1	5.8
Loans on policies	0.7	0.0	0.0	0.7
Deferred tax asset	0.6	0.0	0.0	0.6
Insurance and intermediaries receivables	0.2	0.0	0.0	0.2
Total assets	1,700.9	0.1	(45.0)	1,656.0
Outstanding claims	(9.3)	9.3	0.0	0.0
Payables (trade, not insurance)	(9.8)	(2.7)	0.0	(12.5)
Deposits from reinsurers	(6.2)	0.0	0.0	(6.2)
Pension benefit obligations	(6.1)	0.0	0.0	(6.1)
Accruals and deferred income	(2.7)	2.7	0.0	0.0
Reinsurance payables	(0.4)	0.0	0.0	(0.4)
Provisions other than technical provisions	(0.3)	0.3	0.0	0.0
Insurance and intermediaries payable	(0.1)	(9.3)	0.0	(9.4)
Deferred tax liabilities	0.0	(0.4)	(9.2)	(9.6)
Total current liabilities, other than technical provisions	(34.9)	(0.1)	(9.2)	(44.2)
Long term creditors (Subordinated loan treated as Tier 2 Capital for SII purposes)	(35.0)	0.0	35.0	0.0
Assets less liabilities, excluding technical provisions	1,631.0	0.0	(19.2)	1,611.8

* Reinsurance recoverables shown above of £5.1m are recoverables of £28.4m less payables of £23.3m in the statutory accounts.

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.

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)
- 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 hierarchy because they have quoted, observable and publicly available market values.

The Group holds derivatives (swaptions) aggregating £14.4m 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 the Group by the counterparty. The fair value of such swaptions is assessed by the Group 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 100bps would decrease the value by £6.8m, which would be offset by a decrease in the liabilities they are backing of £5.8m. The assets are not materially sensitive to other market movements.

The other investments include one equity holding of £4.5m and unit linked assets of £2.3m 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.

D.1.2 Credit Ratings

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

For these purposes, credit ratings are obtained from External Credit Assessment Institutions ('ECAI' 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, then 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 3 rating agencies provides good coverage of the Group's 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 Matching Adjustment only. Any internally rated bonds are treated as unrated in the Standard Formula spread risk modules.

There are no material differences between the bases, methods or assumptions used for the Solvency II valuation of the Group's main asset classes and those used in the valuation for financial reporting.

D.1.3 Cash and Cash Equivalents

Comprises cash on hand and demand deposits with banks aggregating £82.1m, where they have maturity dates of three months or less from date of acquisition.

D.1.4 Intangible Assets

Intangible assets comprise the Acquired Value of In-force policies and negative goodwill both arising from the transfer of acquired business from RMIS, fair valued at £24.7m for UK GAAP purposes.

For Solvency II purposes, intangible assets can only be recognised at a value other than zero if they can be sold separately and it can be demonstrated that there is a fair value for the same or similar assets that has been derived from quoted market prices in active markets. As the Group's intangible assets do not meet such criteria, these assets are valued at nil for Solvency II purposes.

D.1.5 Property held for own use and Other Fixed Assets

Property held for own use is stated at its revalued amount of £3.5m. The fair value is 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 £11.5m is disclosed under "prepayments and accrued income". Under Solvency II, such accrued income is required to be included under the relevant investments line items and hence has been mainly reclassified under government bonds and corporate bonds.

D.1.7 Reinsurance Recoverable and Receivables

As at 31 December 2018, the value of the Group's reinsurance recoverable based upon UK GAAP was a net receivable of £5.1m, disclosed as an asset of £28.4m and liability of £23.3m in accordance with UK GAAP.

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 the 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 negative value of £15.3m, which has been reported within the table shown in section D.1 as a negative asset to be consistent with the Solvency II reporting within QRT 02.01.02. This comprises a negative asset of £21.4m representing the net position of the Longevity Swaps (see D1.8 below for more information on these) offset by a recoverable amount of £6.1m in respect of Assurance products.

At 31 December 2018 the Group had a reinsurance recoverable debtor of £0.5m valued the same for UKGAAP and Solvency II.

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 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 the 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)

The amount of £5.0m on UK GAAP basis comprises largely of cash collateral received under derivative arrangements from counterparty of £4.3m. On a Solvency II basis, receivables includes a further £0.8m reclassified from prepayments and accrued income (D.1.6 above).

D.1.10 Loans on Policies

Loans on policies aggregate £0.7m and are valued at amortised cost for UK GAAP, and this is not considered to be materially different to their fair value for Solvency II purposes.

D.1.11 Deferred Taxation

Deferred tax comprise the amounts of income taxes recoverable in future periods in respect of:

- Deductible temporary differences
- Carry forward of unused tax losses

Deferred taxes in respect of deductible temporary differences are valued on the basis of the difference between:

- Values ascribed to assets and liabilities recognised and valued in accordance with Solvency II
- Values ascribed to assets and liabilities as recognised and valued for tax purposes.

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. Deferred tax assets are further tested for recoverability from brought-forward losses or expected future taxable profits of the Group.

Deferred tax asset or liability is calculated based on temporary difference between Solvency II values and the UK GAAP tax values.

