Report date: 01 May 2018

COLUMBIA THREADNEEDLE INVESTMENTS

Threadneedle Pensions Limited

Solvency and Financial Condition Report

31 December 2017

Contents

1. Summary

This report is an annual Solvency II disclosure report for Threadneedle Pensions Limited ("**TPEN**") comprising five descriptive sections, and the Solvency II Quantitative Reporting Templates.

1.1 Business and performance

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

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

Assets under management from both DB and DC schemes decreased from £9.2 billion ("**bn**") at 31 December 2016 to £6.9bn at 31 December 2017, reflecting withdrawal of £3.0bn from a single client, positive investment returns of £1.1bn and other net outflows of £0.4bn. TPEN remained profitable, reporting total comprehensive income for the year of £2.1 million ("**m**").

1.2 System of governance

The TPEN Board is responsible for all matters pertaining to TPEN and delegates to two Board Committees:

to the General Management Committee ("**GMC**") the management, governance and risk management oversight over the day to day business processes which support the TPEN business;

to the Fund Pricing and Dealing Committee ("**FPDC**") the monitoring and reviewing of the pricing of and dealing in funds to ensure that clients and funds are treated equitably.

Other than changes in the directors of the business, set out in B1.2 below, there have been no material changes to the governance structure of TPEN in the year to 31 December 2017.

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

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

TPEN is part of the Group's risk and control framework which is embedded in the business through a three lines of defence model:

i. the First Line of Defence, the Group business units, undertake day-to-day risk management, ensure compliance with the risk management framework, policies and procedures and apply internal management controls and improvement actions;

ii. the Second Line of Defence, the Group Risk and Compliance functions, oversee and challenge risk management in First Line of Defence, provide guidance and direction to First Line of Defence and develop and communicate the risk management framework; and

iii. the Third Line of Defence, Group Internal Audit, provide independent perspective and challenge and oversee the First and Second Lines of Defence.

The primary component of the internal control system operated by TPEN is the Risk and Control Self-Assessment ("**RCSA**") process. The RCSA process is performed by the First Line of Defence and the Second Line of Defence provides independent challenge. The TPEN RCSA articulates the process, risks and controls which relate to TPEN.

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

1.3 Risk Profile

The standard formula Solvency Capital Requirement ("**SCR**") for TPEN at 31 December 2017 is £12.1m (2016: £9.4m) after adjustments for risk diversification and the loss absorbing capacity of deferred taxes. The largest risk to which TPEN is exposed is operational risk (£9.2m of the SCR) which is the risk of loss caused by failure in processes, systems, people or external factors. Operational risk workshops are held regularly with subject matter experts to discuss the frequency and severity with which these risks apply to TPEN.

Other standard formula SCR risks include credit risk (including counterparty default risk), insurance risk and market risk. The insurance and market risks (which combined constitute £2.4m of the SCR) are mainly estimated by applying stress scenarios to the projected cashflows of TPEN. The estimated risks are relatively small compared to operational risk because the projection period over which the cashflows are assessed (the "projection period") is set by the TPEN Board by reference to the notice period of the policyholder contracts. The majority of policyholder contracts have a notice period of three months. This is on the basis that, in a stressed environment, TPEN could give unilateral notice to its policyholders and return their assets to them after three months. However, taking a prudent view, TPEN Board have set the projection period to one year, see Section C.1.1 for further details. Use of a short-term projection period set out in this manner is a simplification that the Board considers is proportionate, for reasons set out in Section D.2.4.

Credit risks (£2.1m) are also relatively small due to the high quality of the clients with which we do business and that TPEN's own funds are primarily invested in high quality liquid assets within a Collective Investment Scheme.

1.4 Valuation for Solvency purposes

The valuation of assets and liabilities for Solvency II purposes is the same as under UK accounting principles except for differences in the value of technical provisions. Total equity in financial statements increased from £22.364m to £24.418m due to the inclusion of retained earnings of £2.1m. These differences are set out below:

Table 1: Valuation of assets and liabilities at 31 December

	2017 £m	**2016 £m**
Total equity in financial statements	24.418	22.364
Items not recognised in the financial statements:		
Best Estimate (S.02.01.02)	1.922	1.585
Additional Deferred Tax Liability in relation to Technical Provisions	(0.346)	(0.312)
Risk margin (S.02.01.02)	(0.640)	(0.553)
Solvency II – Basic Own Funds	**25.354**	**23.084**

Total equity in financial statements has increased from £22.4m in 2016 to £24.4m in 2017 due to retained earnings of £2.1m.

The Best Estimate provision is calculated by determining the discounted present value of best estimates of future cashflows of the policies. The Best Estimate has increased from prior year due to change in projection period from three months to one year.

The Best Estimate, which is based on future cashflows is an asset due to the profitable nature of the unit linked insurance contracts.

The Risk Margin is an additional technical provision derived by projecting forward the SCR through time and discounting using a cost of capital of 6% per annum.

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

whether the proportionality requirements of Article 56 continue to be met; and

whether the Board's capital management policy needs to be adjusted to ensure it reflects the Board's capital risk appetite, in terms of SCR coverage, on both a long and short projection basis.

1.5 Capital management

At 31 December 2017, the Solvency Coverage Ratio (Basic Own Funds / SCR) was 209% (2016: 246%). Solvency II capital resources were £25.4m (2016: £23.1m) compared to the SCR of £12.1m (2016: £9.4m) after adjustments for risk diversification and the loss absorbing capacity of deferred taxes. The Minimum Capital Requirement ("**MCR**") was £5.5m (2016: 4.2m) resulting in a capital surplus (Basic Own Funds *less* MCR) of £19.9m (2016: £18.9m). TPEN's policy is that sufficient own funds will be maintained to meet regulatory requirements with adequate surplus in line with operating and strategic objectives. TPEN holds regular board meetings at least quarterly at which regulatory capital requirements are monitored by comparing capital requirements to own funds.

A Business and Performance

A.1 Business

A.1.1 Name and legal form of the undertaking

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

Cannon Place
78 Cannon Street
London
EC4N 6AG

This Solvency and Financial Condition Report ("**SFCR**") covers TPEN on a standalone basis.

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

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

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

Financial Conduct Authority
25 The North Colonnade
Canary Wharf
London
E14 5HS

A.1.3 External auditor of the undertaking

The independent auditors of TPEN are:

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

A.1.4 Holders of qualifying holdings in the undertaking

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

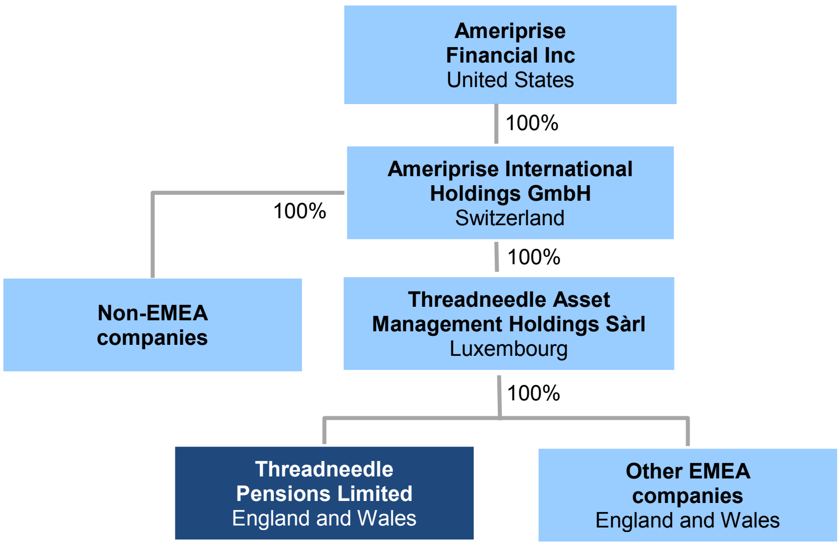
a) Threadneedle Asset Management Holdings Limited ("**TAMHL**"): a company incorporated in England and Wales which is the immediate parent company of TPEN. At the reporting date, TAMHL owned 100% of the voting shares of TPEN and was able to exercise 100% of the voting power at any general meeting.
b) Threadneedle Asset Management Holdings Sàrl ("**TAMH Sàrl**"): a Luxembourg registered company which is the European holding company of the Group. At the reporting date, TAMH Sàrl owned 100% of the shares of Threadneedle Asset Management Holdings Limited, via a number of other holding companies, and was able to exercise 100% of the voting power at any general meeting.
c) Ameriprise Financial, Inc. ("**Ameriprise**"): the ultimate parent company incorporated in the United States. At the reporting date, Ameriprise owned 100% of the voting shares of TAMH Sàrl, via another holding company Ameriprise International Holdings GmbH, and was able to exercise 100% of the voting power at any general meeting.

