COLUMBIA THREADNEEDLE INVESTMENTS

Threadneedle Pensions Limited

Solvency and Financial Condition Report

31 December 2020

Report date: 24 March 2021

Contents

1 Summary

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

1.1 Business and performance

TPEN is a subsidiary of Threadneedle Asset Management Holdings Limited (**"TAMHL"**). TAMHL is a subsidiary via a number of UK holding companies 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 its subsidiaries are referred to as the **"Group"**. The Group forms part of Columbia Threadneedle Investments ("**CTI"**), a global brand name of the Columbia and Threadneedle group of companies which form the asset management segment of Ameriprise.

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

AUM reduced from £3.8 billion (**"bn"**) at 31 December 2019 to £3.7bn at 31 December 2020, due to net outflows of £0.3bn offset by £0.2bn of investment returns (including foreign exchange impacts and net of investment income) in the year.

Following novation of the segregated clients to another Group company during 2019, AUM, revenue and comprehensive income has reduced in 2020 but TPEN has remained profitable. TPEN reported total comprehensive income of £0.4m million ("**m**") for the reporting period (2019: £1.3m). Total equity in the financial statements increased from £22.4m at 31 December 2019 to £22.8m at 31 December 2020.

1.2 System of governance

The Board of Directors of TPEN (the **"TPEN Board"**) bear ultimate responsibility and regulatory accountability for all matters pertaining to TPEN. The TPEN Board delegates to the following board committees:

- **TPEN General Management Committee ("GMC")** is responsible for management, governance and oversight over the day to day business process which supports the TPEN business
- **Fund Pricing and Dealing Committee ("FPDC")** is a Group committee responsible for monitoring and reviewing the pricing of, and dealing in, funds to ensure that the clients and funds are treated equitably; and
- **TPEN Audit Committee** provides advice to assist the Board in carrying out its responsibilities as they relate to the statutory audit, financial reports and effectiveness of the Company's internal quality controls, risk management systems and Internal Audit function as defined in the Terms of Reference for TPEN Audit Committee.

There have been no Director resignations or appointments in the period and up to the date of publication of this report.

No other material changes in the system of governance have taken place over the reporting period.

All of TPEN's activities are outsourced to entities based in the United Kingdom, either to Group companies (including investment management and distribution) or to third party service providers (including Chief Actuary and Transfer Agent). All arrangements are governed by legally binding agreements which outline the functions and activities provided, stipulating the duties and responsibilities of both parties. Individual Senior Management Functions (**"SMFs"**) have overall accountability for services provided to TPEN by outsourced service providers as set out in **Section B.7.2**, while the Chief Executive Function (SMF1) has overall accountability for outsourced services and the Chief Risk Officer has responsibility for the firm's performance of its obligations under the Outsourcing part of the PRA Rulebook. The arrangements are overseen by the TPEN Board and the GMC in accordance with TPEN's governance arrangements and Outsourcing Policy.

TPEN has no employees as its services are performed under contract by other Group companies or service providers. However, within TPEN's management responsibilities all SMFs and committee members, for the purposes of the Senior Managers and Certification Regime, are considered employees of TPEN. 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 Enterprise Risk Management ("**ERM**") framework which is embedded in the business through a Three Lines of Defence model which comprises business unit functions, Risk and Compliance functions, and Internal Audit representing the First, Second and Third Lines of Defence respectively.

The primary component of the internal control system operated by TPEN is the Risk and Control Self-Assessment ("**RCSA**") process. RCSA is performed by the First Line of Defence and the Second Line of Defence provides independent challenge. RCSA is the process by which TPEN concludes on the status of its risks and control environment. The Group Finance function is responsible for the statutory and regulatory financial reporting for TPEN including oversight of the actuarial calculations and forms part of the First Line of Defence.

1.3 Risk profile

The Solvency Capital Requirement (**"SCR"**) is calculated using the Solvency II standard formula and for TPEN was £9.7m at 31 December 2020 (2019: £10.2m) after adjustments for risk diversification and the loss absorbing capacity of deferred taxes. TPEN uses a 12-month projection period when calculating its Technical Provisions (Refer to **Section 1.4**).

The most material risks to TPEN's business, by contribution to the SCR, are set out below:

- **operational risk** is the risk of loss caused by failure in processes, systems, people or external factors. Operational risk is TPEN's most material risk and represented 92.9% of the total SCR at 31 December 2020. The Pillar 1 operational risk capital requirement is assessed by determining the trailing 12 months' expenses (excluding acquisition costs) and applying the factors specified for this risk in the standard formula SCR. Pillar 1 operational risk capital requirement reduced to £9.0m at 31 December 2020 (2019: £9.7m) mainly due to reduction in shareholder borne expenses as well as exclusion of the bad debt provision in the TPEN property fund.
- **credit (counterparty default) risk** is the risk of loss resulting from counterparty default on assets on TPEN's shareholder balance sheet (including policyholder debtors, intra-group debtors and cash and cash equivalents). The Pillar 1 credit (counterparty default) risk capital requirement was £0.3m at 31 December 2020 (2019: £0.3m) and represents a relatively minor proportion of the SCR due to the high quality of the clients with which TPEN does business and that TPEN's own funds are primarily invested in high quality liquid assets within a collective investment scheme;
- **insurance (life underwriting) risk** is the risk of loss or of adverse change in the value of insurance liabilities due to inadequate pricing and provisioning assumptions. Capital requirements are estimated by applying various stresses to the projected cash flows and expense base of TPEN and remained at £0.4m at 31 December 2020 (2019: £0.4m) which is similar to last year as there were no material changes to the underlying risk exposures; and
- **market risk** is the risk that arises from fluctuations in values of, or income from assets, or in interest or exchange rates. Capital requirements are mainly estimated by applying stress scenarios to the projected cash flows of TPEN and increased to £0.7m at 31 December 2020 (2019: £0.6m) primarily due to an increase in concentration risk capital in respect of the assets within the collective investment scheme in which TPEN's own funds are largely invested.

1.4 Valuation for solvency purposes

The valuation of assets and liabilities for Solvency II purposes is the same as under International Financial Reporting Standards ("**IFRS**") except for differences in the value of Technical Provisions for unit-linked contracts and a consequential difference in the deferred tax liability.

The table below sets out Technical Provisions per financial statements and under Solvency II:

Table 1: Technical Provisions at 31 December

Technical Provisions	2020 £'m	2019 £'m
Technical Provisions calculated as a whole (per financial statements)	3,696.4	3,822.7
Best Estimate Liability	(1.0)	(1.0)
Risk Margin	0.6	0.6
Technical Provisions per Solvency II	**3,696.0**	**3,822.3**

The key movements in Technical Provisions are set out below:

- **Technical Provisions calculated as a whole** decreased largely due to net client outflows of £0.3bn partially offset by market movements of £0.2bn (including foreign exchange impacts and net of investment income).
- **Best Estimate Liability ("BEL")** is a provision calculated by determining the discounted present value of best estimates of future cashflows of the policies and is an asset due to the profitable nature of the unit-linked insurance contracts, and has remained consistent year on year; and

Risk Margin is cost estimate of providing additional own funds to support the SCR under a hypothetical transfer of the insurance liabilities to a third party. This has remained consistent year on year which although was impacted by reduction in the operational risk capital requirement but was largely offset by reduction in yields during the year ended 2020.The total equity in the financial statements represents TPEN's paid up share capital and retained earnings. Own Funds under Solvency II are calculated by taking Total equity in the financial statements and making adjustments for the BEL, Risk Margin and Deferred Tax relating to Technical Provisions.

The table below shows the reconciliation from total equity in the financial statements to Own Funds calculated under Solvency II.

Table 2: Own Funds at 31 December

Own Funds	2020 £'m	2019 £'m
Total equity in the financial statements	22.8	22.4
Items not recognised in the financial statements:		
Best Estimate Liability (S.02.01.02)	1.0	1.0
Risk Margin (S.02.01.02)	(0.6)	(0.6)
Deferred Tax Liability relating to Technical Provisions	(0.1)	(0.1)
Own Funds under Solvency II	**23.2**[1]	**22.8**[1]

[1] The difference of £0.1m in the sum total is due to rounding.

Total equity in the financial statements increased from £22.4m at 31 December 2019 to £22.8m at 31 December 2020 due to increase in retained earnings of £0.4m for the year to 31 December 2020. There were no dividends paid to the parent company during the year.

BEL and Risk Margin remained at a similar level over the period. Own Funds under Solvency II increased from £22.8m at 31 December 2019 to £23.2m at 31 December 2020.

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

The PRA has indicated to TPEN its non-objection to the use by TPEN of such a simplification for the calculation of its Technical Provisions, subject to the TPEN Board carrying out a review and assessment, at least annually, of:

- whether the proportionality requirements of Article 56 of the Commission Delegated Regulation EU 2015/35 continue to be met; and
- whether the TPEN Board's capital management policy needs to be adjusted to ensure it reflects the TPEN Board's capital risk appetite, in terms of SCR coverage, on both a long and short projection basis.

The TPEN Board has reviewed the impact of both long and short projection period and determined that the use of a short-projection period remains appropriate as Technical Provisions are higher under a short-projection period than under a long-projection period. The TPEN Board considers the use of a short projection period to be a simplification that is proportionate and satisfies the requirements set out in Article 56. The Capital Risk Management Policy and Own Risk and Solvency Assessment ("**ORSA**") Policy have been adjusted appropriately.

1.5 Capital management

The SCR is laid out in the below table:

Table 3: Solvency Capital Requirement at 31 December

Solvency Capital Requirement	2020 £'m	2019 £'m
Basic Solvency Capital Requirement	1.0	0.9
Operational risk (S.25.01.21)	9.0	9.7
Loss absorbing capacity of deferred taxes	(0.4)	(0.4)
Solvency Capital Requirement (SCR)	**9.7**[1]	**10.2**

[1]The difference of £0.1m in the sum total is due to rounding

Loss absorbing capacity of deferred taxes (**"LACDT"**) recognises that a future loss in profits may also result in a reduction in associated tax liabilities, therefore reducing the potential impact to Own Funds. The LACDT assumes that the notional loss represented by the SCR occurs on the day after the valuation date (i.e. 1 January) rather than the valuation date itself (i.e. 31 December) and therefore profits arising only in the year prior to the valuation date are available to be carried forward to offset this notional loss.