Deferred tax liabilities under Solvency II include additional obligations recognised in respect of acceleration of profits when compared to that under a UK GAAP statutory accounts basis.

D.1.12 Insurance and Intermediary Receivables

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

D.2 Technical Provisions

D.2.1 Material Lines of Business

The table below shows the segmentation of the Group 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 With-Profits Sub-Funds. 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 ('TP') as at 31 December 2018 for each of the Group's sub-funds including the Transitional Measure on Technical Provisions ('TMTP') (**unaudited**). As at 31 December 2017 there were no technical provisions in the Group. Note that all the Group's technical provisions sit within ULP.

ULP - Technical Provisions £m			
Sub-Fund	BEL	Risk Margin	Technical Provision
Non-Profit Fund	1243.3	30.0	1273.3
WPSF1	12.1	0.0	12.1
WPSF2	12.3	0.0	12.3
WPSF4	113.7	0.3	113.9
WPSF6	99.4	0.3	99.6
Group TP Before TMTP	1,480.7	30.6	1,511.3
TMTP	(29.5)	(4.1)	(33.6)
Total Group After TMTP	1,451.2	26.5	1,477.7

A summary by line of business is provided below:

ULP - Technical Provisions £m			
Sub-Fund	BEL	Risk Margin	Technical Provision
Life With-Profits Participation	218.7	0.6	219.3
Linked Life	623.7	0.5	624.2
Other Life Insurance	638.3	29.5	667.8
Total Group Before TMTP	1,480.7	30.6	1,511.3
TMTP	(29.5)	(4.1)	(33.6)
Total Group After TMTP	1,451.2	26.5	1,477.7

Other Life Insurance includes NPF policies in both non-profit and with-profits sub funds.

The Risk Margin and the TMTP 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 Best Estimate Liabilities ("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 outlined below

- 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.
- The assumption for the take-up of Guaranteed Annuity Options 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 the Best Estimate Liability and the Risk Margin. The table below shows a comparison between the two reporting metrics. The Solvency II values are after allowance for TMTP.

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.

	Value @ 31/12/2018 (£ millions)				
	UK GAAP Statutory Accounts	Reallocation	Recognition of Discretionary Elements	Accounting Policy Differences	Solvency II Value
Unit-linked technical provisions					
-BEL	618.4	27.5	-	(26.3)	619.5
-Risk Margin	-	-	-	-	-
Life and Health technical provisions					
-BEL	912.2	(27.5)	58.2	(111.2)	831.7
-Risk Margin	-	-	-	26.4	26.4
Gross Technical Provisions	1,530.6	-	58.2	(111.1)	1,477.7
Reinsurance					
-BEL	(5.1)	-	-	20.4	15.3
Net Technical Provisions	1,525.5	-	58.2	(90.7)	1,493.0

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, policy holder behaviour in respect of exercising guarantees and options.
- Market conditions, including change in credit spreads, long term interest rates and equities.
- 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 Solvency Capital Requirement have been set based upon the business plan for UUG 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

Appendix A shows the material assumptions used to calculate the BEL for the Group at 31 December 2018. In particular, the appendix covers assumptions used for interest rates, inflation, mortality, expenses and option take-up rates.

The value of the Group's Best Estimate Liabilities is determined using a cash flow projection model for all lines of business. The model projects all material cash flows associated with the insurance and reinsurance contracts, recognising insurance claims, maturity benefits, annuity payments, bonus additions, premiums and expenses as they relate to each contract on a monthly basis. Implicit allowance for policyholder tax is made within the cash-flows, where relevant.

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 Matching Adjustment portfolios (described in Section D.2.3), the corresponding Matching Adjustment 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

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 profit sub funds) and 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 unaudited Section C.7.

Future Discretionary Benefits

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

For WPSF1, the FDB is based on the asset share plus 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 as the amount is immaterial and assumes that full tax relief is available on all future expenses.

Risk Margin

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

D.2.3 Matching Adjustment

The following table summarises the Group's two MA portfolios as at 31 December 2018.

ULP - MA Portfolio Liabilities at 31/12/2018			
Contract Type	Contracts	BEL (with MA)	BEL (no MA)
Annuities (NPF MA1)	27,377	483.9	556.8
Funeral Plan (NPF MA2)	15,285	71.3	71.2
Total	42,662	555.2	628.0

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 Matching Adjustment.

For each MA portfolio, the corresponding Matching Adjustment 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 best-estimate liability cash flows projected to emerge in that portfolio.

No allowance for the Matching Adjustment 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 Matching Adjustment used in the 31 December 2018 valuation in respect of each of the two MA portfolios.

ULP - Matching Adjustment Rates			
Component	Description	Value at 31/12/18	
		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	3.06%	1.38%
Rate 2	Single annual discount rate that equates the discounted value of the expected liability cash flows to the best-estimate liability calculated using the basic risk-free interest rate term structure with no adjustments	1.38%	1.38%
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	0.38%	0.00%
Matching Adjustment		1.30%	0.00%

The following table summarises the assets held in the NPF MA1 and NPF MA2 portfolio at 31 December 2018.