A.1.5 Legal structure of the group

TPEN is a wholly owned subsidiary of TAMHL which is, via a number of other holding companies, a wholly owned subsidiary of TAMH Sàrl, the Luxembourg registered holding company for the Group. The ultimate parent company of TAMH Sàrl is Ameriprise.

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

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



A.1.6 Material lines of business and geographical areas

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

Six of the unit linked pooled funds invest via reinsurance contracts in unit linked pooled funds, managed on a passive basis by a third-party asset manager. These assets are shown on the balance sheet under "reinsurance recoverables".

A.1.7 Significant business events during the reporting period

Assets under Management from both DB and DC schemes decreased from £9.2 billion ("**bn**") at 31 December 2016 to £6.9bn at 31 December 2017, reflecting the withdrawal of £3.0bn from a single client, positive investment returns of £1.1bn and other net outflows of £0.4bn. TPEN remained profitable, reporting total comprehensive income for the year of £2.1 million ("**m**").

A.2 Underwriting performance

A.2.1 Underwriting performance

The unit linked life insurance contracts are classified as investment contracts for UK accounting purposes. The balance sheet value of the assets held for unit linked contracts (which are carried at market value) is always equal to the balance sheet value of the liabilities under the unit linked contracts before the deduction of the technical provision set out in D.2.1.

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

In 2017 the technical provision for index linked and unit linked liabilities increased by £0.4bn from £3.2bn at 31 December 2016 to £3.6bn at 31 December 2017 as a result of investment returns on the financial investments held to cover the financial liabilities, and some net client inflows of £44.9m shown in the table below.

Table 2: Unit linked pooled funds at 31 December

31 December	2017 £m	2016 £m
Premiums earned (client inflows)	394.6	315.1
Claims incurred (client outflows)	(349.7)	(325.4)
Net	**44.9**	**(10.3)**

The premiums received and claims paid contribute to increasing or decreasing the assets under management of TPEN on which TPEN's revenue is calculated. The resulting performance is set out in Section A.4 below.

A.3 Investment Performance

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

The table below shows an analysis of the £387.2m increase in assets held for index linked and unit linked contracts (including reinsurance recoveries) to £3,561.6m during 2017.

Table 3: Investment performance at 31 December

31 December	2017 £m	2016 £m
Opening balance (1 January)	3,174.4	2,931.6
Investment income	271.2	154.8*
Unrealised gains on investments	97.3	111.3
Premiums	394.6	315.1
Claims	(349.7)	(325.4)
Fund charge rebates**	2.0	9.1
Fund expenses	(28.2)	(22.1)
Closing balance (31 December)	**3,561.6**	**3,174.4**

*includes £8m of prior year valuation adjustment

** relates to rebating of the Annual Management Charge charged by the underlying funds that TPEN funds invest in

The table shows that the majority of the increase in asset value was due to investment income and unrealised gains on investments. The fund expenses of £28.2m relate to the costs of buying and selling the financial assets in the unit-linked funds and the fees for investment management services, majority of which relate to the management of the TPEN property fund.

The increase in asset value can be analysed by the movement in different asset classes, which are set out in the table below:

Table 4: Increase in asset value at 31 December

31 December	2017 £m	2016 £m	Increase/ (Decrease)
Investment in reinsurance undertakings to cover unit-linked liabilities	68.411	51.770	16.641
Equity	1,109.740	919.240	190.500
Property	1,817.933	1,559.376	258.557
Fixed Interest	383.941	420.414	(36.473)
Cash and Cash Equivalents	180.718	221.629	(40.911)
Other	0.892	1.965	(1.073)
Asset Value	**3,561.635**	**3,174.394**	**387.241**

Material increases in the table above can be seen to be within equity and property asset classes which are driven by client inflows and investment returns. The fixed interest figure above also includes minor amount of asset backed securities.

A.4 Performance of Other Activities

A.4.1 Summary of other material income and expenses

In addition to the investments shown in the balance sheet, TPEN also manages individual client portfolios, the nature of which does not meet the criteria for inclusion in the balance sheet of TPEN.

The market value of these individual client portfolios decreased from £6.3bn at 31 December 2016 to £4.4bn at 31 December 2017 driven by net outflows of £3.1bn offset by market returns of £1.2bn. Fees received for investment management services for these individual client portfolios were £7.4m (2016: £8.1m).

TPEN's Statement of Comprehensive Income includes the following:

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

In 2017, investment management fees (unit linked and individual client portfolios) earned by TPEN were £22.8m compared to investment management costs of £17.2m resulting in a net investment fee income of £5.6m, this compares to £5.9m for 2016. This was mainly due to increase in property fund related expenses that fluctuate depending on the property vacancy levels, the level of letting activity, property management fees, repairs required and ground rent charges.

A.5 Other material Information

There is no other material information regarding business and performance.

B. System of Governance

B.1 General Information on the system of governance

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

Board of Directors

The Board of Directors of TPEN (the "**Board**") bears ultimate legal responsibility for all matters pertaining to TPEN including the following main roles and responsibilities:

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

The Board is responsible for the Own Risk and Solvency Assessment (see Section B.3.2), as well as for implementing and managing TPEN's risk framework, including review of the Risk and Control Self-Assessment ("**RCSA**"), Risk Events ("**REV**"), controls and risk mitigation processes. (see B.3.1).

The above information is presented to the Board by the Head of the relevant functions including the Chief Actuary, Head of Finance, Head of Investment Risk, Head of Operational Risk, and Head of Compliance.

The Board is comprised of six Directors:

- William Truscott (Chair);
- Michelle Scrimgeour;
- Mark Burgess;
- Andrew Nicoll;
- Ann Roughead (Non-Executive Director); and
- Kathleen Shailer neé Cates (Non-Executive Director).

All Board and Board Committee meetings are formally minuted. The Board meets at least quarterly and the quorum is two.

The Board delegates the following to Board committees:

- TPEN General Management Committee ("**GMC**"): The purpose of the GMC is to provide management, governance and risk management oversight over the day to day business process which supports the TPEN business. The GMC membership is drawn from the Group functions which provide the day-to-day management of the TPEN business ensuring there is sufficient coordination, knowledge and experience to be able to challenge the performance and results, including but not limited to any outsourced arrangements. A Board member chairs the GMC; and

Fund Pricing and Dealing Committee ("**FPDC**"): The purpose of the FPDC is to monitor and review pricing activities, and to review the pricing of, and dealing in funds to ensure that clients and funds are treated equitably. To remove any potential conflicts of interest, where a matter is escalated that concerns the pricing or valuation of funds that fall within the scope of the FPDC (e.g. fair value adjustments to TPEN Funds), FPDC members that are authorised Fund

Managers are not permitted to approve any instructions.

The Committees' Terms of Reference outline their roles and responsibilities in relation to TPEN. The Board approves the Board Committees' Terms of Reference and any changes thereto.

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

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

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

The following Director resignations took place in the period:

Timothy Gillbanks, Chairman and Chief Executive, resigned on 31 March 2017; and

Don Jordison resigned on 1 May 2018.