The calculation of LACDT as at 31 December 2019 did not include the element relating to the deferred tax liability set up in respect of Solvency II profits of £0.1m (2020: £0.1m) recognised on the balance sheet. At year end 2019 the element relating to deferred tax liability set up in respect of Solvency II profits was excluded because at the time the figures were being prepared there were ongoing discussions with the PRA concerning the suitability of its inclusion. The PRA has now confirmed to TPEN that it does not have any objection to its inclusion.

All of TPEN's own funds are deemed to have loss absorbing characteristics allowing them to be categorised as Tier 1 capital and hence contribute to Own Funds available to meet the SCR and MCR. At 31 December 2020, Own Funds were £23.2m (2019: £22.8m) compared to the SCR of £9.7m (2019: £10.2m) after adjustments for risk diversification and the LACDT. The Solvency Coverage Ratio (Own Funds / SCR) was 239% (2019: 222%) and the capital surplus (Own Funds *less* SCR) was £13.5m (2019: 12.5m).

As at 31 December 2020, The Minimum Capital Requirement ("**MCR**") was £4.4m (2019: £4.6m) resulting in a capital surplus (Basic Own Funds *less* MCR) of £18.8m (2019: £18.2m). TPEN's policy is that sufficient Own Funds will be maintained to meet regulatory requirements with adequate surplus in line with operating and strategic objectives. TPEN was compliant with the MCR and SCR over the reporting period. TPEN holds regular board meetings at least quarterly at which regulatory capital requirements are monitored by comparing capital requirements to Own Funds.

1.6 Additional information

COVID-19 pandemic

COVID-19 (also referred to as "coronavirus") was identified in December 2019 as the cause of an outbreak of respiratory illness first detected in Wuhan, China, that has since spread globally, impacting economies, financial markets and businesses around the world. There are vaccines available but new variants are being discovered which may render the vaccines ineffective. Countries have taken exhaustive steps to minimize public interaction to contain the spread of the virus. The Group is coordinating our response regionally and globally to ensure we continue to deliver for clients, support employees and maintain business continuity. However, till the vaccine is fully rolled out and the virus is brought fully under control, the overall impact it will have on the Group remains uncertain. The Group, through initiatives such as working from home, has maintained operational capacity and has not found it necessary to participate in any of the various Government initiatives such as furloughing of staff.

TPEN does not underwrite any insurance policies that provide death or sickness benefits that would be directly impacted by the ongoing pandemic, and therefore the impact to TPEN is operational in nature and indirect via market risk. One of the immediate impacts of the change in the financial environment was that on 20 March 2020 client dealing was temporarily suspended in the TPEN Property Fund in order to protect clients' interests. This was in response to the Property Fund's independent property valuer, CBRE, invoking a 'market uncertainty clause' which meant that they were unable to provide an accurate valuation of the Fund's assets in the exceptional market environment. This was consistent with the approach taken across the industry. The TPEN Property Fund was suspended until 17 September 2020. During the suspension of the TPEN Property Fund management fees continued to be accrued in the fund and no material outflows were noted following lifting of the suspension.

As a result of the COVID-19 pandemic, TPEN's Property Fund expenses during the year include a material provision for bad debt due from tenants of approximately £6.7m. These provisions represent a reduction in rental income rather than an operational expense, and as such have been excluded from the expense base used in the calculation of the SCR for operational risk. If it had been included, it would have increased the SCR by approximately £1.7m and the risk margin by approximately £0.1m under both short and long projection period (assuming the bad debt provision would have unwound by 31 December 2021).

Taking into consideration the financial effect of COVID-19, the Company is expected to continue to generate positive cashflows in the future. However, the severity and timing of the impact of the current pandemic on economic growth and financial markets, which is difficult to predict, introduces uncertainty into the forecasts. Based on the result of a stress test including a further market fall and a liquidity stress, Directors have a reasonable expectation that the Company would remain adequately capitalised and maintain sufficient liquidity to meet its liabilities as they fall due and would therefore be able to continue to operate as a going concern.

A Business and Performance

A.1 Business

A.1.1 Name and legal form of the undertaking

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

Cannon Place
78 Cannon Street
London
EC4N 6AG

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

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

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

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

Financial Conduct Authority
12 Endeavour Square
London
E20 1JN

A.1.3 External auditor of the undertaking

The independent auditors of TPEN are:

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

A.1.4 Holders of qualifying holdings in the undertaking

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

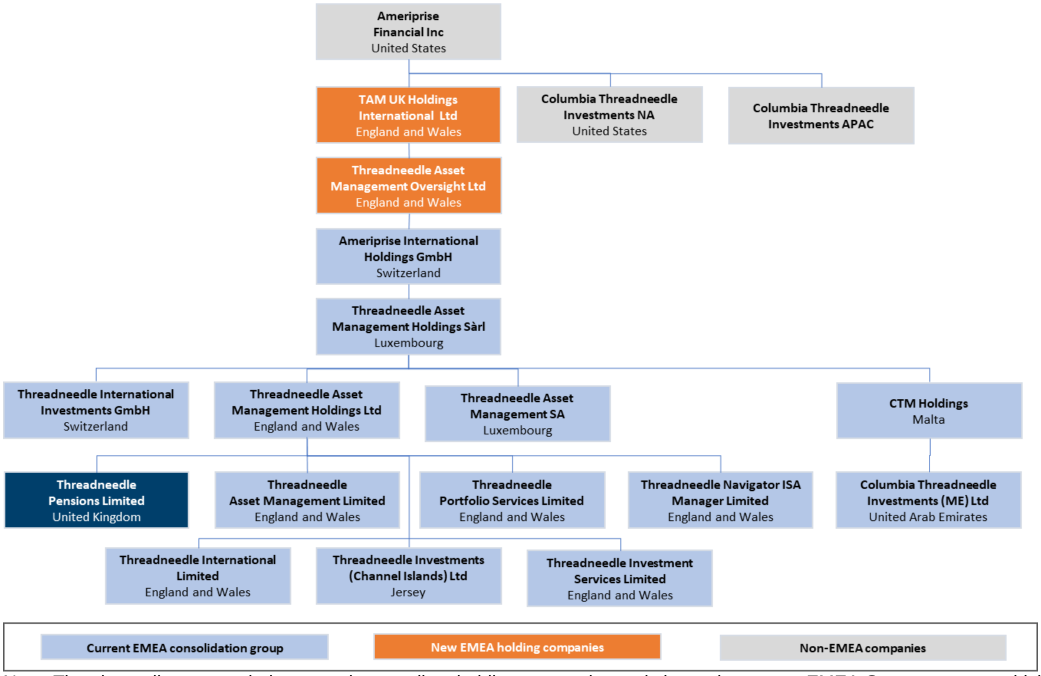
- **Threadneedle Asset Management Holdings Limited** ("**TAMHL**") is a company incorporated in England and Wales which is the immediate parent company of TPEN. At the reporting date, TAMHL owned 100% of the voting shares of TPEN and was able to exercise 100% of the voting power at any general meeting;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

A.1.5 Legal structure of the Group

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

Outsourced services are provided to TPEN by TAMHL (one of the UK intermediate holding companies), TAML (one of the other UK companies) and service providers set out in Section B.7. From time to time, TPEN may have an interest in property management firms which relate to the premises owned by its Property Fund. At 31 December 2020, there were eight (2019: eight) companies where TPEN held more than 10% of the nominal value of any class of share capital that met the requirements to be classified as a subsidiary. TPEN has no branches or other subsidiaries. The schematic below sets out a simplified summary of the Group structure and excludes a number of intermediate holding companies and related parties.

Figure 1: Simplified Group Structure



Note: The above diagram excludes some intermediate holding companies and shows the current EMEA Group structure which includes establishment of new UK domiciled holding companies as highlighted in orange colour. Threadneedle International Investments GmbH ("TIIG") ceased from 1 November 2020

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 (both DB and DC) through insured unit-linked pooled funds. The assets in the insured unit-linked pooled funds are managed under unit-linked life insurance contracts and are shown on the balance sheet under 'Assets held for unit-linked contracts'. TPEN does not, as part of its asset management activity, write life assurance protection.

Three of the unit-linked pooled funds invest via reinsurance contracts in unit-linked pooled funds managed on a passive basis by a third-party asset manager. 'Reinsurance recoverables' from unit-linked pooled funds represents the amount that has been contracted out to a third-party asset manager under a contract of reinsurance. These third-party invested assets are valued at fair value based on current market value of the underlying assets and are shown in QRT S.02.01.02 as 'Reinsurance recoverables from life index-linked and unit-linked'.

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

A.1.7 Significant business events during the reporting period

The TPEN Property Fund was suspended from 20 March 2020 to 17 September 2020 as the independent valuer invoked the 'material uncertainty' clause due to impact of COVID-19 on the market and their ability to provide accurate valuations. There were no material outflows after the fund was reopened. No other TPEN funds were suspended for liquidity or valuation reasons.

AUM decreased from £3.8bn at 31 December 2019 to £3.7bn at 31 December 2020, due to the investment returns (including foreign exchange impacts and net of investment income) of £0.2bn being exceeded by net outflows of £0.3bn in the year.

TPEN remains profitable, reporting total comprehensive income for the year of £0.4m (2019: £1.3m). Total equity in the financial statements increased from £22.4m at 31 December 2019 to £22.8m at 31 December 2020 following inclusion of retained earnings of £0.4m for the year ended 31 December 2020.

There have been no other material changes during the reporting period with respect to TPEN's business and performance, system of governance or risk profile.

A.2 Underwriting performance

Under IFRS unit life insurance contracts are classified as investment contracts and are reported on TPEN's balance sheet. The balance sheet value of the assets held for unit-linked contracts (which are carried at market value) is always equal to the balance sheet value of the liabilities under the unit-linked contracts. Further deductions are made to arrive at the Technical Provisions under Solvency II as set out in **Section D.2.1**.