ULP - Assets in the MA portfolios (£m)		
Asset Type	Value at 31/12/18	
	NPF MA1	NPF MA2
Corporate bonds	390.7	0.6
Government bonds	128.5	71.6
Cash, Deposits and Other	10.9	1.1
Total	530.2	73.3

The table below shows the impact on the Group's Solvency II Pillar 1 balance sheet as at 31 December 2018 of zeroising the Matching Adjustments.

ULP - SII Pillar 1 Balance Sheet (£m)			
Balance Sheet Component	Value at 31/12/18		
	with MA	without MA	Impact of MA
Assets (including reinsurance)	1,611.8	1,611.8	-
Technical Provisions	(1,477.7)	(1,541.9)	64.2
Own Funds	134.1	69.9	64.2
Restricted (With Profits) Own Funds	(15.9)	(15.9)	-
Tier II Restriction	(2.7)	-	(2.7)
Eligible Own Funds	115.5	54.0	61.5
Solvency Capital Requirement	64.6	83.9	(19.3)
Solvency Coverage Ratio	179%	64%	115%

The benefit of the Matching Adjustment is largely due to the Group's significant exposure to annuities in payment. The combined value of the best estimate liabilities in the two matching adjustment portfolios is £555m. Due to the long term nature of these liabilities, an uplift in the discount rate has a material impact on the best estimate liabilities.

D.2.4 Volatility Adjustment

As at 31 December 2018, 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 2018, the Group did not apply the transitional risk-free interest rate-term structure in the discounting of best-estimate cash flows when calculating its Technical Provisions.

Transitional Measure on Technical Provisions (TMTP)

Following the acquisition of the former RMIS insurance business, the PRA approved UUG's subsidiary ULP's application to recalculate the TMTP within its Technical Provisions. The TMTP is not subject to audit.

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

1. Calculation of an "unlimited" TMTP set equal to the difference between the Technical Provisions on Solvency II and Solvency I Pillar 2 basis, with appropriate allowance for business run off since 31/12/2015;
2. Calculation of a limitation on the TMTP, to ensure that the total Technical Provisions plus Capital Requirements on a Solvency II basis, after the application of TMTP, are not lower than the equivalent Solvency 1 bases (both Pillars 1 and 2)

The table below shows the impact of excluding the TMTP from the Group's Solvency II Pillar 1 balance sheet as at 31 December 2018.

Group SII Pillar 1 Balance Sheet (£m)			
Balance Sheet Component	Value at 31/12/18		
	with TMTP	without TMTP	Impact of TMTP
Assets (including reinsurance)	1,611.8	1,611.8	0.0
Technical Provisions	(1,477.7)	(1,511.3)	33.6
Own Funds	134.1	100.5	33.6
Eligible Own Funds	115.5	82.5	33.0
Solvency Capital Requirement	64.6	64.6	(0.0)
Solvency Coverage Ratio	179%	128%	51%

D.3 Other Liabilities

The following section references the 'current liabilities, other than technical provisions' table in section D.1.

D.3.1 Outstanding Claims

This balance of £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 date when paid or when policy ceases to be included in 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.

For Solvency II purposes, outstanding claims are reclassified within insurance and intermediaries' payables (see D.3.8 below).

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

The amount of £9.8m on UK GAAP basis 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, reinsurers etc., plus other liabilities of £4.3m being the collateral creditor held under derivative arrangements with a counterparty. The Solvency II basis for these payables includes the reclassification of 'accruals and deferred income' of £2.7m, shown separately for UK GAAP.

D.3.3 Deposits from Reinsurers

Comprises the liability to Hannover Re of £6.2m under the deposit back arrangement and is valued in accordance with the agreement on a payable basis and considered as a fair approximation of the fair value under Solvency II. The Group 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 indirect subsidiary ULP 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 ULP.

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

The value of the 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 Schroders and the value of the DB pension liabilities is calculated by Broadstone, an employee benefits consultancy.

As at 31 December 2018, the DB pension scheme was in deficit valued at £6.0 million, applicable for both UK GAAP and Solvency II purposes, as follows:

Pension Scheme assets	£29.4m
Pension Scheme liabilities	£35.5m
Deficit	£6.1m

D.3.5 Accruals and Deferred Income

Amounts reported separately for UK GAAP purposes (£2.7m) are reclassified within 'payables' for Solvency II purposes (see D.3.2 above).

D.3.6 Reinsurance payables

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

D.3.7 Provisions other than technical provisions

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

D.3.8 Insurance and Intermediaries Payable

For Solvency II purposes the balance of £9.4m comprises £9.3m of outstanding claims reported separately for UK GAAP (see D.3.1 above) and reclassified for Solvency II, and other policyholder related transactions of £0.1m.

D.3.9 Deferred Taxation Liability

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. As at 31 December 2018 the value of the deferred tax liabilities under Solvency II were £9.2m higher than the amounts recognised under UK GAAP.

As at 31 December 2018, the total value of the Group's net deferred tax liabilities under Solvency II were £9.6m.

D.4 Alternative Methods for Valuation

D.4.1 Participations in related undertakings

Participations in related undertakings aggregate to £nil as they are eliminated on consolidation.