The following Director appointments took place within the last year and up to the date of signing of this report:

William Truscott appointed on 14 July 2017;

Michelle Scrimgeour appointed on 14 August 2017; and

Kathleen Shailer neé Cates (Non-Executive director) appointed on 7 December 2017

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

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

B.1.3.1 Principles of the Group remuneration policy

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

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

The Group remuneration policy is based on the following principles:

remuneration programmes must be aligned with the Group and Ameriprise strategy, objectives, values and long-term interests;

the remuneration opportunity and rewards must be competitive enough to attract and retain the key talent who can help the Group achieve consistently superior results for its clients and stakeholders;

there should be a strong linkage between remuneration and both financial and non-financial performance, while also supporting the Group's culture and values;

remuneration decisions must be made on a well-informed basis based on the employee's experience, responsibilities, and performance, while also considering external market and internal comparability;

remuneration programmes must be operated in full compliance with all applicable legal, tax, and regulatory requirements. No local programme structure will be established to avoid such requirements; and

remuneration programmes must be consistent with and promote sound and effective risk management and not induce imprudent risk taking or impair the safety and soundness of the Group. This includes the need for remuneration programmes to avoid introducing or incentivising conflicts of interest or potential mis-selling.

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

salaries remain competitive within the labour market, by conducting an annual pay review and benchmarking salaries against other employers;

salary adjustments consider individual performance, that individuals are not discriminated against because of gender, marital or civil partnership status, race, religion or belief, sexual orientation, age, disability, gender reassignment, pregnancy and maternity, or because they work part time or on a fixed term contract;

each employee is paid at the level of at least the national minimum wage, and that;

each employee's salary is sufficient so that they do not need to rely on a bonus.

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

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

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

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

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

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

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

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

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

There were no material transactions in the reporting period.

B.2 Fit and Proper requirements

B.2.1 Requirements for skills, knowledge and expertise

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

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

a. has the personal characteristics (including being of good repute and integrity);

b. possesses the level of competence, knowledge and experience;

c. has the qualifications; and

d. has undergone or is undergoing all training, required to enable such person to perform their key function effectively and in accordance with any relevant regulatory requirements, including those under the regulatory system, and to enable sound and prudent management of the Group's business including TPEN.

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

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

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

The Group ensures that such persons have the necessary skills, knowledge and expertise required by assessing their professional qualifications, knowledge and experience. Some of the general checks conducted at recruitment include:

- educational background check; and
- professional qualifications / membership check.

The Group reviews the current skill set of such persons against the skills required to perform the role and may undertake the following activities as necessary:

- skills gap analysis;
- skills mapping document; and
- learning and development plan.

From 9 April 2018, the collective suitability of the TPEN directors will be assessed to ensure that the directors:

- understand the institution's activities, including the main risks;
- take appropriate decisions considering the business model, risk appetite, strategy and markets in which the institution operates;
- effectively challenge and monitor decisions made by the executive directors; and

the impact on the collective suitability of the board will be considered each time there is a change to the TPEN board composition.

An annual review of the overall board effectiveness will take place to ensure it has a diverse board who provides effective challenge across the full range of the firm's business and has the capacity to explore key business issues rigorously.

B.2.2 Fitness and propriety of persons

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

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

The Group conducts ongoing fitness and propriety assessment of such persons which include; where relevant:

- repeat screening;
- annual training and competence assessment; and
- annual refresh of responsibility statements.

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

B.3.1 Risk Management Framework, implementation and integration

The Board is responsible for implementing and managing TPEN's risk management framework. Key components of the framework include:

- identification of the key risks that are relevant to TPEN;
- establishment of the risk appetite statement which expresses TPEN's appetite or tolerance for the risks that it faces in pursuing its business strategy;
- bottom up identification of the risks associated with TPEN's processes, the relevant controls and the resulting residual risks; and
- identification of Key Risk Indicators ("**KRIs**") which are used to monitor TPEN's risk exposure compared to its risk appetite.

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

The Group operates a three lines of defence model:

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

The First Line of Defence, the Group business units, identify and rate the risks and controls associated with the processes they perform (the RCSA process). TPEN performs its own RCSA process in which it articulates its business processes, the risks inherent in those processes and the controls mitigating those risks. Risks are rated consistently with Group in terms of the financial impact, probability of occurrence and control mitigation, resulting in the residual risk. The results of the RCSA are linked to the relevant Key Risk, providing a “bottom up” validation of the Key Risk. The TPEN RCSA is refreshed and reviewed by the GMC annually.

KRIs are developed, by the business unit, for each RCSA risk which has a residual risk rating of medium or above. The KRIs include a mixture of leading and lagging indicators and they provide information as to the status and the trend of the underlying key risks. KRIs are recorded on TPEN’s business unit dashboard and this is reviewed on a quarterly basis by the GMC.

A REV is defined as an incident or issue that has a financial, business, client, regulatory or reputational event to TPEN and/or its clients. REVs are entered into a database system and assigned a level of severity (Red, Amber or Green). REVs that impact TPEN significantly and/or its clients above a specified level follow an appropriate escalation process.

The Second Line of Defence Risk team prepare a quarterly report which presents a forward-looking assessment covering TPEN’s key risks and is informed by the KRIs, RCSA risks, REVs and TPEN’s business unit dashboard. The risk report also considers issues raised by both Internal and External Audit, Compliance and third parties. It is used to help determine whether action is required to mitigate risk exposures and whether risks are being mitigated on a timely basis. Emerging risks are also reported to the Board as part of this process. The report is presented to the TPEN Board together with the TPEN Dashboard on a quarterly basis.

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

The key risks and REV data are inputs into the Own Risk and Solvency Assessment and capital management process. Operational risk workshops determine severe but plausible loss events based on the identified key operational risks. The internal loss data is used, together with external loss data to estimate the size and frequency of such event. This information is then used to help determine the appropriate capital to be retained in TPEN to protect against the impact of such events.

B.3.2 Own Risk and Solvency Assessment (“ORSA”)

Process and integration

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

review and confirmation of key risks by GMC and TPEN Board;

identification of operational risks for discussion at operational risk workshops;

operational risk workshops held with subject matter experts ("**SMEs**") to identify and quantify severe but plausible risk scenarios in the light of loss data;

calculation of market, insurance and credit risk scenarios by SMEs including the Chief Actuary;

define and implement stress testing scenarios;

refine capital requirements if appropriate;

extensive review of results of process by internal SMEs; and

review and approval of results of process and documents by GMC and TPEN Board.

The ORSA process involves subject matter experts and senior management across TPEN and the Group:

the Finance Team co-ordinates the process and provide the balance sheet figures;

the Chief Actuary assists in estimation of the market and insurance risk;

the Counterparty Credit Risk team assists in the estimation of credit risk;

subject matter experts drive the determination of appropriate loss event scenarios and the Operational risk team input and challenge; and

the GMC and TPEN Board review and approve the results.

The ORSA process is conducted, reviewed and approved by the TPEN Board annually. However, in exceptional circumstances the TPEN Board will consider re-running the ORSA on an ad-hoc basis. A new assessment may be required following a significant change in risk profile. Events that might be considered to represent a significant change include;

An acquisition or divesture of a business;

Significant change in market conditions; or

Significant change to type or level of new business.

To ensure that the risk and capital implications of business decisions are constantly monitored, a monthly report is prepared and submitted to a senior executive group which includes three of the four executive directors of TPEN, and a quarterly update is given to the TPEN Board for approval.

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

the risk management system provides the results of the ORSA process and the SCR calculation;

these results are compared to the relevant capital resources of TPEN to arrive at two surplus calculations;

capital calculation with the lower surplus is used as the solvency requirement; and

capital management activities ensure that Own funds remain in excess of 125% of the capital requirement.

B.4 Internal control system

B.4.1 Internal control system

The primary component of the internal control system operated by TPEN is the RCSA process described in B.3.1. The RCSA process is performed by the First Line of Defence and the Second

Line of Defence provides independent challenge. The TPEN RCSA articulates the process, risks and controls which relate to TPEN. As described in B.3.1 above, relevant breaches of controls are reported to the TPEN Board and an assessment is made whether further action is required.

The Group provides financial services to TPEN. The Group's finance responsibilities include maintaining the books and records of TPEN and the production of the statutory and regulatory financial reporting.

The Group Finance function is part of the First Line of Defence of the Group and so follows the RCSA process including identifying and documenting the risks and mitigating controls relating to its business processes including the production of financial information. Finance's RCSA is subject to review by and guidance from the Second Line of Defence.