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

The technical provision for unit-linked contracts per IFRS at 31 December 2020 was £3.7bn (2019: £3.8bn). Investment returns on the financial investments were offset by the net client outflows (client inflows minus client outflows) of £267.6m (2019: £63.0m) shown in the table below.

Table 4: Unit-linked pooled fund flows in year to 31 December

Net flows - unit linked pooled funds	2020 £'m	2019 £'m
Premiums earned (client inflows)	186.6	305.1
Claims incurred (client outflows)	(454.2)	(368.1)
Net flows (premiums earned less claims incurred)	**(267.6)**	**(63.0)**

A.3 Investment Performance

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

Assets held for unit-linked contracts (including reinsurance recoverables) decreased to £3,696.m (2019: £3,822.7m) due to net outflows offset by investment returns as shown in the table below:

Table 5: Investment performance at 31 December

Investment performance	2020 £'m	2019 £'m
Opening balance – AUM held (1 January)	3,822.7	3,554.0
Investment income	187.8	176.6[2]
Unrealised gains / (loss) on investments	4.8	161.6[2]
Premiums earned (client inflows)	186.6	305.1
Claims incurred (client outflows)	(454.2)	(368.1)
Fund expenses	(46.2)	(20.6)
Others[1]	(5.1)	14.1
Closing balance – AUM held (31 December)	**3,696.4**	**3,822.7**

[1] Others relate to other technical provision movements on reinsured assets, fund rebates and timing differences on flows
[2] Restated to align with breakdown per year-end 2019 financial statements

Fund expenses of £46.2m (2019: £20.6m) relate to the costs of buying and selling the financial assets in the unit-linked pooled funds as well as specific property fund expenses. The property fund expenses include letting costs, property management fees, cost of repairs and ground rent charges. Fund expenses for 2020 also include the increase in a provision for potential non-payment of rent from tenants and the expenses related to property service charges which were recorded net of associated revenue in the prior year.

The table below shows the change in the value of assets held for unit-linked contracts between 31 December 2019 and 31 December 2020 by asset type:

Table 6: Increase in asset value at 31 December

Asset type	2020 £'m	2019 £'m	Variance £'m
Reinsurance recoverable unit-linked	42.4	44.8	(2.4)
Equity	1,193.8	1,206.5	(12.7)
Property	1,808.7	1,897.0	(88.3)
Fixed interest	431.2	444.8	(13.6)
Cash and cash equivalents	240.3	265.0	(24.7)
Other assets	64.8	43.4	21.4
Property liabilities	(49.8)	(44.5)	(5.3)
Ground/head lease liabilities	(35.0)	(34.3)	(0.7)
Asset value	**3,696.4**	**3,822.7**	(126.3)

The decrease in asset value of £126.3m is largely driven by net client outflows partially offset by investment returns.

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

There were no gains or losses recognised directly in equity during the 12 months to 31 December 2020 (2019: nil).

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

TPEN did not hold any investments in securitisations in its non-unit-linked assets over the reporting period and at 31 December 2020 (2019: Nil). TPEN held one securitisation in its unit-linked pooled funds (<0.01% of assets by market value) over the reporting period and at 31 December 2020 (2019: one exposure, <0.01% of assets by market value).

A.4 Performance of Other Activities

A.4.1 Summary of other material income and expenses

TPEN manages pooled investments (unit-linked contracts and reinsurance recoverables) for pension schemes operating within the United Kingdom.

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;
- 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 (e.g. finance, compliance and legal).

The table below sets out material income and expenses as at 31 December 2020 including comparatives from the prior year.

Table 7: Summary of material income and expenses

Material income and expenses	2020 £'m	2019 £'m
Investment management costs	8.6	8.4
Distribution costs	5.4	7.3
Other costs (including tax)	2.3	2.6
Total expenses	**16.3**	**18.3**
Income from management of unit-linked investment contracts	16.7	19.6
Comprehensive income	**0.4**	**1.3**

Key movements include:

- Income from management of unit-linked investment contracts and expenses reduced year-on-year due to the novation of segregated clients from TPEN to TAML during 2019; and
- Income from management of unit-linked investment contracts was also impacted by the market-downturn during 2020 which reduced AUM and consequently investment management fees charged by TPEN.

A.5 Any other information

A.5.1 Brexit

In March 2017 the UK invoked article 50 of the Treaty of Lisbon and left the European Union ("**EU**") on 31 January 2020. The Brexit transition period ended on 31 December 2020, with the UK's departure from the EU single market and the post-Brexit trade agreement between the UK and the EU taking effect from 1 January 2021.

The end of the Brexit transition period has so far led to no material change to regulations to which TPEN is subject. Given ongoing uncertainty regarding the post-Brexit agreement up until late December 2020, contingency plans were established by the Group in the event the transition period ended without an agreement in place. In the absence of an agreement covering financial services, UK firms must comply with individual EU member state regulations to continue providing services to clients based in the EU. As TPEN's clients are all UK domiciled the impact is deemed to be immaterial.

A.5.2 Shareholder Rights Directive ("SRD II")

TPEN falls within scope of the 'Institutional Investor' definition under the Shareholder Rights Directive (2007/36/EC) as amended by Directive (EU) 2017/828 ("**SRD II**"), and as such is required to make certain disclosures in respect of its arrangements with its appointed asset manager.

Under a discretionary investment management agreement, TAML has been appointed by TPEN as the Investment Manager of the unit-linked pooled funds. Refer to **Section B.7** for further information on outsourced service providers.

TAML employs an investment strategy which seeks to achieve the investment objective of each unit-linked pooled fund offered to clients. It is incentivised to generate positive total investment returns for each unit-linked pooled fund, as opposed to aligning its investment strategy and decisions with the profile and duration of TPEN's liabilities, which are limited to and exactly match the unit-linked assets.

Furthermore, TPEN does not seek to align its evaluation of TAML's performance and its remuneration for asset management services with the profile and duration of its liabilities, instead these are based on TAML's ability to generate positive total investment returns for and achieve the investment objective of each unit-linked pooled fund it manages.

In undertaking its contractual obligation of seeking to achieve the investment objective of each unit-linked pooled fund, TAML integrates shareholder engagement in its investment strategy in accordance with the Columbia Threadneedle Investments Stewardship Principles & Approach. This includes, amongst other things, the monitoring of financial and non-financial performance of investee companies.

TPEN monitors the investment performance, risk and liquidity of each unit-linked pooled fund, of which both the level of turnover and turnover costs are contributory factors.

The investment management agreement with TAML can be terminated at any time on three months' written notice or with immediate effect in the event of certain events (including regulatory requirement or insolvency).

TPEN has no further material information to disclose.

B. System of Governance

B.1 General Information on the system of governance

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

Board of Directors

The TPEN Board and its Directors bear ultimate legal responsibility and Regulatory Accountability for all matters pertaining to TPEN. Specific matters reserved for the TPEN Board have been defined in TPEN's Management Responsibility Map.

The TPEN Board receives a range of information to help discharge its duties, including:

- Financial and Capital Position Reporting and Financial Statements
- Health and Safety Compliance Reports
- General Management Committee Reporting
- Risk management updates
- Compliance reports
- Operating Reports
- Investment Performance Report
- Internal Audit Report

The Board is responsible for the ORSA (see **Section B.4.2**), as well as for implementing and managing TPEN's Enterprise Risk Management Framework (see **Section B.3.1**). The above information is presented to the TPEN Board by the head of the relevant functions including the Chief Actuary, Head of Controllership, EMEA Chief Risk Officer / Global Head of Investment Risk, Head of Operational Risk EMEA, and Head of Compliance EMEA.

The Board is composed of the following Directors who are deemed to be 'fit and proper' in line with internal policies (refer to **Section B.2**):

- Kathleen Shailer (neé Cates), Independent Non-Executive Director and Chair of Audit Committee;
- Andrew Nicoll, Global Head of Insurance / Chief Executive Officer;
- Ann Roughead, Independent Non-Executive Director;
- Peter Stone, Head of Finance; and
- William (Ted) Truscott, Non-Executive Director / Chair.

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

- **TPEN General Management Committee ("GMC")** is responsible for management, governance and risk management oversight over the day to day business process to support the TPEN business. The GMC membership is drawn from the Group functions which provide the day-to-day management of the TPEN business ensuring there is sufficient coordination, knowledge and experience to be able to challenge the performance and results, including but not limited to any outsourced arrangements. The GMC is chaired by the Head of Product Management and Strategy and reports to the TPEN Board; and
- **Fund Pricing and Dealing Committee ("FPDC")** is a Group committee, responsible for monitoring and reviewing 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. and
- **TPEN Audit Committee** provides advice to assist the Board in carrying out its responsibilities as they relate to the selection of the statutory audit and reviewing and monitoring their independence, monitoring and informing the Board of the outcome of the

statutory audit, monitoring financial reporting process and ensuring its integrity, and monitoring the effectiveness of the Company's internal quality controls, risk management systems and internal audit function.

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

Persons have been appointed to Senior Management Functions ("**SMF**") responsible for managing one or more aspects of TPEN's affairs, so far as relating to the activity and those aspects involve, or might involve, a risk of serious consequences for TPEN or for business/other interests in the UK. Each SMF has a Statement of Responsibilities ("**SOR**"), setting out their areas of responsibility and accountability.

TPEN's governance and management framework allows for delegation of authority. However, the allocated Senior Manager retains ultimate and overall responsibility for the SMF, Prescribed Responsibility, or Overall Responsibility assigned to them. The GMC and FPDC contain TPEN SMFs who can therefore make decisions in relation to TPEN.

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

As a subsidiary of TAMH Sàrl, TPEN is a part of the EMEA Governance Framework and matters relating to TPEN are discussed at the EMEA Risk and Controls Committee ("**EMEA RCC"**), EMEA Business Management Committee ("**EMEA BMC**") and TAMH Sàrl Audit and Risk Committee. However, only committees containing TPEN SMFs (i.e. GMC and FDPC) are able to make decisions on behalf of TPEN.

Three of the four key internal control functions (i.e. risk management, internal audit, and compliance) are outsourced by TPEN to Group companies and the fourth (actuarial) is outsourced to a third party (refer to **Section B.7**). Oversight of these service providers is performed by the Board and 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).