D.4.2 Loans on policies

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

E. CAPITAL MANAGEMENT

E.1 Own Funds

The ULP Capital Management Framework and risk appetite, sets out the 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 used to inform the dividend capacity and the ability to service the subordinated debt. There have been no material changes over the reporting period to the management of Own Funds.

All own funds have been calculated net of any intragroup transactions. The most significant of these is the Intra-group loans which is covered in more detail in section E1.1.

E.1.1 Description of Own Funds

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

Own Funds (£ millions)	Tier	31/12/2018
Paid in Ordinary Share Capital	1	31.0
Surplus funds	1	18.2
Reconciliation reserve (pre restrictions)	1	34.0
Tier II Capital	2	35.0
Total Available Own Funds		118.2
Eligibility restrictions (Tier II Capital) (SCR)		(2.7)
Eligible Own Funds (SCR)		115.5
Eligibility restrictions (MCR)		(30.8)
Eligible Own Funds (MCR)		84.7

The Group currently has no Ancillary Own Funds items. Additional share capital and subordinate liabilities were issued in March 2018. This comprised of:

Issued by	Own Funds (£ millions)	Tier	Amount
UUG Holdings (No 1) Limited	Paid in Ordinary Share Capital	1	31.0
UUG Holdings (No 1) Limited	Tier II loan	2	35.0
Utmost Life and Pensions Holdings Limited	Paid in Ordinary Share Capital	1	26.3
Utmost Life and Pensions Holdings Limited	Senior Debt	2	35.0
Utmost Life and Pensions Limited	Paid in Ordinary Share Capital	1	26.0
Utmost Life and Pensions Limited	Tier II Capital	2	35.0

The funding above provided ULP with sufficient capital to adhere to its capital policy in advance of the RMIS transfer on 1 April 2018. The change in surplus funds and reconciliation reserves is set out in more detail in section E.1.3 and E.1.4.

Substantially all of the Group's own funds sits within ULP. There are no fungibility/availability issues relating to the utilisation of the own funds within ULP. To ensure ULP continues to meet its solvency capital requirement at all times, ULP's capital policy sets out restrictions on the transferability/utilisation of own funds outside of ULP.

Ordinary Share capital

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 industry¹. For these funds, Surplus Funds should be calculated as the difference between the 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 satisfies 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 have 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 Bonus Reserve Value ('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 Future Discretionary Benefits 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') restrictions the surplus funds are therefore only available to meet losses arising within the relevant with-profit 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 has 3 intra-group loans in place as at 31 December 2018, summarised as follows:

1. A £35m Tier 2 loan between UUG Holdings (No 3) Limited, the Guernsey-based parent of UUG Holdings (No 1) Limited, and UUG Holdings (No 1) Limited;
2. UUG Holdings (No 1) Limited then issued £35m of senior debt to Utmost Life and Pensions Holdings Limited;
3. Utmost Life and Pensions Limited then issued a £35m Tier 2 Loan to Utmost Life and Pensions Holdings Limited, which qualifies as regulatory capital in ULP under Solvency II regulations and included within Own Funds.

As at 1/4/2018 all of these facilities had been fully utilised. The payment of interest due in September 2018 was made in full for all loans. The exact structure of any debt would influence the classification for own funds purposes. The loans mentioned in items 1 and 3 above are subordinated liabilities; the loan in item 2 is classified as senior debt.

All of these loans have a maturity date of 23 March 2029 and a coupon rate of 7% per annum, the terms and conditions of which would allow the loans to be treated as Tier 2 capital under the regulations. This facility was fully utilised on 24 March 2018.

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

No capital repayments occurred over the reporting period.

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 capital within the Group is primarily directed down to ULP to support its strategic acquisition strategy whilst adhering the Group's capital policy. Outside of ULP, other Group entities have Own Funds (primarily cash balances) largely to cover their expenses; UUG Holdings (No 1) Limited 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 ULP running, which are then wholly recharged to ULP through a service agreement. The Group does not currently have any intragroup reinsurance arrangements. A further example of the use of existing capital within ULP is to pay the interest on intra-group loans noted above as these fall due in 2019.

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 (£ millions)	31/12/2018
With Profits Surplus	15.9
Tier II capital restriction (SCR)	2.7
Eligibility restriction (SCR)	18.6

The Group's with-profit sub-funds (WPSF1, 2, 4, and 6) and MA portfolios (NPF1 MA and NPF2 MA) 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 ring-fenced funds.

The subordinate loan value is more than the eligible limit under the Solvency II admissibility 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.

Eligible Own Funds & Capital requirements (£ millions)		31/12/2018
Eligible own funds to cover the Solvency Capital Requirement ¹		115.5
Solvency Capital Requirement		64.6
Solvency surplus		50.9
Ratio of eligible Own Funds to SCR		178.8%
Eligible own funds to cover the Minimum Capital Requirement ²		87.4
Minimum Capital Requirement		21.1
Minimum Capital Surplus		66.3
Ratio of eligible Own Funds to MCR		414.2%
¹ £32.3m of Tier II capital eligible for SCR coverage		
² £4.2m of the £35m Tier II capital eligible for MCR coverage		

Further details on the components of the capital requirements can be found in section E.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 tables below summarise those movements.