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

B.4.2 Implementation of the compliance function

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

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

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

B.5 Internal audit function

B.5.1 Implementation of the internal audit function

The Group provides TPEN with an effective internal audit function which includes an evaluation of the adequacy and effectiveness of the internal control system and other elements of the system of governance and is objective and independent from the operational functions.

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

- delivery of an annual risk based audit plan;
- completion of ad hoc reviews and investigations; and
- building relationships with Senior Management and the wider business in order to act in an advisory capacity to promote good governance and risk management.

Any relevant findings and recommendations are reported to the Board.

B.5.2 Independence of the internal audit function

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

B.6 Actuarial function

B.6.1 Actuarial function

Actuarial services (from the Chief Actuary) are provided to TPEN by Nematrian Limited (which subcontracts the relevant activities to Barnett Waddingham). The Chief Actuary is a Fellow of the Institute and Faculty of Actuaries and has complied continuously with the specific professional obligations this requires. He holds a Practicing Certificate and is an Approved Person under the Senior Insurance Management Function regime.

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

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

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

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

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

B.7 Outsourcing

B.7.1 Outsourcing policy

TPEN's activities are outsourced to entities based in the United Kingdom, either to:

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

third-party providers for whom TPEN is the only client within the Group; or

other companies within the Group ("intra-group" arrangements).

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

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

The majority of services have been assessed as critical or important outsourced functions; with the exception of Human Resources, Premises and Corporate Communications which are deemed to have a limited impact on clients or firm due to service unavailability.

The GMC membership is drawn from the Group functions that provide the intra-group services and is chaired by a TPEN board director. It receives reports from the intra-group service providers as well as from the Group staff who oversee the third party outsourced service providers. Service providers either report directly to the Board or are included in the GMC report to the Board.

B.7.2 Outsourcing services

The following service providers are used by TPEN in providing its services to clients:

Service provider	Service(s) provided
Threadneedle Asset Management Limited	Investment Management services for TPEN unit linked funds and segregated client portfolios Marketing and client services
Threadneedle Asset Management Holdings Limited	Group support services including Risk management, Finance, Compliance, Legal, HR, Premises management, IT, Internal Audit, Operations
Link Group	Transfer Agency services
Citibank NA, London Branch	Fund Accounting and Custody
Nematrian Limited (subcontracted to Barnett Waddingham)	Chief Actuary

B.7.3 Outsourcing selection and management

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

The selection process for intra-group outsourcing arrangements includes consideration to ensure that the intra-group entities providing the services have the requisite skills and knowledge to do so.

C. Risk Profile

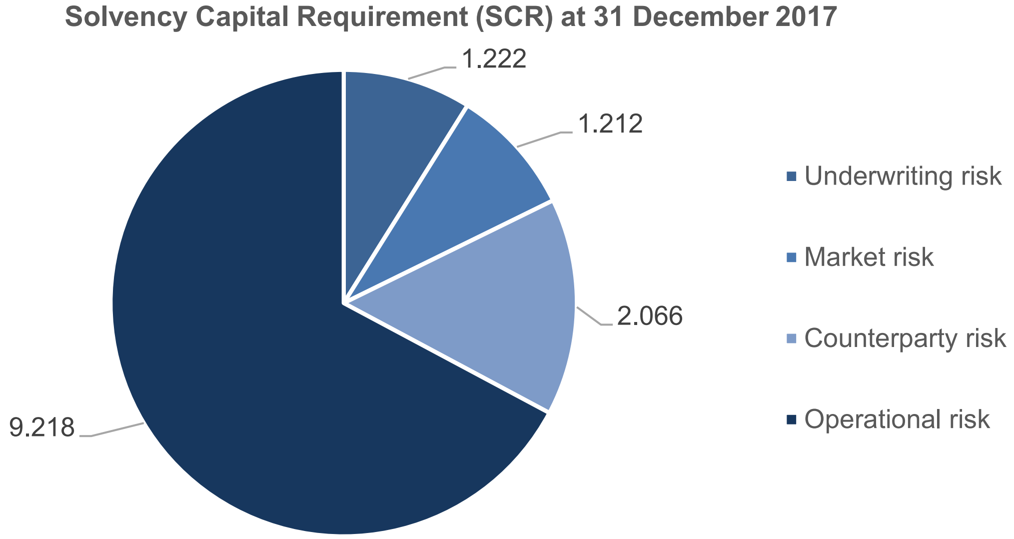
The key risk to which TPEN is exposed is operational risk as shown in the standard formula SCR at 31 December 2017 in the chart below. Operational risk is the risk of loss caused by failure in processes, systems, people or external factors. It is described below together with other categories of risk.

Prudent person principle

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

Solvency Capital Requirement

The standard formula SCR for TPEN at 31 December 2017 is £12.1m (2016: £9.4m) after adjustments for risk diversification and the loss absorbing capacity of deferred taxes. An analysis of the SCR by risk type is set out below:



Note: The total SCR of £12.110m is after the the deduction of £1.262m of diversification between risk types and £0.346m for the loss absorbing capacity of deferred taxes.

C.1 Underwriting risk

C.1.1 Material underwriting risks and changes over reporting period

Underwriting risks in the SCR are estimated by applying stress scenarios to the projected cash flows of TPEN. Similar to last year, the stress scenarios are those in the Standard Formula SCR. For lapse risk, these involve stresses described in C.1.3. For expense risk, the stress involves a one-off increase in certain types of expenses together with higher ongoing increases in these expenses.

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

lapse risk reflects the risk that profitable unit linked investment contracts will be withdrawn at a faster rate than expected and that non-profitable contracts are not withdrawn.

expense risk: the Group performs an extensive annual budgeting process across all its functions. Actual expenses are then compared against budget throughout the year and used to highlight areas for more detailed review.

Longevity risk reflects the risk that a reduction in mortality rates will increase the length of time over which an unprofitable contract will remain. Historically this risk related to a small number of policies which have since lapsed. At 31 December 2017, TPEN was not exposed to longevity risk.

The estimated risks are relatively small compared to operational risk because the projection period over which the cashflows are assessed (the "projection period") is defined by the TPEN Board to be equal to 12 months.

This is based on the following:

(1) whilst the notice periods for TPEN to terminate the policyholder contracts vary from 3 months to 10 months, the majority are at 3 months; and

(2) as well as the notice period for terminating the contracts, the projection period also takes account of how long it would actually take to wind down the business. The Group Internal Capital Adequacy Assessment Process includes a detailed wind down analysis which winds down the entire group over a period of 12 months and this is also deemed to be an appropriate period for TPEN.

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

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

Client flows, expenses and the potential impact of longevity risks are monitored by the Board at quarterly meetings.

for lapse risk the client service teams work closely with key clients to increase client retention

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

for longevity risks there is no exposure and as a result there is no impact and as such no risk mitigation techniques are applied.

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

C.1.3 Risk sensitivity for underwriting risks

The most material underwriting risk is lapse risk. As part of the calculation of the underwriting risks three different lapse stresses are considered, a 50% increase in lapse rates, a 50% decrease in lapse rates and a mass lapse of profitable business. The mass lapse stress amount is a blended rate calculated as a weighted average between segregated business (which is subject to a 70% mass lapse rate) and pooled business (which is subject to a 40% mass lapse rate). The results of these lapse stresses give an indication of the sensitivity of the SCR to different lapse rates. The most onerous lapse rate stress, the mass lapse stress, is included in the SCR.

C.2 Market risk

C.2.1 Material market risks and changes over reporting period

The assets held in the unit linked funds on TPEN's balance sheet are exposed to market risk. However, the value of the liabilities shown to the policyholders (the technical provision for linked liabilities) moves up and down in line with the fair value of the financial assets thus eliminating the balance sheet market risk for TPEN.

TPEN's non-linked technical provisions are sensitive to market risk and the profitability of the unit linked investment contracts will be impacted by the value of the assets under management which is affected by the market. The potential types of market risk include equity, interest rate, property, concentration, currency. The impact of market risk is relatively small as a result of the short projection period over which the risk is estimated (as described in C.1.1 above). TPEN's non-linked assets which are also exposed to market risk are:

- a small amount of seed money in the linked funds; and
- commercial paper, certificates of deposit, time deposits and bonds held in the Sterling Fund. The range of cash-like instruments within the Sterling Fund deemed subject to market (rather than counterparty default risk) was increased during 2017, to reflect additional guidance published by EIOPA during 2017 on which cash-like instruments should be deemed to be subject to which SCR risk module.