The majority of TPEN's activities are outsourced to other companies in the Group or to third parties outside the Group (Refer to **Section B.7** for further details on outsource service providers).

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

There have been no Director appointments or resignations in the period and up to the date of publication of this report.

No other material changes in the system of governance have taken place over the reporting period.

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, Undertakings for the Collective

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

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

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

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

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

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

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

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

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

B.1.3.3 Supplementary pension for the members of the administrative, management 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

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

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

- Senior Managers;
- Independent Non-Executive Directors; and
- Certified Persons[1] (including Key Function Holders).

TPEN ensures that these individuals are at all times fit and proper persons. The FCA's Fit and Proper test (known as **"FIT"**) provides High Level Standards for firms as to how they should interpret fitness and propriety in practice for Employees and Senior Personnel.

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 conducts ongoing fitness and propriety assessment of such persons which includes, where relevant, repeat screening, annual training and competence assessment, and annual refresh of responsibility statements. In considering whether a person is 'fit and proper', 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;
- seeks 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;

[1] There are no TPEN Certified Persons in the period and up to the date of publication of this report.

- 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;
- ensures that such persons have the necessary skills, knowledge and expertise required by assessing their professional qualifications, knowledge and experience. Some of the general checks conducted at recruitment include an educational background check and a professional qualifications / membership check; and
- reviews the current skill set of such persons against the skills required to perform the role and may undertake the following activities as necessary; a skills gap analysis; skills mapping document; and a learning and development plan.

Examples of the checks to assess fitness proprietary of such persons include, but not limited to the following:

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

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

B.3 Risk management system including the Own Risk and Solvency Assessment ("ORSA")

B.3.1 Risk Management Framework, implementation and integration

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

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

Key components of the Operational Risk Framework include, RCSAs, monitoring of Internal Risk Events ("**REVs**") and the tracking and reporting of Key Risk Indicators ("**KRI**"). The Operational Risk team produces regular management information which provides a summary and analysis of the key risks, KRI trends and new events in the reporting period and this is reported to the GMC and TPEN Board on a quarterly basis.

TPEN is part of the Group's risk and control framework which comprises 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 to further embed the Group's four key values of client focus, excellence, integrity and respect, which can be summarised as follows:

Table 8: Three Lines of Defence model

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

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

- **First Line of Defence** are the main departments of the business that manage money for clients, distribute our funds and provide our supporting operations. These departments have primary responsibility for identifying and managing risks in their area and for developing and implementing controls, policies and procedures necessary to manage those risks in order to protect the best interests of policyholders. First line risk management is supported throughout the organisation via the appointment of Risk Liaison Officers in every business unit.

- **Second Line of Defence** comprises functions that provide oversight and challenge of the effective operation of the Group's internal control framework. Second Line of Defence functions report significant findings to the appropriate Executive and Oversight Committee(s) and also provide reports to the TPEN Board, the TPEN Audit Committee and TAMH Sàrl Audit and Risk Committee ("**ARC**") as appropriate:

  - **risk functions (including Operational and Enterprise, Investment and Credit Risk)** are responsible for facilitating the development, implementation and embedding of processes whereby management identifies, assesses, monitors, controls and mitigates risks in the business to reduce the likelihood of client detriment. Risk functions provide oversight and challenge to each business area on their management of risk; and

  - **compliance (including Mandate Compliance and Trade Surveillance Group)** function advises on all areas of regulatory principles, rules and guidance, including leading on any changes, and undertakes monitoring activity on key areas of regulatory risk. Mandate Compliance function ensures that portfolios are being managed in accordance with the respective Investment Management Agreements, investment guidelines, prospectus and any relevant regulatory requirements. Trade Surveillance Group monitors investment activities in relation to the Group's Market Abuse, Best Execution and Conflicts of Interest regulatory requirements.

- **Third Line of Defence** is the Internal Audit function, which reports to the TAMH Sàrl ARC TPEN Audit Committee and the Board. The Head of Internal Audit has direct reporting lines to the Chairman of the TAMH Sàrl ARC and the General Auditor of Ameriprise. Internal Audit provides independent assurance of the suitability and effectiveness of the Group's processes, controls and Risk Management Framework, including management's execution of its responsibilities to seek to ensure an effective system of internal controls, risk management, and compliance is embedded throughout the Group. To this end, Internal Audit undertakes a programme of risk-based audits, as well as ad hoc reviews and investigations, covering all aspects of both the first and second lines of defence, the findings of which are reported to all Three Lines of Defence, including accountable line management, the functional business and the RCC, the Risk and Compliance functions, TAMH Sàrl ARC and TPEN Audit Committee.

B.3.2 Own Risk and Solvency Assessment

The TPEN Board is responsible for the Own Risk and Solvency Assessment ("**ORSA**") process while the EMEA CRO (SMF4) is accountable for the delivery.

The ORSA process includes the following:

- review and confirmation of key risks by the GMC and TPEN Board;
- identification of operational risks for discussion at operational risk workshops;
- operational risk workshops held with Subject Matter Experts (**"SMEs"**) from the First and Second Lines of Defence to identify and quantify severe but plausible loss events based on the identified key operational risks and considering internal and external loss data;
- calculation of Pillar 2 capital requirements (including credit risk, market and insurance risk, tax risk, and liquidity risk) by SMEs including the Chief Actuary, Regulatory Capital Management and Investment Risk;
- define and implement stress testing scenarios;
- refine capital requirements if appropriate; and
- extensive review of results of process by internal SMEs.

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

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

B.3.2.1 Review and approval of the ORSA

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

Events that may require a reassessment of the ORSA include:

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

To ensure that the risk and capital implications of business decisions are constantly monitored, a monthly report is prepared and submitted to the RCC which includes both executive directors of TPEN, and a quarterly update is provided to the TPEN Board. This will assess any material changes in TPEN's business, strategy, outsource providers and its financial position as well as recent material internal loss events that affect TPEN or its unit-linked funds.

B.3.2.2 Solvency needs

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

- **capital surplus** (i.e. Own Funds minus capital requirements) under SCR and Pillar 2 internal capital requirement assessed through the ORSA;
- **overall capital requirement** is based on whether the capital surplus is lower under Pillar 1 or Pillar 2. At 31 December 2019, the surplus when calculated under Pillar 1 was lower than when calculated under Pillar 2 and therefore the binding constraint was the Pillar 1 total capital requirement; and
- **capital management activities** are monitored to ensure that Own Funds remain in excess of 125% of the capital requirement, as calculated under a short projection period.

B.4 Internal control system

B.4.1 Internal control system

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

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

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

B.4.2 Implementation of the compliance function

TPEN's compliance arrangements are provided by the Group. The EMEA Head of Compliance (SMF16 and 17) is responsible for Compliance. 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 Senior Management Functions 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 the Investment Manager’s 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.4.3 Material changes in internal control system

There were no material changes to the internal control system in the 12 months to 31 December 2020.

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. Head of Global Asset Management Audit, Risk and Control Services fulfils the SMF5 role under the SMCR regime and the accountabilities of the SMF5 are documented within the SoR.

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

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

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

B.5.2 Independence of the internal audit function

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

B.6 Actuarial function

B.6.1 Actuarial function

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

The Chief Actuary is accountable for:

- providing financial reporting numbers as appropriate, including Pillar 1 calculations and Pillar 2 insurance and market risk calculations;
- providing input as to whether TPEN would comply continuously with the requirements regarding the calculation of Technical Provisions;
- identifying potential risks arising from the uncertainties connected to the above calculation; and
- providing overall guidance and direction in relation to the production of the ORSA.

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

- determining a semi-annual Solvency II balance sheet for TPEN;
- advising on Solvency II reporting;

- preparing semi-annual market and insurance risk assessments; and
- summarising the methods, assumptions and data used for the above.

The Chief Actuary's specific 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;
- concluding on the adequacy of the use of the Standard Formula;
- contributing to the review of whether TPEN meets the requirements for Technical Provisions referred to in the Solvency II Directive;
- providing an opinion of the adequacy of reinsurance arrangements; and
- providing guidance in relation to the production of the ORSA.

The full accountabilities of the Chief Actuary are documented within the Statement of Responsibilities (**"SoR"**). 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

All of TPEN's activities are outsourced, either to:

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

All service providers are domiciled in the UK.

B.7.2 Service providers

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

Table 9: Service providers

Service provider	Service(s) provided
Threadneedle Asset Management Limited[1]	Investment management and distribution services for TPEN unit-linked pooled funds.
Threadneedle Asset Management Holdings Limited	Group support services including: - Financial services / financial statements / accounting; - Internal Audit; - Tax and Treasury services; - IT security and support; - Investment risk management; - Operational & enterprise risk management; - Human resources; and - Legal affairs / Compliance
Link Fund Administrators Limited	Policy Administrator / Transfer Agency
Citibank NA, London Branch	Fund Accounting and Custody
Barnett Waddingham LLP [2]	Actuarial services

[1] TAML has sub-delegated discretionary management for the TPEN Property Fund to Threadneedle Portfolio Services Limited (a related party).

[2] Until 31 December 2020, actuarial services were provided by Nematrian Limited who sub-delegated actuarial support to Barnett Waddingham.

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

The following key functions are outsourced:

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

B.7.3 Service Provider selection and management

Both third-party and Group service provider relationships are managed in accordance with Group policies. All arrangements are governed by legally binding agreements which outline the functions and activities to be provided.

The selection process undergoes internal vendor risk assessment to determine whether the service providers has the requisite skills and knowledge to perform the service, as well as the level of fees charged for the service. The outsourced key function arrangements are overseen by the TPEN Board and GMC who receive reports on the performance of the service provided.

Individual SMFs have overall accountability for services provided to TPEN by outsourced service providers as set out in **Section B.1**, while the Chief Executive Function (SMF1) has overall accountability for outsourced services and the Chief Risk Officer has responsibility for the firm's performance of its obligations under the Outsourcing part of the PRA Rulebook.

B.8 Any other information

TPEN has no further material information to disclose.

C. Risk profile

The largest risk to which TPEN is exposed is operational risk which represented 92.9% of the SCR at 31 December 2020 (2019: 94.3%) as shown in the chart below. Operational risk is the risk of loss caused by failure in processes, systems, people or external factors. It is described in this section together with other categories of risk.