The following tables determine the difference in the Group's UK GAAP equity and the Solvency II own funds and the sources of those differences:

(£ millions)	31/12/2018
UK GAAP equity	36.2
SII Excess Own Funds (unrestricted)	134.1
Difference	97.9

Explanation of Change from UK GAAP Statutory to Solvency II (£ millions) - 31/12/2018	UK GAAP Statutory	Solvency II	Change
Valuation of Assets (Section D.1)	1,700.9	1,656.0	(44.9)
Valuation of Technical Provisions (Section D.2)	(1,530.5)	(1,477.7)	52.8
Subordinated Loan (Section E1.1)	(35.0)	0.0	35.0
Fund for future appropriations	(64.3)	0.0	64.3
Valuation of Other Liabilities (Section D.1)	(34.9)	(44.2)	(9.3)
Total Own Funds (Unrestricted)	36.2	134.1	97.9
Ring-fenced fund restriction	0.0	(18.6)	(18.6)
Own funds	36.2	115.5	79.3

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 Solvency Capital Requirement ('SCR'). The appropriateness of the Standard Formula approach with respect to the Group's risk profile has been approved by the Board.

The SCR amount for the Group at 31 December 2018 has been calculated to be £64.6m. The main driver of the changes over the reporting year has been the transfer of business from RMIS on 1 April 2018, and management actions arising thereafter in the form of optimising the matching adjustment portfolios and sale of corporate bonds. The table below sets out the Solvency Capital Requirement broken down by the SCR module:

Group SCR – (£ millions)		
SCR Module	31/12/2018	31/12/2017
Life Underwriting	42.5	n/a
Market	76.9	n/a
Counterparty Default	4.5	n/a
Base SCR - Diversification	(22.8)	n/a
Base SCR	101.2	n/a
Operational	5.4	n/a
Loss Absorbency Adjustment	(42.0)	n/a
Total SCR	64.6	n/a

The loss absorbing capacity of technical provisions of £42.0m (as shown on S.25.01) arises from the Group's with-profits sub-funds, and reflects the ability of the Group to apply management actions in these sub-funds under stress conditions. It also reflects the Group's Loss Absorbing Capacity of Deferred Tax liability.

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 guaranteed annuity options. 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 (Minimum Capital Requirement) amount for the Group at 31 December 2018 has been calculated to be £21.1m. The table below sets out the components of the MCR, the values of which reflect the transfer of business from RMIS on 1 April 2018. The amounts include reinsurance recoverables and liabilities.

Component	TP _(life, 1)	TP _(life, 2)	TP _(life, 3)	TP _(life, 4)	CAR	SCR	MCR
Value at 31/12/2018 (£m)	165.0	57.9	623.3	646.8	101.1	64.6	21.1
Notes	TP = Technical Provisions, CAR = Capital at Risk, SCR = Solvency Capital Requirement						

E.3 Use of 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 Solvency Capital Requirement and the Minimum Capital Requirement 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

There is no other material capital management information.

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 United Kingdom 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 portfolios are;

- the non-profit annuities in-payment in Non-Profit Fund 1 ('MA1'); and
- the funeral plan business in Non-Profit Fund 2 ('MA2').

INFLATION

Inflation is a significant assumption for the Group as 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 2018 was 3.25%. 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 year-end 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.

The Group has adopted the CMI 2017 mortality improvement factors published by the Institute of Actuaries in 2018 for the valuation of annuity liabilities at year-end 2018.

EXPENSES

The table below shows the unit cost assumptions for the NPF. The expenses for the 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 £	YE18	YE17
Renewal Expenses - Premium Paying	60.92	53.27
Renewal Expenses - Paid Up	45.69	39.95
Claim Expenses	82.16	62.69

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% (25% and 60% year-end 2017).

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% (0% to 7.5% at year-end 2017).

APPENDIX B – QUANTITATIVE REPORTING TEMPLATES (QRTS)

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 to the regulators privately.

The following QRTs are provided:

S.02.01.02, Balance sheet.

S.05.01.02, Premiums, claims and expenses.

S.23.01.01, Own Funds.

S.25.01.21, information on the SCR, calculated using the standard formula.

S.22.01.21, information on the impact of long term guarantees and transitional measures.