The main component of market risk at 31 December 2017 is equity market risk, the majority of which arises from revenues from policyholders linked to assets invested in equity markets.

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

The impact of market risk on the assets under management and future revenue of TPEN is discussed in C.6.3 below.

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

The main contributors to market risk arise from:

- the impact of the equity market, property market, interest rates and currency rate movements on the profitability of unit-linked contracts and on the Sterling Fund; and
- spread risk and concentration risk.

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

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

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

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

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

C.2.3 Risk sensitivity for market risks

As part of the ORSA process stress testing is performed to understand the impact of stress scenarios on the Statement of Comprehensive Income and Statement of Financial Position. This stress testing includes a scenario in which a severe market downturn is combined with a severe operational risk loss event. The result of the stress test demonstrated that TPEN remains profitable and appropriately capitalised under such a scenario.

C.3 Credit risk

C.3.1 Material credit risks and changes over reporting period

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

- policyholder debtors;
- intra-group debtors; and
- cash at bank.

There were no material changes over the reporting period and no material changes in measurement techniques, other than the change in the risk module deemed to apply to some types of cash-like instruments referred to in Section C.2.1.

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

Most of the risk calculated under the SCR comes from intragroup debtors which do not have a formal credit rating and so are treated as having no credit rating. The Threadneedle Group is profitable and is not believed to represent a credit risk. The Group Counterparty Credit Risk team performs credit risk assessments on the counterparties in the Sterling Fund. The Group Counterparty Credit Risk policy sets out the requirements for reviewing the credit worthiness of counterparties including the frequency of assessment, monitoring and escalation. Credit exposures are monitored on a daily basis to ensure they remain within pre-defined limits.

No specific risk mitigation techniques are used.

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

C.3.3 Risk sensitivity for credit risk

No specific stress testing has been performed for credit risk because the majority of the risk calculated under this SCR module currently relates to intra group debtor risk which is treated as having no credit rating.

C.4 Liquidity risk

C.4.1 Material liquidity risks and changes over reporting period

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

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

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

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

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

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

C.4.3 Expected profit included in future premiums

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

C.4.4 Risk sensitivity for liquidity risks

As part of the ORSA process, liquidity stress testing is conducted to assess the liquidity required under normal and stressed conditions. This stress testing includes tests in which a large client or fund delays paying investment management fees to TPEN. This testing demonstrated that TPEN maintains sufficient liquid resources to withstand severe liquidity shocks.

C.5 Operational risk

C.5.1 Material operational risks and changes over reporting period

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

Key Risk Description
Client Satisfaction / Client Services / Reporting / Billing etc.
Conflicts of Interest / Policy Holder Reasonable Expectations / Treating Customers Fairly
Failure of Major Outsource / Insource Provider
Financial Reporting / Disclosures / Payments / Taxes
Fraud, AML and Other Financial Crimes
Health & Safety
Information Security / Data Protection / Cyber Risk
Mandate Breach
Product Design & Management / Suitability / Mis-selling
Regulatory Change and Relationship Management
Systems / Premises Failure
Talent Retention
Trade Error

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

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

TPEN's Operational Risk Policy has the objective of establishing effective and sustainable operational risk governance. The policy is designed to manage operational risk exposures that have been agreed by the TPEN Board and the GMC.

The following measures are used to assess operational risks:

- top down assessment of operational risks facing the business;
- RCSAs performed by the First Line of Defence business units on their business processes and challenged by the Second Line of Defence;
- loss data from both internal and external loss events;
- operational risk scenario workshops in which Subject Matter Experts assess severe but plausible loss events;
- assessment of legal cover from intragroup service agreements; and
- the SCR includes a quantification of operational risk exposure.

All risks identified as part of the RCSA process are rated according to the inherent risk, controls and residual risk. Medium and high residual risks are reported to the GMC and the Board in the TPEN Dashboard and are either accepted or risk mitigation actions are identified and completed.

The effectiveness of operational risk mitigating techniques are continuously monitored through the following elements of the Operational Risk Framework:

- external loss data is reviewed semi-annually to have a forward-looking view of potential emerging risks. These are then assessed against TPEN's known risks and controls within its RCSAs to identify potential gaps;

TPEN's RCSAs are reviewed annually to ensure they capture key risks and the associated control environment is updated. RCSAs are also reviewed following any 'trigger events' to processes, products or operating models;

controls are reviewed when internal risk events (REVs) occur, both in relation to the event itself to ensure they can be strengthened but also adopt a wider view to other associated processes or products;

KRIs in relation to TPEN (linked to its RCSAs) are reviewed monthly to identify whether there are any early indicators of movement outside set risk appetite thresholds;

emerging risks are assessed during TPEN governance meetings; and

scenario analysis is used to set the operational risk capital requirement by assessing each of TPEN's key operational risks and is informed by the risk data described above.

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

The contribution from operational risk in the SCR is assessed by determining trailing 12 months' expenses (excluding acquisition costs) and applying the factors specified for this risk in the Standard Formula SCR.

C.5.3 Risk sensitivity for operational risks

As part of the ORSA process operational risk workshops are held to identify and discuss different stress scenarios for each operational risk. Subject Matter experts use their knowledge and experience and internal and external loss data to identify different scenarios and to estimate the size and frequency of loss. This assists in understanding the potential impact of different operational risk events.

C.6 Other material risks

C.6.1 Risk concentration

TPEN has concentration risks to key clients and to the outsourced service providers

Key clients

The exposure to key clients is assessed by monitoring the proportion of assets under management and revenue attributable to key clients. Dedicated client service teams work closely with the clients to ensure that TPEN continues to meet their needs.

As part of the ORSA process, specific stress scenarios are used to model the impact of the loss of key clients. Whilst the loss would have a material impact on the profitability of TPEN there would be no impact on other clients.

There were no material changes over the reporting period.

Outsource service providers

The performance of outsource service providers is assessed by the GMC and Board on a regular basis. As part of the ORSA process specific stress scenarios are used to model the impact of the failure of an outsourced service provider and TPEN ensures it has sufficient capital to withstand such a severe loss event.

There were no material changes over the reporting period.

C.6.2 Fund liquidity risks

TPEN has no obligation to redeem policies at a stated price. In liquidity constrained environments where redemptions may exceed the ability to raise cash, TPEN has the option to suspend dealing in a fund or funds. The potential liquidity risk is therefore mitigated by this option in the terms and conditions of the funds.

C.6.3 Other material risks

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

- investment performance/sustained underperformance making funds less attractive;
- market events and AUM Fall reducing fees earned; and
- profit margin compression due to changing market conditions.

As part of the ORSA process specific stress scenarios are used to model the impact of these risks, including:

1. Bank of England Anchor scenario;
2. Severe Market Downturn combined with a severe operational event;
3. Poor relative investment performance and loss of a key team;
4. Long term mandate breach leading to loss of a key client; and
5. New business strain from above plan net inflows.

Whilst severe scenarios would have a material impact on profitability, TPEN would continue to able to service its clients.

There were no material changes over the reporting period and there is no other material information.

C.7 Any other information

C.7.1 Overall impact of stress testing and sensitivity analysis on the SCR

As set out in Article 56(2) of the Delegated Regulation and guidance from EIOPA, TPEN is required to ensure continuous compliance with regulatory capital requirements and assesses this through sensitivity analyses that test the impact of deviations from the base assumptions used within the calculation of the Solvency Capital Position. The following key scenarios have been included:

- Lapse rates: an increase in lapse rates to 14% for pooled fund business (7% in the base case) and to 18% for segregated business (12% in the base case);
- Market value decrease: an immediate 50% reduction in the market value of linked assets; and
- Market value increase: an immediate 25% increase in the market value of linked assets.