The standard formula SCR for TPEN at 31 December 2020 was £9.7m (2019: £10.2m) after adjustments for risk diversification and the LACDT.

An overview of the SCR by risk type is set out below:

Solvency Capital Requirement	2020 £'m	2019 £'m
Market risk	0.7	0.6
Credit (counterparty default) risk	0.3	0.3
Insurance (life underwriting) risk	0.4	0.4
Diversification offset	(0.4)	(0.4)
Operational risk	9.0	9.7
Loss absorbing capacity of deferred taxes (LACDT)	(0.4)	(0.4)
Total SCR	**9.7[1]**	**10.2**

[1]The difference of £0.1m in the sum total is due to rounding.

Further information on the SCR and commentary on movements over the reporting period are set out in **Section E.2**.

Prudent person principle

TPEN is required to consider whether assets are invested in accordance with the Prudent Person Principle ("**PPP**") as defined in Article 132 of the Solvency II Directive (2009/138/EC).The PPP sets out the expectation that TPEN must only invest in assets and instruments whose risks the undertaking concerned can properly identify, measure, monitor, manage, control and report and appropriately take into account in the assessment of its overall solvency needs.

As set out in **Section D.1**, the majority of assets on TPEN's balance sheet are held in respect of unit-linked pooled contracts which are invested on behalf of policyholders in line with the investment guideline of each fund. Investment management activities are outsourced to TAML. TPEN has arrangements in place to ensure that the external investment manager invests in accordance with the PPP for the unit-linked pooled funds. TPEN's Own Funds are prudently invested taking account quality, security, liquidity, profitability, and the investment portfolio as a whole. TPEN invests the majority of its Own Funds in the Threadneedle Sterling Short-Term Money Market Fund (the "**Sterling Fund**") which was chosen taking into account the Prudent Person criteria. For example, constituents of the fund have high credit ratings and holdings with individual counterparties within the Sterling Fund are managed within counterparty exposure tolerance levels. The remaining assets on TPEN's balance sheet relate to corporate cash held with a third-party banking provider with a long-term credit rating of A+, debtors largely relating to fees receivable, and small 'box holdings' in some unit-linked funds.

C.1 Underwriting risk

C.1.1 Material underwriting risks

Underwriting risk is the risk of loss or of adverse change in the value of insurance liabilities due to inadequate pricing and provisioning assumptions.

Two of the life underwriting sub-modules in the SCR are relevant to TPEN:

- **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; and
- **expense risk** reflects the risks that expenses will be higher than expected and the future rate of inflation on these expenses will be higher than expected.

Underwriting risk is estimated by applying stress scenarios defined in the standard formula to the projected cash flows of TPEN. For expense risk, the stress involves a one-off increase in certain types of expenses together with higher ongoing increases in these expenses. Refer to **Section C.1.4** where stresses and sensitivity analysis are noted.

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

This is based on the following:

- **notice period of policyholder contracts** that TPEN would need to give to unilaterally terminate contracts are three months; and
- **length of time to wind down the business** is set with reference to the Group's Internal Capital Adequacy Assessment Process which includes a detailed wind down analysis which assumes winding down the Group's operations over a period of 18 months. However, 12 months is deemed to be an appropriate period for TPEN as it only operates in the UK, has no staff and outsources all activities to other entities.

Further information on the use of a short projection period is described in **Section D.2.4**.

C.1.2 Changes over reporting period

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

C.1.3 Assessment of and risk mitigation techniques used for underwriting risks

The capital requirement for underwriting risk is calculated in accordance with the standard formula SCR:

- **lapse risk** is the most material underwriting risk for TPEN. Following the novation of TPEN's segregated clients on 1 July 2019, all TPEN's remaining business is subject to a 40% mass lapse stress which is based on an assessment by the Chief Actuary that TPEN's unit-linked pooled funds do not meet the requirements of Article 2(3)(b)(iii) and (iv) of Solvency II Directive 2015/35 EU; and

- **expense risk** stresses are applied to direct expenses and allocated costs for Group services (e.g. finance, compliance and legal), but are not applied to variable costs for distribution and investment management services provided by other Group companies, which are based on the level of unit-linked assets managed by TPEN (Refer to **Section A.4.1**).

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

- client service teams work closely with key clients to increase client retention; and

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

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

C.1.4 Risk sensitivity for underwriting risk

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

- a 50% increase in lapse rates,

- a 50% decrease in lapse rates; and

- a mass lapse of profitable business.

The mass lapse stress is 40% for pooled fund business (2019: 40%). The results of these lapse stresses give an indication of the sensitivity of the SCR to different lapse rates. The most onerous lapse rate stress, the mass lapse stress, is included in the SCR. The mass lapse stress contributes approximately £0.4m (2019: £0.4m) to the SCR (before diversification effects and allowance for loss absorbing capacity of deferred taxes).

The following risk sensitivities were assessed to measure the potential impact to TPEN's solvency capital position:

- **direct expenses and allocated costs for other Group services** increase by 10%; and
- **lapse rates** increase by 100% (i.e. lapse rates double).

The table below sets out the impact of these scenarios on TPEN's SCR and coverage ratio (Own Funds divided by SCR) at 31 December 2020:

Table 10: Underwriting risk - risk sensitivities

Sensitivity analysis	Change in SCR £'000	Change in SCR coverage ratio %
Direct expenses and allocated costs increase by 10%	(2)	(0.4)%
Lapse rates increase by 100%	(13)	0.1%

C.2 Market risk

C.2.1 Material market risks and changes over reporting period

Market risk is the risk of loss or of adverse change in the financial condition of TPEN resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets and liabilities and financial instruments.

TPEN is exposed to market risk through the following assets:

- **assets held in the unit-linked funds** including equity, property and fixed income securities are exposed to market risk. However, the value of the liabilities for the unit-linked contracts increases or decreases in line with the fair value of the financial assets thus eliminating the balance sheet market risk for TPEN; and
- **non-linked assets on TPEN's balance sheet** including assets held in the Sterling Fund deemed subject to market risk (e.g. commercial paper, certificates of deposits, time deposits and bonds), and a small amount of seed money in unit-linked pooled funds.

As result of the above, the primary exposure to market risk arises from the equity and property market impact on the revenues from policyholders linked to the value of unit-linked assets.

However, the impact of market risk on TPEN is relatively small as a result of the short projection period over which the risk is estimated (as described in **Section C.1.1** above).

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

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

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

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

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

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

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

The nature of TPEN's business model mitigates the balance sheet market risk of the assets held in the unit linked funds (see **Section C.2.1**). Given the small size of the residual market risk no further risk mitigation techniques are used.

C.2.3 Risk sensitivity for market risk

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

- market value of unit-linked assets increases by 10%;
- market value of unit-linked assets reduces by 10%; and
- interest rates increase/decrease by 1%. In both of these scenarios, no allowance has been made for the change in the value of unit-linked assets in the event of a change in interest rates, only the subsequent impact on the SCR stresses has been considered. The change in the non-linked assets as a result of the interest rate changes is calculated and therefore affects the SCR coverage ratio.

The table below sets out the impact of these scenarios on TPEN's SCR and coverage ratio (Own Funds divided by SCR) at 31 December 2020:

Table 11: Market risk - risk sensitivity

Sensitivity analysis	Change in SCR £'000	Change in SCR coverage ratio %
Market value of unit-linked assets increase by 10%	49	0.1%
Market value of unit-linked assets reduce by 10%	(48)	(0.1)%
Interest rates increase by 1%	(1)	(0.2)%
Interest rates reduce by 1%	2	0.2%

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

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

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

Exposures within the scope of the credit (counterparty default) risk module have been sub-divided between 'Type 1' and 'Type 2' exposures according to Solvency II Delegated Regulation (DR 2015/35) (**"DR"**) Article 189. For example, cash at bank (in a call account) is classified as a Type 1 exposure while policyholder debtors are classified as type 2 exposures. The majority of the risk calculated under the SCR arises from policyholder debtors which attract a 15% capital charge as they are all less than three months due.

Credit risk in TPEN's unit-linked pooled funds (including equity and fixed income securities and properties) is borne by policyholders. Refer to **Section C.6.2** for details on how risks relating to Fund Liquidity (including the Property Fund) are managed.

Policyholder debtors where TPEN has the right to recover any such debts from the unit-linked pooled funds are excluded from the Type 2 counterparty default calculation, on the basis that such exposures do not create counterparty exposure to policyholders for TPEN shareholders. At 31 December 2020, 34% (2019: 34%) of policyholder debtors fell into this category.

Intra-group debtors are assessed as being a low credit risk given the financial strength of the Group.

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. The Group Counterparty Credit Risk team performs credit risk assessments on the counterparties in the Sterling Fund and cash at bank. Credit exposures are monitored on a daily basis to ensure they remain within pre-defined limits.

No specific risk mitigation techniques are used.

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

C.3.3 Risk sensitivity for credit risk

The following credit risk sensitivities were assessed to measure the potential impact to TPEN:

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

The table below sets out the impact of these scenarios on TPEN's SCR and coverage ratio (Own Funds divided by SCR) at 31 December 2020:

Table 12: Credit risk - risk sensitivity

Sensitivity analysis	Change in SCR £'000	Change in SCR coverage ratio %
Exposures to banks downgraded by one credit quality step	72	(1.8)%
20% increase in policyholder debtors (<3 months due)	26	(0.7)%

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 liquid assets to meet its liabilities as they become due or that it can secure the required liquidity only at additional cost. As a result of the size and liquid nature of the corporate assets held on TPEN's balance sheet throughout the year TPEN has limited liquidity risk.
TPEN is included in the Group's Liquidity Risk Management Policy which allows access to limited additional liquidity via its ultimate parent company if required.

Liquidity risk in relation to TPEN's pooled fund range (i.e. Fund Liquidity Risk) is described in Section **C.6.2**.

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, 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 results of this stress testing is used to inform its liquidity tolerance level.