S.32.01.22, undertakings in the scope of the Group

UUG Holdings (No 1) Limited (Group)		
Balance Sheet		
S.02.01.02		
ALL AMOUNTS SHOWN IN £ THOUSANDS		Solvency II value
Assets		C0010
Intangible assets	R0030	0
Deferred tax assets	R0040	650
Pension benefit surplus	R0050	0
Property, plant & equipment held for own use	R0060	3,452
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	956,016
Property (other than for own use)	R0080	0
Holdings in related undertakings, including participations	R0090	0
Equities	R0100	4,490
Equities - listed	R0110	0
Equities - unlisted	R0120	4,490
Bonds	R0130	837,774
Government Bonds	R0140	325,198
Corporate Bonds	R0150	512,576
Structured notes	R0160	0
Collateralised securities	R0170	0
Collective Investments Undertakings	R0180	95,697
Derivatives	R0190	14,360
Deposits other than cash equivalents	R0200	3,694
Other investments	R0210	0
Assets held for index-linked and unit-linked contracts	R0220	621,781
Loans and mortgages	R0230	712
Loans on policies	R0240	712
Loans and mortgages to individuals	R0250	0
Other loans and mortgages	R0260	0
Reinsurance recoverables from:	R0270	-15,296
Non-life and health similar to non-life	R0280	0
Non-life excluding health	R0290	0
Health similar to non-life	R0300	0
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	-15,296
Health similar to life	R0320	0
Life excluding health and index-linked and unit-linked	R0330	-15,296
Life index-linked and unit-linked	R0340	0
Deposits to cedants	R0350	0
Insurance and intermediaries receivables	R0360	184
Reinsurance receivables	R0370	506
Receivables (trade, not insurance)	R0380	5,788
Own shares (held directly)	R0390	0
	R0400	0
Amounts due in respect of own fund items or initial fund called up but not yet paid in		
Cash and cash equivalents	R0410	82,165
Any other assets, not elsewhere shown	R0420	0
Total assets	R0500	1,655,957

UUG Holdings (No 1) Limited (Group)		
Balance Sheet - Continued		
S.02.01.02		
ALL AMOUNTS SHOWN IN £ THOUSANDS		Solvency II value
Liabilities		C0010
Technical provisions – non-life	R0510	0
Technical provisions – non-life (excluding health)	R0520	0
TP calculated as a whole	R0530	0
Best Estimate	R0540	0
Risk margin	R0550	0
Technical provisions - health (similar to non-life)	R0560	0
TP calculated as a whole	R0570	0
Best Estimate	R0580	0
Risk margin	R0590	0
Technical provisions - life (excluding index-linked and unit-linked)	R0600	858,141
Technical provisions - health (similar to life)	R0610	323
TP calculated as a whole	R0620	268
Best Estimate	R0630	55
Risk margin	R0640	0
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	857,818
TP calculated as a whole	R0660	0
Best Estimate	R0670	831,415
Risk margin	R0680	26,403
Technical provisions – index-linked and unit-linked	R0690	619,535
TP calculated as a whole	R0700	613,126
Best Estimate	R0710	6,409
Risk margin	R0720	0
Contingent liabilities	R0740	0
Provisions other than technical provisions	R0750	1
Pension benefit obligations	R0760	6,049
Deposits from reinsurers	R0770	6,192
Deferred tax liabilities	R0780	9,561
Derivatives	R0790	0
Debts owed to credit institutions	R0800	0
Financial liabilities other than debts owed to credit institutions	R0810	0
Insurance & intermediaries payables	R0820	9,403
Reinsurance payables	R0830	431
Payables (trade, not insurance)	R0840	12,493
Subordinated liabilities	R0850	0
Subordinated liabilities not in Basic Own Funds	R0860	0
Subordinated liabilities in Basic Own Funds	R0870	0
Any other liabilities, not elsewhere shown	R0880	0
Total liabilities	R0900	1,521,806
Excess of assets over liabilities	R1000	134,151

UUG Holdings (No 1) Limited (Group)						
Own funds						
S.23.01.01						
ALL AMOUNTS SHOWN IN £ THOUSANDS		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial						
Ordinary share capital (gross of own shares)	R0010	31,000	31,000		0	
Non-available called but not paid in ordinary share capital at group level	R0020	0	0		0	
Share premium account related to ordinary share capital	R0030	0	0		0	
Initial funds, members' contributions or the equivalent basic own - fund item for	R0040	0	0		0	
Subordinated mutual member accounts	R0050	0		0	0	0
Non-available subordinated mutual member accounts at group level	R0060	0		0	0	0
Surplus funds	R0070	18,232	18,232			
Non-available surplus funds at group level	R0080	0	0			
Preference shares	R0090	0		0	0	0
Non-available preference shares at group level	R0100	0		0	0	0
Share premium account related to preference shares	R0110	0		0	0	0
Non-available share premium account related to preference shares at group level	R0120	0		0	0	0
Reconciliation reserve	R0130	33,979	33,979			
Subordinated liabilities	R0140	0		0	0	0
Non-available subordinated liabilities at group level	R0150	0		0	0	0
An amount equal to the value of net deferred tax assets	R0160	0				0
The amount equal to the value of net deferred tax assets not available	R0170	0				0
Other items approved by supervisory authority as basic own funds not specified above	R0180	35,000	0	0	35,000	0
Non available own funds related to other own funds items approved by supervisory authority	R0190	0	0	0	0	0
Minority interests (if not reported as part of a specific own fund item)	R0200	0	0	0	0	0
Non-available minority interests at group level	R0210	0	0	0	0	0
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220	0				
Deductions						
Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities	R0230	0	0	0	0	0
whereof deducted according to art 228 of the Directive 2009/138/EC	R0240	0	0	0	0	
Deductions for participations where there is non-availability of	R0250	0	0	0	0	0
Deduction for participations included by using D&A when a combination	R0260	0	0	0	0	0
Total of non-available own fund items	R0270	0	0	0	0	0
Total deductions	R0280	0	0	0	0	0
Total basic own funds after deductions	R0290	118,212	83,212	0	35,000	0
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300	0			0	
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310	0			0	
Unpaid and uncalled preference shares callable on demand	R0320	0			0	0
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330	0			0	0
Letters of credit and guarantees under Article 96(2) of the Directive	R034	0			0	
Letters of credit and guarantees other than under Article 96(2) of the	R035	0			0	0
Supplementary members calls under first subparagraph of Article 96(3) of the	R0360	0			0	
Supplementary members calls - other than under first subparagraph of Article	R0370	0			0	0
Non available ancillary own funds at group level	R0380	0			0	0
Other ancillary own funds	R0390	0			0	0
Total ancillary own funds	R0400	0			0	0
Own funds of other financial sectors						
Credit institutions, investment firms, financial institutions, alternative	R0410	0	0	0	0	
Institutions for occupational retirement provision	R0420	0	0	0	0	0
Non regulated entities carrying out financial activities	R0430	0	0	0	0	
Total own funds of other financial sectors	R0440	0	0	0	0	0