The table below sets out the impact of these scenarios on the company's surplus (Basic Own Funds *less* SCR) at 31 December 2017:

Table 5: Results of Stress and Sensitivity Analysis on SCR surplus

Sensitivity applied	SCR surplus £m	Change in SCR surplus from Base case £m
Base case	13.244	-
Lapse rate		
Increase in lapse rate (14% pooled & 18% segregated)	13.223	(0.021)
Market value of linked assets		
Decrease by 50%	12.451	(0.793)
Increase by 25%	13.555	+0.311

The table above shows that the company's surplus position is relatively insensitive to the higher lapse assumptions and the short-term market movements.

D. Valuation for Solvency Purposes

D.1 Assets

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

The following table analyses TPEN's assets at fair value.

Table 6: Fair value of assets at 31 December

£m	2017 £m	2016 £m
Collective investment undertakings and other investments	27.028	24.725
Assets held for index linked and unit linked contracts[1]	3,493.224	3,122.624
Reinsurance recoverable, life index linked & unit linked[1]	68.411	51.770
Receivables (trade not insurance)	6.761	6.844
Cash and cash equivalents	0.370	0.250
Total assets	**3,595.794**	**3,206.213**

[1] These two items sum to £3,561.6.m (2016: £3,174.m) and match against Technical provisions calculated as a whole of £3,561.6m (2016: £3,174.4m).

They key movements in the twelve months to 31 December 2017 were:

- exposure to collective investment scheme undertakings increased by £2.3m due to TPEN's strategy to increase corporate holding in the Sterling Fund;
- assets held and for index linked and unit linked contracts increased by £370.6m due to client inflows and market movements; and
- reinsurance increased by £16.6m due to increased client inflows and market movements in funds managed by third parties.

Investments - collective investment schemes

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

Assets held for index linked and unit linked contracts

The fair value of assets held to cover index linked and unit linked contracts that are actively traded in organised financial markets is determined by reference to quoted active market prices at the close of business on the balance sheet date. An active market is defined as a market in which the securities have daily quoted prices and are regularly traded.

There are no assets that are held to cover index linked and unit linked contracts held in markets that are inactive therefore no alternative valuation methods have been applied.

Investment property is measured initially at cost, including related transaction costs, on the date of acquisition or the date of unconditional exchange, if earlier. After initial recognition, investment property is carried at fair value, after the deduction of unamortised lease incentives.

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

Reinsurance recoverables from life index linked and unit linked

Reinsurance recoverables from index linked and unit linked represents the amount that has been contracted out to other institutions under a contract of reinsurance. These are valued at fair value based on current market value of the underlying assets, determined by reference to quoted active market prices at the close of business on the balance sheet date.

Receivables

Receivables (debtors) are amounts due for services performed in the ordinary course of business, which generally have 30-day payment terms. Debtors are recognised at fair value, equivalent to the invoice amount and are maintained at this value as the amount receivable for services is not subject to change after the invoice is issued. No debtors were past due or written-off as bad debts in 2017 (2016: none).

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

Cash and cash equivalents

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

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

There are no differences between the valuation of assets for solvency purposes and the valuation in the financial statements. There have been no changes to the valuation and recognition approach during the year. There are no valuation differences between the Solvency II balance sheet and the statutory accounts of TPEN.

TPEN has made no adjustments to its reinsurance recoveries in its financial statements in recording the reinsurance share of claims provisions for solvency purposes. The reinsurance share of claims provisions at 31 December 2017 was £68.4m (2016: £51.8m).

D.2 Technical Provisions

D.2.1 Technical provisions by material line of business

The technical provisions at 31 December are set out below:

Table 7: Best Estimate – Treatment of Deferred Tax

S.02.01.02 £m	2017 £m	2016 £m
Value of profits included in Best Estimate	1.922	1.585
Deferred tax on profits included in Best Estimate	-	(0.312)
Derivation of Best Estimate used in balance sheet		
Value of profits	1.922	1.585
Deferred tax on these profits	-	(0.312)
Best Estimate included in balance sheet	**1.922**	**1.273**

The change in the best estimate relates to the change in the projection period to one year, a client withdrawal, a change in the expenses framework within the group, and a change in the treatment of deferred tax expected to be paid on profits included in the Best Estimate. As at 31 December 2016, this deferred tax was deducted from the (gross) Best Estimate to form a (net)

Best Estimate as used in the balance sheet. As at 31 December 2017, this deferred tax has been separately accounted for elsewhere in the balance sheet:

Technical provisions calculated as a whole

For liabilities that can be replicated reliably using financial instruments for which a reliable market value is observable (e.g. TPEN's unit-linked liabilities, because they exactly match the unit-linked assets), the (market) value of replicating financial instruments are used. Therefore, for TPEN the unit-linked assets and liabilities should net off against each other. Included within TPEN unit linked assets and liabilities is £68.4m (2016: £51.8m) in relation to reinsurance recoverables. Refer to Section A.3.1 for explanation on movements in Technical provisions.

Best Estimate

For liabilities that cannot be replicated in this way, both a best estimate of the provision is calculated as well as a risk margin (see below). The Best Estimate is calculated by determining the discounted Present Value of best estimates of future cashflows of the policies. The key assumptions are set out below:

- both the projection period over which the best estimate is accrued and the contract boundary are taken to be one year. This is the estimated length of time that it would take to wind down the business after terminating the contract unilaterally via TPEN serving relevant notice on the policyholder. At 31 December 2017, the notice periods range from three months to ten months, with the majority being three months;
- the lapse rates on policies underlying the SCR are 7% per annum or 12% per annum bearing in mind past experience;
- expenses continue to be subject to the transfer pricing policy. This methodology provides some protection to TPEN's profit in that if revenue were to decrease, so too would expenses.

The Best Estimate, which is based on future cashflows is an asset due to profitable nature of contracts.

There have been no material changes to assumptions during the year.

Risk Margin

The Risk Margin is required in addition to the Best Estimate, the aim being to ensure that the technical provisions as a whole are equivalent to the amount that insurance undertakings would be expected to require in order to take over and meet the insurance obligations. The Risk Margin is derived by projecting the elements of the SCR not deemed hedgable (i.e. elements other than bank counterparty and market risk exposures) and applying a cost of capital of 6% per annum.

D.2.2 Uncertainty associated with the value of technical provisions

A source of uncertainty is how actual experience will differ from the best estimate assumptions used to calculate the technical provisions. A sensitivity analysis is performed to ensure TPEN understands this uncertainty.

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

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

The IFRS valuation of the unit linked liabilities is £3,561.6m (2016: £3,174.4m). The valuation for solvency purposes is £3,561.6m (2016: £3,173.7m). The difference between the two in 2016 represents the amount of the risk margin and the BEL (as reflected in D.2.1 above). There have been no material changes to the valuation and recognition approach during the year.

D.2.4 Other

When calculating its technical provisions (and when determining how these technical provisions would alter under relevant SCR stresses), TPEN has used a short-term projection period of 12 months set by reference to the notice period TPEN could give to unilaterally terminate policies and the length of time required to wind down the business, rather than a long projection period that ignores the unilateral powers. The use of a short projection period is a simplification that the Board considers is proportionate, since it satisfies the requirements set out in Article 56 of the Commission delegated regulation (EU) 2015/35.

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

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

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

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

D.3 Other Liabilities

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

The table sets out a summary of other liabilities:

Table 8: Other liabilities at 31 December

S.02.01.02 £m	2017 £m	2016 £m
Deferred tax liability	0.999	0.809
Payables (trade not insurance)	8.538	8.185
Any other liabilities not shown elsewhere	0.549	0.461
Total other liabilities	**10.086**	**9.455**

Deferred tax liability

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

TPEN's own funds includes a further deferred tax element relating to future profits included in the technical provisions. This has been calculated by multiplying the present value of the profits included in the value of in force by an assumed tax rate of 18%.

Payables

Payables (creditors), include amounts due to Group undertakings of £8.6m (2016: £8.2m). This is made up of amounts relating to investment management services and distribution services. Investment management and distribution services are supplied by other Group companies in line with the Group transfer pricing framework. These services are invoiced and settled quarterly. In addition, payables include fees to transfer agent which is paid quarterly after a receipt of a valid invoice that reconciles to the rate card as per the service level agreement. No payables exceeded the past due date during the year 2017.