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

C.4.3 Expected profit included in future premiums

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

C.4.4 Risk sensitivity for liquidity risks

Liquidity stress testing is conducted as part of the ORSA to assess the liquidity required under a range of stressed conditions. The scenarios include idiosyncratic, market-wide and combined scenarios over a range of time horizons. This testing demonstrated that TPEN maintains sufficient liquid resources to withstand severe liquidity shocks.

C.5 Operational risk

C.5.1 Material operational risks and changes over reporting period

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

Table 13: TPEN's operational risks

<table>
<tr><th colspan="2">Basel category</th><th colspan="2">Risk name</th></tr>
<tr><td rowspan="3">1</td><td rowspan="3">Execution, Delivery, and Process Management</td><td>8</td><td>Trade Errors</td></tr>
<tr><td>9</td><td>Mandate Breach</td></tr>
<tr><td>10</td><td>Processing errors</td></tr>
<tr><td rowspan="4">2</td><td rowspan="4">Clients, Products, and Business Practices</td><td>11</td><td>Marketing / Communications</td></tr>
<tr><td>14</td><td>IT / Information Security / Cyber</td></tr>
<tr><td>16</td><td>Failure to comply with regulations[1]</td></tr>
<tr><td>17</td><td>Legal risk[1]</td></tr>
<tr><td>3</td><td>Business Disruption and Systems Failures</td><td>13</td><td>Outsourced Service Providers / Vendors</td></tr>
<tr><td>4</td><td>Employment Practices and Workplace Safety</td><td>12</td><td>Premises / Health and Safety</td></tr>
<tr><td>5</td><td>Internal Fraud</td><td rowspan="2">15</td><td rowspan="2">Financial Crime[1]</td></tr>
<tr><td>6</td><td>External Fraud</td></tr>
<tr><td>7</td><td>Damage to Physical Assets</td><td colspan="2">Not applicable as TPEN does not hold significant physical assets</td></tr>
</table>

[1] Three risks are classified in TPEN’s Risk Library as ‘legal and compliance’ risks.

TPEN does not hold significant assets on its shareholder balance sheet therefore there is no risk for the Basel Category “Damage to Physical Assets”.

TPEN’s Risk Library was updated in mid-2020 following changes to the Group’s Risk Library but there were no material changes over the reporting period in the operational risks to which TPEN is exposed.

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

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

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

- a top down assessment of operational risks facing the business;
- by identifying and mapping important business activities and services to assess operational resilience;
- RCSAs are reviewed annually by the First Line of Defence business units to ensure they capture key risks, and the associated control environment is updated and challenged by the Second Line of Defence. RCSAs are also reviewed following any ‘trigger events’ to processes, products or operating models. All risks identified as part of the RCSA process are rated according to the inherent risk, controls and residual risk;
- material Risk Events (REVs) are escalated to senior management and governance forums;
- external loss data is reviewed annually to have a forward-looking view of potential emerging risks that are assessed during the ORSA process;
- controls are reviewed when loss events occur, both in relation to the event itself to ensure they can be strengthened but also adopting a wider view of other associated processes or products;
- operational risk workshops are held regularly with SMEs from the First and Second Lines of Defence to identify severe but plausible loss events and to discuss the frequency and severity with which these risks apply to TPEN;

- the KRIs in relation to TPEN (linked to its RCSAs) are reviewed quarterly as part of quarterly GMC and TPEN Board reporting to identify whether there are any early indicators of movement outside set risk appetite thresholds; and
- assessment of legal cover from intragroup service agreements.

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

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

The contribution from operational risk in the SCR is calculated as 25% of non-acquisition expenses incurred over the last 12 months. Policyholder borne expenses, largely relating to the Property Fund, are included in the calculation of the operational risk module. Dilapidation costs relating to individual properties within the Property Fund are excluded from the expense base to the extent that such expenses are not incurred by TPEN but are borne by tenants when tenants are contractually obliged to meet dilapidation costs. These costs form only a modest fraction of total expenses.

C.5.3 Risk sensitivity for operational risks

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

- policyholder-borne expenses are 20% higher; and
- policyholder-borne expenses are 20% lower.

Table 14: Operational risk - risk sensitivity

Sensitivity analysis	Change in SCR (£'000s)	Change in SCR coverage ratio
Policyholder-borne expenses increase by 20%	1,019	(22.7)%
Policyholder-borne expenses reduce by 20%	(1,019)	28.0%

C.6 Other material risks

C.6.1 Concentration risk

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

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

C.6.2 Fund liquidity risk

Fund / client liquidity risk is defined as the risk of being unable to manage fund liquidity in accordance with agreed terms or objectives. This would include the inability to meet redemption requests, potential settlement risk arising from timing mismatches between policyholder claims and expenses versus investment income and redemption proceeds of underlying investments, but also the inability to invest fund liquidity in a timely manner. TPEN has no obligation to redeem policies at a stated price. In liquidity constrained environments where redemptions may exceed the ability to raise liquidity, TPEN has the option to suspend dealing in a fund or funds to protect the interests of clients (for example property fund suspension during 2020, refer to **Section 1.6**).

C.6.3 Other material risks

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

- **investment performance/sustained underperformance** making funds less attractive;
- **market events** resulting in a decline in AUM and a reduction in fees earned;
- **profit margin compression** due to changing market conditions; and
- **financial risks from climate change** for the TPEN corporate entity which could result in an absolute reduction in AUM over the longer term, which will in turn reduce revenue and could eventually jeopardise its business model. The impacts to policyholders from potential impact to unit-linked assets are managed by the Group's Responsible Investments team (see **Section C.7.2**). The Head of Finance EMEA (i.e. SMF2) is accountable for climate change risk.

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

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

C.7 Any other information

C.7.1 Stress and scenario testing and sensitivity analysis

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

- **stress testing** is performed to assess the impact of a range of single and multifactor stress tests (including climate change) on TPEN's five-year financial forecast to assess impact to TPEN's profitability and capital position. TPEN was forecast to remain in a capital surplus position under the base case and all stress scenarios. The scenarios are developed based on an assessment of TPEN's risk profile, and are informed by key business changes, emerging risks, and recent REVs and external losses;
- **liquidity stress testing** is conducted as part of the ORSA to assess the liquidity required under normal and stressed conditions; and
- **reverse stress testing** in which TPEN performs an assessment on its business plan to identify a range of adverse circumstances which could cause its business plan to become unviable.

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

C.7.2 Climate Change

PRA published a Supervisory Statement (SS3/19) in April 2019 entitled "Enhancing banks' and insurers' approaches to managing the financial risks from climate change", which sets out the regulatory expectations for firms such as TPEN. The PRA expects a firm's response to the financial risks from climate change to be proportionate to the nature, scale, and complexity of its business. As firms' expertise develop, the PRA expects firms such as TPEN's approach to managing the financial risks from climate change to mature over time.

For further details on TPEN Streamlined Energy Carbon report (**"SECR"**) refer to financial statements for the year ended 31 December 2020.

TPEN has no further material information to disclose.

D. Valuation for Solvency Purposes

A summarised balance sheet as at 31 December 2019 and 2020 is set out below:

Table 15: Assets and Liabilities - Solvency II valuation - as at 31 December

Solvency II valuation[1]		2020 £'m	2019 £'m
Assets	D.1.1	3,721.8	3,847.2
Liabilities[2]	D.2.1 and D.3.1	3,698.6	3,824.4
Own Funds		**23.2**	**22.8**

[1] As reported in QRT S.02.01.02

[2] At 31 December 2020, liabilities include £3.7bn of liabilities (2019: £3.8bn) relating to TPEN's unit-linked funds (refer to D.2.1) and the remaining £2.7m (2019: £2.1m) relate to other liabilities (refer to D.3.1)

D.1 Assets

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

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

Table 16: Assets - solvency II valuation - as at 31 December

Asset class	2020 £'m	2019 £'m
Collective investment undertakings and other investments	21.5	20.1
Assets held for unit-linked contracts[1]	3,738.9	3,856.7
Reinsurance recoverable unit-linked[1]	42.4	44.8
Liabilities associated with unit-linked[1]	(84.8)	(78.8)
Receivables (trade not insurance)	2.6	2.7
Cash and cash equivalents	1.3	1.8
Deferred tax liability in relation to technical provisions	(0.1)	(0.1)
Total assets per Solvency II	**3,721.8**	**3,847.2**

[1] These three items sum to £3,696.4m (2019: £3,822.7m) and match against Technical Provisions calculated as a whole of £3,696.4m (2019: £3,822.7m).

A description of each asset type is set out below along with key movements in the 12 months:

Collective investment undertakings and other investments

At the reporting date TPEN held £21.5m (2019: £20.1m) in collective investment schemes, which were invested as follows:

- holdings in the Sterling Fund of £21.4m (2019: £20.0m) which is a Variable Net Asset Value Short Term Money Market Fund under the EU Money Market Fund Regulation ("**MMFR**") and the fund is actively managed by TAML to seek to achieve its objective to provide income and preserve the original value of the investment. 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; and
- seed investments in TPEN's pooled funds of £0.1m (2019: £0.1m) are held within a variety of collective investment schemes and valued at fair value based upon the published price of the collective investment scheme.

Collective investment undertakings and other investments increased by £1.4m over the reporting period due to the investment of retained profit into the Sterling Fund.

Assets held for unit-linked contracts

Assets held for unit-linked contracts represent policyholder investments into TPEN's pooled fund range, and are fair valued as follows:

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

(unobservable market inputs).

Assets held for unit-linked contracts (including reinsurance recoverables and liabilities associated with unit-linked) decreased by £126.3m due to net client outflows of £267.6m offset by investment returns on the underlying financial instruments of £141.3m.

At 31 December 2020, TPEN held £2.0bn Level 1 (2019: £2.0bn), nil at Level 2 (2019: nil) and £1.8bn Level 3 (2019: £1.9bn) assets (net of associated liabilities) to cover linked liabilities. Level 3 investments comprise investment property in TPEN's Property Fund which is measured initially at cost, including related transaction costs, on the date of acquisition or the date of unconditional exchange, if earlier. After initial recognition, investment property is carried at fair value, after the deduction of unamortised lease incentives.

Valuations are performed on either a quarterly or monthly basis by CBRE Limited ("**CBRE**"), and on an ad-hoc basis by Jones Lang LaSalle ("**JLL**"). Both CBRE and JLL 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.