UUG Holdings (No 1) Limited (Group)						
Own funds						
S.23.01.01		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
ALL AMOUNTS SHOWN IN £ THOUSANDS		C0010	C0020	C0030	C0040	C0050
Own funds when using the D&A, exclusively or in combination of method 1						
Own funds aggregated when using the D&A and combination of method	R0450	0	0	0	0	0
Own funds aggregated when using the D&A and a combination of method net of IGT	R0460	0	0	0	0	0
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)	R0520	118,212	83,212	0	35,000	0
Total available own funds to meet the minimum consolidated group SCR	R0530	118,212	83,212	0	35,000	
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)	R0560	115,524	83,212	0	32,312	0
Total eligible own funds to meet the minimum consolidated group SCR	R0570	87,434	83,212	0	4,223	
Consolidated Group SCR	R0590					
Minimum consolidated Group SCR	R0610	21,114				
Ratio of Eligible own funds to the consolidated Group SCR (excluding other financial sectors and the undertakings included via D&A)	R0630					
Ratio of Eligible own funds to Minimum Consolidated Group SCR	R0650	4.1410				
Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&A)	R0660	115,524	83,212	0	32,312	0
SCR for entities included with D&A method	R0670					
Group SCR	R0680	64,625				
Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A	R0690	1.7876				
Reconciliation reserve		C0060				
Excess of assets over liabilities	R0700	134,151				
Own shares (held directly and indirectly)	R0710	0				
Forseeable dividends, distributions and charges	R0720	0				
Other basic own fund items	R0730	84,232				
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	15,939				
Other non available own funds	R0750	0				
Reconciliation reserve before deduction for participations	R0760	33,979				
Expected profits						
Expected profits included in future premiums (EPIFP) - Life business	R0770	8,933				
Expected profits included in future premiums (EPIFP) - Non- life business	R0780	0				
Total Expected profits included in future premiums (EPIFP)	R0790	8,933				

UUG Holdings (No 1) Limited (Group) Premiums, Claims and expenses by line of business		Line of Business for: life insurance obligations				Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	
		C0210	C0220	C0230	C0240	C0300
S.05.01.02						
ALL AMOUNTS SHOWN IN £ THOUSANDS						
Premiums written						
Gross	R1410	39	717	2,868	7,557	11,181
Reinsurers' share	R1420	9	5	66	12,152	12,230
Net	R1500	30	713	2,802	-4,595	-1,050
Premiums earned						
Gross	R1510	39	717	2,868	7,557	11,181
Reinsurers' share	R1520	9	5	66	12,152	12,230
Net	R1600	30	713	2,802	-4,595	-1,050
Claims incurred						
Gross	R1610	4	18,062	43,419	33,457	94,941
Reinsurers' share	R1620	2	2	3	11,353	11,360
Net	R1700	2	18,060	43,416	22,104	83,581
Changes in other technical provisions						
Gross	R1710	0	0	0	0	0
Reinsurers' share	R1720	0	0	0	0	0
Net	R1800	0	0	0	0	0
Expenses incurred	R1900	355	923	3,595	2,476	7,348
Other expenses	R2500					2,874
Total expenses	R2600					10,222