Any other liabilities not shown elsewhere

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

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

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

D.4 Alternative methods for valuation

No alternative valuation techniques are used.

E Capital management

E.1 Own funds

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

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

As part of the ORSA process described above, a 5-year plan is prepared which assists in own funds planning. There have been no material changes over the reporting period.

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

E.1.2 Own funds classified by tiers

TPEN classifies its own funds as Tier 1, Tier 2 or Tier 3 depending on the characteristics of the capital. Tier 1 capital is the best form of capital for the purposes of absorbing losses.

Table 9: Basic Own Funds classified by tiers at 31 December

S.23.01.01 Own fund item	Tier	2017 £m	2016 £m	YoY%
Share capital	1	11.300	11.300	0%
Reconciliation reserve	1	14.054	11.784	19.3%
Basic own funds		**25.354**	**23.084**	**9.8%**

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

The reconciliation reserve is calculated as follows:

Table 10: Reconciliation reserve at 31 December

Reconciliation reserve	2017 £m	2016 £m
Retained Earnings in the Financial Statements	13.118	11.064
Items not recognised in the financial statements		
Difference between unit linked liabilities and BEL (S02.01. 01)	1.922	1.585
Risk margin (S.02.01.01)	(0.640)	(0.553)
Deferred tax relating to profits included in the BEL	(0.346)	(0.312)
Reconciliation reserve	**14.054**	**11.784**

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

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

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

All of TPEN's basic own funds are Tier 1 and are therefore eligible to be used for meeting the Minimum Capital Requirement ("**MCR**").

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

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

Table 11: Solvency II - Basic Own Funds at 31 December

S.23.01.01 Own fund item	2017 £m	2016 £m
Total equity in financial statements	24.418	22.364
Items not recognised in the financial statements		
Difference between unit linked liabilities and BEL (S02.01. 01)	1.922	1.585
Risk margin (S.02.01.01)	(0.640)	(0.553)
Deferred tax relating to profits included in the BEL	(0.346)	(0.312)
Solvency II – Basic Own Funds	**25.354**	**23.084**

The BEL of £1.922m at 31 December 2017 is partially offset by a deferred tax element of -£0.346m. The increase in the BEL since 31 December 2016 is due to the increase in the projection period from three months to 12 months.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

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

The amount of TPEN's SCR and MCR at the end of the reporting period are £12.1m (2016: £9.4m) and £5.5m (2016: £4.2m) respectively.

The insurance and market risk elements of the SCR are estimated by applying stress scenarios to the projected cashflows of TPEN. The estimated risks are relatively small compared to operational risk because the projection period over which the cashflows are assessed (the "projection period") is defined by the TPEN Board to be equal to 12 months, as referred to in D.2.4.

E.2.2 Solvency Capital Requirement split by risk modules

The tables below set out the components of the SCR (using the Standard Formula):

Table 12: Solvency Capital requirement split by risk modules at 31 December

S.25.01.21	2017 £m	2016 £m
Market risk total	1.212	0.403
Counterparty risk total	2.066	1.491
Life underwriting risk total	1.222	1.158
Diversification	(1.262)	(0.788)
Basic Solvency Capital Requirement	**3.238**	**2.264**
Operational risk (S.25.01.21)	9.218	7.445
Loss absorbing capacity of deferred taxes	(0.346)	(0.312)
Solvency Capital Requirement (SCR)	**12.110**	**9.397**

The key drivers for changes in the SCR from year 2016 to 2017 were:

market risk capital requirement increased due to change in projection period from three months to 12 months and a change in treatment of investments in the Sterling Fund;

counterparty risk capital requirement increased due to a reduction in the proportion of the Sterling Fund deemed subject to counterparty default risk. This change has resulted in some of the instruments which were last year deemed subject to counterparty risk now being deemed subject to market risk. Due to a feature in how the counterparty risk module aggregates intra-group exposures with other exposures, this has resulted in a rise in both counterparty risk contribution to the SCR as well as a market risk contribution to the SCR.

life risk underwriting risk has increased due to change in the projection period from three months to one year, partially offset by a change in mass lapse stress assumed to apply to pooled fund business from 70% to 40%;

operational risk capital requirement increased by 23.8% to £9.2m due to an increase in both expenses borne by shareholders and expenses borne by policyholders; and

diversification benefit has increased due to change in the projection period as noted above.

E.2.3 Simplified calculations and Company specific parameters

TPEN uses the Solvency II Standard Formula to calculate its SCR. In the computation of the SCR:

No simplifications per the Solvency II Delegated Regulation Articles 89 to 112 have been used, other than the use of a short projection period noted in Section D.2.4. Where it proved impractical to capture a full look-through of some unitised funds held within some of TPEN's portfolios, these funds were treated as Type 2 Equities, per Delegated Regulation Article 168(3);

No undertaking-specific parameters have been used; and

TPEN was not subject to a capital add-on or any required use of undertaking-specific parameters by the PRA that might need to be disclosed in the SFCR under Article 110 of Directive 2009/138/EC.

E.2.4 Inputs used to calculate the Minimum Capital Requirement

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

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

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

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

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

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

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

E.6 Any other information

TPEN has no further material information to disclose.

F. Validations

F.1 Directors' confirmation

Threadneedle Pensions Limited

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

Financial period ended 31 December 2017

We certify that:

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

We are satisfied that:

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

Threadneedle Pensions Limited Board of Directors

1 May 2018

F.2 Independent Auditor's Report

Report of the external independent auditors to the Directors of Threadneedle Pensions Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

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

Opinion

We have audited the following documents prepared by the Company as at 31 December 2017:

The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2017, ('**the Narrative Disclosures subject to audit**'); and

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

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

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

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

Company templates S.05.01.02 and S.05.02.01;

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

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of the Company as at 31 December 2017 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Basis for opinion

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

the directors' use of the going concern basis of accounting in the preparation of the Solvency and Financial Condition Report is not appropriate; or

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

Emphasis of Matter - Basis of Accounting

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

Other Information

The Directors are responsible for the Other Information.

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

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

Responsibilities of Directors for the Solvency and Financial Condition Report

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

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

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

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

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

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

This report, including the opinion, has been prepared for the Directors of the Company to comply with their obligations under External Audit rule 2.1 of the Solvency II firms Sector of the PRA Rulebook and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose save where expressly agreed by our prior consent in writing.

Report on Other Legal and Regulatory Requirements

In accordance with Rule 4.1 (3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of the Company's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
London
1 May 2018

Quantitative Reporting Templates

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

List of reported templates:

S.02.01.02 - Balance sheet

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

S.05.02.01 - Premiums, claims and expenses

S.12.01.02 – Life and Health SLT Technical provisions

S.23.01.01 - Own Funds

S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula

S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

S.02.01.02 - Balance sheet – assets

Assets		Solvency II value
		C0010
Intangible assets	R0030	
Deferred tax assets	R0040	
Pension benefit surplus	R0050	
Property, plant & equipment held for own use	R0060	
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	27,028
Property (other than for own use)	R0080	
Holdings in related undertakings, including participations	R0090	
Equities	R0100	
Equities - listed	R0110	
Equities - unlisted	R0120	
Bonds	R0130	
Government Bonds	R0140	
Corporate Bonds	R0150	
Structured notes	R0160	
Collateralised securities	R0170	
Collective Investments Undertakings	R0180	26,977
Derivatives	R0190	
Deposits other than cash equivalents	R0200	
Other investments	R0210	51
Assets held for index-linked and unit-linked contracts	R0220	3,493,224
Loans and mortgages	R0230	
Loans on policies	R0240	
Loans and mortgages to individuals	R0250	
Other loans and mortgages	R0260	
Reinsurance recoverables from:	R0270	68,411
Non-life and health similar to non-life	R0280	
Non-life excluding health	R0290	
Health similar to non-life	R0300	
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	
Health similar to life	R0320	
Life excluding health and index-linked and unit-linked	R0330	
Life index-linked and unit-linked	R0340	68,411
Deposits to cedants	R0350	
Insurance and intermediaries receivables	R0360	
Reinsurance receivables	R0370	
Receivables (trade, not insurance)	R0380	6,761
Own shares (held directly)	R0390	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	
Cash and cash equivalents	R0410	370
Any other assets, not elsewhere shown	R0420	
Total assets	R0500	3,595,794