CBRE calculates the gross value of each property by comparing the expected rental cash flows by an appropriate rental yield. Future cash flows are calculated based on the surveyor's expectation of rental receipts during and after the current tenancy ends, typically based on an assessment of rents charged on comparable properties. Fair value is based on active market information, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset.

The fair values by asset exposure class are set out in Table 6 of **Section A.3.1**.

Reinsurance recoverable unit-linked

Reinsurance recoverables from unit-linked contracts represents the amount that has been contracted out to other institutions under a contract of reinsurance. TPEN uses reinsurance to delegate investment management rather than for risk mitigation. These reinsurance recoverables comprise two funds which are managed on a passive basis in line with the 'FTSE Actuaries UK Conventional Gilts over 15 years index', and 'FTSE All Share index' benchmark respectively. The TPEN GMC provides oversight of the performance of these externally managed funds.

These funds 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, without any allowance for the probability of reinsurer default, as per PRA letter to TPEN on 21 December 2015 concluding that TPEN is not required to hold further capital against this reinsurer counterparty default risk. The reinsurance share of claims provisions at 31 December 2020 was £42.4m (2019: £44.8m).

Receivables (trade not insurance)

Receivables (trade not insurance), are amounts due for services performed in the ordinary course of business, which generally have 30-day payment terms. Receivables are recognised at fair value equivalent to the invoice amount and are maintained at this value as the amount receivable for services is not subject to change after the invoice is issued. Debtors Receivables totalling £0.05m were past due as at 31 December 2020 (2019: £0.01m. No receivables were written-off as bad debts in 2020 (2019: none).

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

Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, bank overdrafts, deposits held at call with banks and other short term highly liquid investments that are readily convertible on demand to known amounts of cash with an insignificant change in their fair values. Such investments are those with less than three months' maturity from the date of acquisition. As at 31 December 2020 deposits at call with banks amounted to £1.3m (2019: £1.8m).

D.1.2 Solvency II and IFRS valuation differences by material class of asset

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

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

D.2 Technical Provisions

D.2.1 Technical Provisions by material line of business

Technical Provisions relating to unit-linked contracts and reinsurance recoverables from unit-linked contracts were £3,696.0m at 31 December 2020 (2019: £3,822.3m) as set out below:

Table 17: Technical Provisions at 31 December

Technical Provisions	2020 £'m	2019 £'m
Technical Provisions calculated as a whole[1]	3.696.4	3,822.7
Items not recognised in the financial statements:		
Best Estimate Liability (negative provision)	(1.0)	(1.0)
Risk Margin	0.6	0.6
Technical Provisions per Solvency II	**3,696.0**	**3,822.3**

1. Reported in TPEN's financial statements and QRT S.02.01.02 as "Technical Provisions – index-linked and unit-linked contracts"

There were no material changes in the assumptions made in the calculation of Technical Provisions over the reporting period.

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. The financial statements show the 'assets held to cover linked liabilities' separately on a gross basis to the 'liabilities associated with linked liabilities'. When added together, the net asset position is sufficient to fully cover the technical provisions for linked liabilities as shown in the financial statements. Included within the TPEN unit-linked assets and liabilities is £42.4m (2019: £44.8m) relating to reinsurance recoverables (Refer to **Section D.1.2**).

Technical Provisions per financial statements decreased by £126.3m (2019: increased by £268.6m) in line with the decrease in the value of unit-linked assets (refer to **Section A.3**). Refer to **Section A.3.1** for explanation on movements in Technical Provisions.

Best Estimate Liability (negative provision)

For liabilities that cannot be replicated in the manner set out in **Section D.2.1.1**, a best estimate of the provision (i.e. Best Estimate Liability or "**BEL**") is calculated as well as a Risk Margin in accordance with Solvency II requirements.

The BEL is the present value of expected future cashflows of the policies, discounted using the "risk-free" yield curve (i.e. term dependent rates) specified by the PRA.

The key assumptions are set out below:

- **projection period** over which the best estimate is accrued is 12 months. This is the estimated length of time that it would take to wind down the business after terminating the contracts unilaterally via TPEN serving relevant notice on the policyholders. At 31 December 2020, the notice period for unilateral termination by TPEN was three months for all policies;
- **lapse rates** on existing policies are 6% per annum taking account of past experience; and

- **expenses** continue to be subject to the Group transfer pricing policy. This policy provides some protection to TPEN's profit in that if revenue were to decrease, so too would expenses.

The BEL is an asset due to the profitable nature of contracts. There have been no material changes to assumptions during the year. The BEL has therefore remained at a similar level year on year.

Risk Margin

The Risk Margin is determined as the cost of providing additional Own Funds to support the future SCR requirements under a hypothetical transfer of the insurance liabilities to a third party. As the projection period used for TPEN is 12 months, the Risk Margin is derived by using the elements of the SCR not deemed hedgeable (i.e. elements other than bank counterparty and market risk exposures) and applying a cost of capital of 6% per annum (as specified in DR 2015/35 Article 39). There was no material change in the Risk Margin over the reporting period. This is due to reduction in operational risk capital requirement (which decreases Risk Margin) offset by decrease in one year yield rates (which increases Risk Margin).

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 Technical Provisions. A range of sensitivity analyses are performed in accordance with DR Article 272(1)(b) to ensure TPEN understands this uncertainty including increases and decreases in AUM, policyholder expenses and lapse rates.

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

At 31 December 2020, the IFRS valuation of unit-linked liabilities is £3,696.4m (2019: £3,822.7m) and the valuation for solvency purposes is £3,696.0m (2019: £3,822.3m). The Solvency II valuation includes the BEL and Risk Margin as required under Solvency II. There have been no material changes to the valuation and recognition approach during the year. Refer to **Table 17** in **Section D.2.1**.

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

- whether the proportionality requirements of Article 56 of the Commission delegated regulation (EU) 2015/35 continue to be met; and
- whether the TPEN Board's capital management policy needs to be adjusted to ensure it reflects the TPEN Board's capital risk appetite, in terms of SCR coverage, on both a long and short projection basis.

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

Should this review indicate that the requirements of Article 56 are no longer being met the TPEN Board would take appropriate action to ensure that TPEN continues to remain adequately capitalised and maintain a solvency capital ratio above its internal capital buffer threshold of 125%.

TPEN does not apply or make use of the following:

- matching adjustment referred to in Article 77b of Directive 2009/138/EC;
- volatility adjustment referred to in Article 77d of Directive 2009/138/EC;
- transitional risk-free interest rate-term structure referred to Article 308c of Directive 2009/138/EC; or
- transitional deduction / Transitional Measure on Technical Provisions ("**TMTP**") referred to in Article 308d of Directive 2009/138/EC.

D.3 Other Liabilities

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

Total other liabilities increased by £0.6m in the 12 months to 31 December 2020, largely due to an increase in the outstanding corporation tax payable.

The table sets out a summary of other liabilities:

Table 18: Other liabilities at 31 December

Other Liabilities[1]	2020 £'m	2019 £'m
Deferred tax liability	0.4	0.4
Payables (trade not insurance)	1.5	1.4
Any other liabilities not shown elsewhere	0.8	0.3
Total other liabilities	**2.7**	**2.1**

[1] As reported in QRT S.02.01.02.

A description of each of these other liabilities are set out below:

Deferred tax liability

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

TPEN's own funds includes a further deferred tax element relating to Technical Provisions (See **Table 20**). This has been calculated by multiplying the negative BEL less the Risk Margin by an assumed tax rate of 19% (2019: 17%).

Payables (trade not insurance)

Payables include the following:

- **amounts due to Group undertakings** relating to investment management services and distribution services supplied by other Group companies in line with the Group transfer pricing framework. These services are invoiced and settled quarterly; and
- **fees to the transfer agent** which are paid quarterly after a receipt of a valid invoice that reconciles to the rate card per the service level agreement.

No payables were past due during the year 2020 (2019: none).

Any other liabilities not shown elsewhere

Any other liabilities include for custody, sub-advisor fees and corporation tax payable recognised on an accruals basis.

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

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

D.4 Alternative methods for valuation

Refer to **Section D.1.1** for details of valuation methods for TPEN's assets. No other alternative valuation techniques are used.

D.5 Any other information

TPEN has no further material information to disclose.

E. Capital management

E.1 Own funds

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

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

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

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

E.1.2 Own funds classified by tiers

Own Funds can be classified as Tier 1, Tier 2 or Tier 3 depending on the loss absorbing characteristics of the capital. Tier 1 capital is the best form of capital for the purposes of absorbing losses. TPEN's Own Funds are deemed to have loss absorbing characteristics allowing them to be treated as Tier 1 capital and hence contribute to Own Funds available to meet the SCR and MCR.

Own Funds increased by 1.8% following incorporation of retained profits of £0.4m.

Table 19: Own Funds classified by tiers at 31 December

Own funds[1]	Tier	2020 £'m	2019 £'m	YoY %
Share capital	1	11.3	11.3	0.0%
Reconciliation reserve	1	11.9	11.5	3.5%
Own Funds under Solvency II		**23.2**	**22.8**	**1.8%**

[1] As reported in QRT S.23.01.01.

As shown in the table below, the reconciliation reserve comprises retained earnings and reconciliation adjustments from the IFRS balance sheet to the Solvency II balance sheet. Changes in the reconciliation reserve and therefore Own Funds could arise from changes in the profitability of TPEN, any dividends paid by TPEN to its parent, Solvency II adjustments of BEL and Risk Margin, or in a situation where TPEN is required to adopt a long-projection period. Over the past 12 months the reconciliation reserve increased by 0.4m due to inclusion of audited profits for the year and Solvency II adjustments.

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 20: Reconciliation reserve at 31 December

Reconciliation reserve	2020 £'m	2019 £'m
Retained earnings in the financial statements	11.5	11.1
Items not recognised in the financial statements:		
Best Estimate Liability (S.02.01.01)	1.0	1.0
Risk Margin (S.02.01.01)	(0.6)	(0.6)
Deferred tax liability relating to Technical Provisions	(0.1)	(0.1)
Reconciliation reserve[1]	**11.9**	**11.5**

[1] The difference of £0.1m in the sum total is due to rounding.