UUG Holdings (No 1) Limited (Group)		Gross solvency capital requirement	USP	Simplifications
Solvency Capital Requirements - for undertakings on Standard Formula				
S.25.01.21				
ALL AMOUNTS SHOWN IN £ THOUSANDS		C0110	C0090	C0120
Market risk	R0010	76,856		
Counterparty default risk	R0020	4,534		
Life underwriting risk	R0030	42,450		
Health underwriting risk	R0040	141		
Non-life underwriting risk	R0050	0		
Diversification	R0060	-22,766		
Intangible asset risk	R0070	0		
Basic Solvency Capital Requirement	R0100	101,214		
Calculation of Solvency Capital Requirement		C0100		
Operational risk	R0130	5,399		
Loss-absorbing capacity of technical provisions	R0140	-33,404		
Loss-absorbing capacity of deferred taxes	R0150	-8,584		
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	0		
Solvency capital requirement excluding capital add-on	R0300	64,625		
Capital add-on already set	R0310	0		
Solvency capital requirement	R0320	64,625		
Other information on SCR				
Capital requirement for duration-based equity risk sub-module	R0400	0		
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	18,299		
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	2,748		
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430	43,577		
Diversification effects due to RFF nSCR aggregation for article 304	R0440	0		
Minimum consolidated group solvency capital requirement	R0470	21,114		
Information on other entities				
Capital requirement for other financial sectors (Non-insurance capital requirements)	R0500	0		
Capital requirement for other financial sectors (Non-insurance capital requirements) - Credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies	R0510	0		
Capital requirement for other financial sectors (Non-insurance capital requirements) - Institutions for occupational retirement provisions	R0520	0		
Capital requirement for other financial sectors (Non-insurance capital requirements) - Capital requirement for non-regulated entities carrying out financial activities	R0530	0		
Capital requirement for non-controlled participation requirements	R0540	0		
Capital requirement for residual undertakings	R0550	0		
Overall SCR				
SCR for undertakings included via D and A	R0560	0		
Solvency capital requirement	R0570	64,625		

UUG Holdings (No 1) Limited (Group)						
Impact of long term guarantees and transitional measures						
S.22.01.21						
		Amount with Long Term Guarantee measures and transitional	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
ALL AMOUNTS SHOWN IN £ THOUSANDS		C0010	C0030	C0050	C0070	C0090
Technical provisions	R0010	1,477,675	33,038	0	0	64,770
Basic own funds	R0020	118,212	-33,002	0	0	-64,777
Eligible own funds to meet Solvency Capital Requirement	R0050	115,524	-33,002	0	0	-97,090
Solvency Capital Requirement	R0090	64,625	0	0	0	19,318

UUG Holdings (No 1) Limited (Group)
Undertakings in the Scope of the Group
S.32.01.22

								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	Legal name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory Authority	% 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	
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260	
GB	213800DZ5XY8AG5COI19	LEI	LCCG UK (RL) Limited	5	Company limited by shares	2			100%	100%				1		1	
GB	213800DZ5XY8AG5COI19GB00001	SC	Reliance Life Holdings Limited	5	Company limited by shares	2		100%	100%	100%		1	1	1		1	
GB	213800I1ZCFT62P9P534	LEI	Reliance Life Limited	1	Company limited by shares	2	Bank of England Prudential Regulation Authority	100%	100%	100%		1	1	1		1	
GB	213800211J26KBNINV56	LEI	Reliance Pension Scheme Trustee Limited	10	Company limited by shares	2		100%	100%	100%		1	1	1		1	
GB	213800DZ5XY8AG5COI19GB00002	SC	Reliance Unit Managers Limited	10	Company limited by shares	2		100%	100%	100%		1	1	1		1	
GB	213800DZ5XY8AG5COI19GB00003	SC	Reliance Administration Services Limited	10	Company limited by shares	2		100%	100%	100%		1	1	1		1	
GB	213800DZ5XY8AG5COI19GB00004	SC	F S Management Ltd	10	Company limited by shares	2		100%	100%	100%		1	1	1		1	
GB	213800DZ5XY8AG5COI19GB00005	SC	Reliance Life Services Limited	10	Company limited by shares	2		100%	100%	100%		1	1	1		1	
GB	213800XC51Q1FRX9I853	LEI	RMIS (RTW) Limited	10	Company limited by guarantee	2			100%	100%		1	1	1		1	

GLOSSARY OF TERMS

ALCO	Asset Liability Committee
ALM	Asset and Liability Management
BEL	Best Estimate Liabilities
bps	Basis Points
BRV	Bonus Reserve Value
CMS	Capital Management Strategy
DB	Defined Benefit
EPIFP	Expected Profit in Future Premium
ERM	Enterprise Risk Management
FCA	Financial Conduct Authority
FDB	Future Discretionary Benefits
FRS	Financial Reporting Standard under UK GAAP
GAAP	Generally Accepted Accounting Principles
GAO	Guaranteed Annuity Options
GDPR	General Data Protection Regulation
HRG	Homogeneous Risk Group
IAS	International Accounting Standard
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standard
LCCG	Life Company Consolidation Group (rebranded to Utmost Group of Companies)
MA	Matching Adjustment
MCR	Minimum Capital Requirement
NPF	Non Profit Fund
ORSA	Own Risk and Solvency Assessment
OTC	Over the Counter
PRA	Prudential Regulation Authority
RMIS	RMIS (RTW) Limited – formerly Reliance Mutual Life Insurance Society Limited
SCR	Solvency Capital Requirement
SIMR	Senior Insurance Manager Regime
SMC	Senior Management Committee
TMTP	Transitional Measure on Technical Provisions
TP	Technical Provisions
ULP	Utmost Life and Pensions Limited
ULPH	Utmost Life and Pensions Holdings Limited
ULPS	Utmost Life and Pensions Services Limited
UUG	UUG Holdings (No 1) Limited, the Company
WPSF1	With Profits Sub-Fund 1
WPSF2	With Profits Sub-Fund 2
WPSF4	With Profits Sub-Fund 4
WPSF6	With Profits Sub-Fund 6