S.02.01.02 - Balance sheet – liabilities

Liabilities		Solvency II value
		C0010
Technical provisions – non-life	R0510	
Technical provisions – non-life (excluding health)	R0520	
TP calculated as a whole	R0530	
Best Estimate	R0540	
Risk margin	R0550	
Technical provisions - health (similar to non-life)	R0560	
TP calculated as a whole	R0570	
Best Estimate	R0580	
Risk margin	R0590	
Technical provisions - life (excluding index-linked and unit-linked)	R0600	0
Technical provisions - health (similar to life)	R0610	
TP calculated as a whole	R0620	
Best Estimate	R0630	
Risk margin	R0640	
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	0
TP calculated as a whole	R0660	
Best Estimate	R0670	0
Risk margin	R0680	0
Technical provisions – index-linked and unit-linked	R0690	3,560,354
TP calculated as a whole	R0700	3,561,636
Best Estimate	R0710	-1,922
Risk margin	R0720	640
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	
Pension benefit obligations	R0760	
Deposits from reinsurers	R0770	
Deferred tax liabilities	R0780	999
Derivatives	R0790	
Debts owed to credit institutions	R0800	
Financial liabilities other than debts owed to credit institutions	R0810	
Insurance & intermediaries payables	R0820	
Reinsurance payables	R0830	
Payables (trade, not insurance)	R0840	8,538
Subordinated liabilities	R0850	
Subordinated liabilities not in BOF	R0860	
Subordinated liabilities in BOF	R0870	
Any other liabilities, not elsewhere shown	R0880	549
Total liabilities	R0900	3,570,440
Excess of assets over liabilities	R1000	25,354

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

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

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

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

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

		Line of Business for: **life insurance obligations**						**Life reinsurance obligations**		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
		C0210	**C0220**	**C0230**	**C0240**	**C0250**	**C0260**	**C0270**	**C0280**	**C0300**
Premiums written										
Gross	**R1410**									
Reinsurers' share	**R1420**									
Net	**R1500**									
Premiums earned										
Gross	**R1510**			394,637						394,637
Reinsurers' share	**R1520**			17,312						17,312
Net	**R1600**			377,325						377,325
Claims incurred										
Gross	**R1610**			349,662						349,662
Reinsurers' share	**R1620**			4,958						4,958
Net	**R1700**			344,704						344,704
Changes in other technical provisions										
Gross	**R1710**			-365,705						-365,705
Reinsurers' share	**R1720**			16,642						16,642
Net	**R1800**			-349,064						-349,064
Expenses incurred	**R1900**			37,868						37,868
Other expenses	**R2500**									0
Total expenses	**R2600**									37,868

S.05.02.01 - Premiums, claims and expenses – by country

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

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

		Home Country	Top 5 countries (by amount of gross premiums written) - life obligations					Total Top 5 and home country
		C0150	C0160	C0170	C0180	C0190	C0200	C0210
	R1400							
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
Premiums written								
Gross	R1410							
Reinsurers' share	R1420							
Net	R1500							
Premiums earned								
Gross	R1510	394,637						394,637
Reinsurers' share	R1520	17,312						17,312
Net	R1600	377,325						377,325
Claims incurred								
Gross	R1610	349,662						349,662
Reinsurers' share	R1620	4,958						4,958
Net	R1700	344,704						344,704
Changes in other technical provisions								
Gross	R1710	-365,705						-365,705
Reinsurers' share	R1720	16,642						16,642
Net	R1800	-349,064						-349,064
Expenses incurred	R1900	37,868						37,868
Other expenses	R2500							0
Total expenses	R2600							37,868

S.12.01.02 – Life and Health SLT Technical provisions

		Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	**Total (Life other than health insurance, incl. Unit-Linked)**
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees			
		C0020	**C0030**	**C0040**	**C0050**	**C0060**	**C0070**	**C0080**	**C0090**	**C0100**	**C0150**
Technical provisions calculated as a whole	**R0010**		3,493,224								3,493,224
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	**R0020**		68,411								68,411
Technical provisions calculated as a sum of BE and RM											
Best Estimate											
Gross Best Estimate	**R0030**				-1,922						-1,922
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0080**										
Best estimate minus recoverables from reinsurance/SPV and Finite Re - total	**R0090**				-1,922						-1,922
Risk Margin	**R0100**		640								640
Amount of the transitional on Technical Provisions											
Technical Provisions calculated as a whole	**R0110**										
Best estimate	**R0120**										
Risk margin	**R0130**										
Technical provisions - total	**R0200**		3,491,942								3,491,942

S.12.01.02 – Life and Health SLT Technical provisions – continued

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

S.23.01.01 - Own Funds

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35						
Ordinary share capital (gross of own shares)	R0010	11,300	11,300			
Share premium account related to ordinary share capital	R0030					
Iinitial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070					
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	14,054	14,054			
Subordinated liabilities	R0140					
An amount equal to the value of net deferred tax assets	R0160					
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220					
Deductions						
Deductions for participations in financial and credit institutions	R0230					
Total basic own funds after deductions	R0290	25,354	25,354			
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Other ancillary own funds	R0390					
Total ancillary own funds	R0400					
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	25,354	25,354			
Total available own funds to meet the MCR	R0510	25,354	25,354			
Total eligible own funds to meet the SCR	R0540	25,354	25,354			
Total eligible own funds to meet the MCR	R0550	25,354	25,354			
SCR	R0580	12,110				
MCR	R0600	5,450				
Ratio of Eligible own funds to SCR	R0620	209.36%				
Ratio of Eligible own funds to MCR	R0640	465.25%				

S.23.01.01 - Own Funds - continued

		Total	
		C0060	
Reconciliation reserve			
Excess of assets over liabilities	R0700	25,354	
Own shares (held directly and indirectly)	R0710		
Foreseeable dividends, distributions and charges	R0720		
Other basic own fund items	R0730	11,300	
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740		
Reconciliation reserve	R0760	14,054	
Expected profits			
Expected profits included in future premiums (EPIFP) - Life business	R0770		
Expected profits included in future premiums (EPIFP) - Non-life business	R0780		
Total Expected profits included in future premiums (EPIFP)	R0790		

S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0100
Market risk	R0010	1,212		
Counterparty default risk	R0020	2,066		
Life underwriting risk	R0030	1,222		
Health underwriting risk	R0040			
Non-life underwriting risk	R0050			
Diversification	R0060	-1,262		
Intangible asset risk	R0070			
Basic Solvency Capital Requirement	R0100	3,238		

Calculation of Solvency Capital Requirement		C0100
Operational risk	R0130	9,218
Loss-absorbing capacity of technical provisions	R0140	
Loss-absorbing capacity of deferred taxes	R0150	-346
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency capital requirement excluding capital add-on	R0200	12,110
Capital add-on already set	R0210	
Solvency capital requirement	R0220	12,110
Other information on SCR		-
Capital requirement for duration-based equity risk sub-module	R0400	
Total amount of Notional Solvency Capital Requirement for remaining part	R0410	
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	

S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

Linear formula component for non-life insurance and reinsurance obligations

		C0010
MCR_{NL} Result	R0010	

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

S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity - continued

Linear formula component for life insurance and reinsurance obligations

		C0040
MCR_L Result	R0200	24,441,536

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
Obligations with profit participation - guaranteed benefits	R0210		
Obligations with profit participation - future discretionary benefits	R0220		
Index-linked and unit-linked insurance obligations	R0230	3,491,648	
Other life (re)insurance and health (re)insurance obligations	R0240		
Total capital at risk for all life (re)insurance obligations	R0250		

Overall MCR calculation

		C0070		
Linear MCR	R0300	24,442		
SCR	R0310	12,110	-	-
MCR cap	R0320	5,450		
MCR floor	R0330	3,028		
Combined MCR	R0340	5,450		
Absolute floor of the MCR	R0350	3,251		
-		C0070		
Minimum Capital Requirement	R0400	5,450		