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 basic own funds to cover the Minimum Capital Requirement, by tier

All of TPEN's Own Funds are Tier 1 and are therefore eligible to be used for meeting the MCR.

E.1.5 Difference between equity as shown in the financial statements and the Solvency II

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

Table 21: Solvency II - Basic Own Funds at 31 December

Own Funds	2020 £'m	2019 £'m
Total equity in financial statements	22.8	22.4
Items not recognised in the financial statements:		
Best Estimate Liability (S02.01. 01)	1.0	1.0
Risk Margin (S.02.01.01)	(0.6)	(0.6)
Deferred tax liability relating to Technical Provisions	(0.1)	(0.1)
Own Funds under Solvency II	**23.2[1]**	**22.8[1]**

[1] The difference of £0.1m in the sum total is due to rounding.

Movements in components of Own Funds under Solvency II are described in **Section E.1.2**.

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 £9.7m (2019: £10.2m) and £4.4m (2019: £4.6m) respectively. The Solvency Coverage Ratio was 239% (2019: 222%) at 31 December 2020.

E.2.2 Solvency Capital Requirement split by risk modules

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

Table 22: Solvency Capital requirement split by risk modules at 31 December

Solvency Capital Requirement	2020 £'m	2019 £'m
Market risk	0.7	0.6
Credit (Counterparty default) risk	0.3	0.3
Insurance (Life underwriting) risk	0.4	0.4
Diversification benefit	(0.4)	(0.4)
Basic Solvency Capital Requirement	**1.0**	**1.0**
Operational risk (S.25.01.21)	9.0	9.7
Loss absorbing capacity of deferred taxes	(0.4)	(0.4)
Solvency Capital Requirement (SCR)	**9.7[1]**	**10.2**

Note: As reported in QRT S.25.01.21.
[1]The difference of £0.1m in the sum total is due to rounding

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

Although, Basic Solvency Capital Requirement has remained consistent year on year, the key changes in the SCR from 31 December 2019 to 31 December 2020 were:

- **Operational risk capital requirement** reduced by £0.7m due to lower shareholder-borne expenses following novation of segregated clients to TAML from 1 July 2019 and exclusion of bad debt provisions within the TPEN Property Fund, partially offset by increased policyholder-borne borne expenses within the TPEN Property Fund
- **Loss absorbing capacity of deferred taxes** has remained consistent year on year. At 31 December 2019, the LACDT did not include the element relating to the deferred tax liability set up in respect of Solvency II profits of £0.1m (2019 £0.1m) recognised on the balance sheet. Exclusion of the element relating to the deferred tax liability set up in respect of Solvency II profits was because at the time the figures were being prepared there were ongoing discussions with the PRA concerning the suitability of its inclusion. The PRA has confirmed to TPEN that it does not have any objection to its inclusion and the £0.1m was included in the LACDT calculation for the period ending 31 December 2020.

E.2.3 Simplified calculations and Company specific parameters

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

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

E.2.4 Inputs used to calculate the Minimum Capital Requirement

TPEN is required by Solvency II Article 129 to maintain an amount of eligible basic own funds, the MCR. The MCR is calculated as the maximum of €3.7m (absolute floor in Article 129(d)(ii) for TPEN's type of business) which is converted to GBP using exchange rates prescribed by EIOPA (At 31 December 2020, this rate was £0.90208 as published in the Official Journal 31/10/2020 and the prior year was £0.86133), 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 (i.e. 'MCR cap' as shown in the table below) was applied and the MCR of £4.4m (2019: £4.6m) was 45% of the SCR.

Table 23: Minimum Capital Requirement at 31 December

Minimum Capital Requirement	2020 £'m	2019 £'m
Linear MCR (Technical Provisions (excl. reinsurance and risk margin) x 0.007)	25.6	26.4
SCR	9.7	10.2
MCR cap	4.4	4.6
MCR floor	2.4	2.6
Combined MCR	4.4	4.6
Absolute floor of the MCR (GBP equivalent of €3.7m)	3.3	3.2
MCR	**4.4**	**4.6**

Note: As reported in QRT S.28.01.01.

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 2020

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

24 March 2021

Glossary

The following abbreviations and acronyms have been included in this report:

AIFMD	Alternative Investment Fund Managers Directive
Ameriprise	Ameriprise Financial, Inc.
AUM	Assets Under Management
BEL	Best Estimate Liability
bn	Billion
CBRE	CBRE Limited
Coronavirus	COVID-19
CTI	Columbia Threadneedle Investments Group of companies
DB	Defined Benefit
DC	Defined Contribution
DR	Solvency II Delegated Regulation (DR 2015/35)
EIOPA	European Insurance and Occupational Pensions Authority
EMEA BMC	EMEA Business Management Committee
EMEA RCC	EMEA Risk and Controls Committee
ESG	Environmental, Social and Governance
FCA	Financial Conduct Authority
FPDC	Fund Pricing and Dealing Committee
FIT	FCA's Fit and Proper test
GCO	General Counsel's Office
GMC	General Management Committee of TPEN
IFRS	International Financial Reporting Standards
JLL	Jones Lang LaSalle
LACDT	Loss Absorbing Capacity of Deferred Taxes
KRI	Key Risk Indicators
m	Million
MCR	Minimum Capital Requirement
MiFID	Markets in Financial Instruments Directive
MMFR	EU Money Market Fund Regulation
ORSA	Own Risk and Solvency Assessment
PR	Prescribed Responsibility
PRA	Prudential Regulation Authority
PRI	Principles of Responsible Investment
QRT	Solvency II Quantitative Reporting Template
RCSA	Risk and Control Self-Assessment
REV	Internal Risk Events
SCR	Solvency Capital Requirement
SECR	Streamlined Energy and Carbon Reporting
SFCR	Solvency and Financial Condition Report
SMCR	Senior Managers & Certification Regime
SME	Subject Matter Expert
SMF	Senior Management Function
Sterling Fund	Threadneedle Sterling Short-Term Money Market Fund
TAMH Sàrl	Threadneedle Asset Management Holdings Sàrl
TAMHL	Threadneedle Asset Management Holdings Limited
TAML	Threadneedle Asset Management Limited
TCFD	Taskforce on Climate-related Financial Disclosures
TMTP	Transitional Measure on Technical Provisions
TPEN	Threadneedle Pensions Limited
TPEN Board	Board of Directors of TPEN
UCITS	Undertakings for Collective Investment in Transferable Securities

Quantitative Reporting Templates

The Quantitative Reporting Templates (“QRTs”) 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.

QRTs subject to external audit are S.02.01.02, S.12.01.02, S.23.01.01, S.25.01.21 and S.28.01.0 (Refer to Section F.2 for further information).

The following QRTs are included in the SFCR:

- 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 (GBP thousands) – (1 of 2)

		Solvency II value
Assets		**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**	21,527
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**	21,446
Derivatives	**R0190**	
Deposits other than cash equivalents	**R0200**	
Other investments	**R0210**	81
Assets held for index-linked and unit-linked contracts	**R0220**	3,654,034
Loans and mortgages	**R0230**	
Loans on policies	**R0240**	
Loans and mortgages to individuals	**R0250**	
Other loans and mortgages	**R0260**	
Reinsurance recoverables from:	**R0270**	42,400
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**	
Deposits to cedants	**R0350**	
Insurance and intermediaries receivables	**R0360**	
Reinsurance receivables	**R0370**	
Receivables (trade, not insurance)	**R0380**	2,640
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**	1,265
Any other assets, not elsewhere shown	**R0420**	
Total assets	**R0500**	3,721,866

S.02.01.02 - Balance sheet – liabilities (GBP thousands) - (2 of 2)

		Solvency II value
Liabilities		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	
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	
TP calculated as a whole	R0660	
Best Estimate	R0670	
Risk margin	R0680	
Technical Provisions – index-linked and unit-linked	R0690	3,695,968
TP calculated as a whole	R0700	3,696,434
Best Estimate	R0710	-1,041
Risk margin	R0720	575
Contingent liabilities	R0740	
Provisions other than Technical Provisions	R0750	
Pension benefit obligations	R0760	
Deposits from reinsurers	R0770	
Deferred tax liabilities	R0780	364
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	1,538
Subordinated liabilities	R0850	
Subordinated liabilities not in BOF	R0860	
Subordinated liabilities in BOF	R0870	
Any other liabilities, not elsewhere shown	R0880	809
Total liabilities	R0900	3,698,679
Excess of assets over liabilities	R1000	23,187

S.05.01.02 - Premiums, claims and expenses by line of business (GBP thousands) – (1 of 3)

		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 (GBP thousands) – (2 of 3)

		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 (GBP thousands) – (3 of 3)

		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**			186,584						186,584
Reinsurers' share	**R1420**			137						137
Net	**R1500**			186,447						186,447
Premiums earned										
Gross	**R1510**			186,584						186,584
Reinsurers' share	**R1520**			137						137
Net	**R1600**			186,447						186,447
Claims incurred										
Gross	**R1610**			454,177						454,177
Reinsurers' share	**R1620**			7,759						7,759
Net	**R1700**			446,418						446,418
Changes in other Technical Provisions										
Gross	**R1710**			-144,354						-144,354
Reinsurers' share	**R1720**			-2,372						-2,372
Net	**R1800**			-146,725						-146,725
Expenses incurred	**R1900**			44,622						44,622
Other expenses	**R2500**									0
Total expenses	**R2600**									44,622

S.05.02.01 - Premiums, claims and expenses – by country (GBP thousands) – (1 of 2)

			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 (GBP thousands) – (2 of 2)

			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**	186,584						186,584
Reinsurers' share	**R1420**	137						137
Net	**R1500**	186,447						186,447
Premiums earned								
Gross	**R1510**	186,584						186,584
Reinsurers' share	**R1520**	137						137
Net	**R1600**	186,447						186,447
Claims incurred								
Gross	**R1610**	454,177						454,177
Reinsurers' share	**R1620**	7,759						7,759
Net	**R1700**	446,418						446,418
Changes in other Technical Provisions								
Gross	**R1710**	-144,354						-144,354
Reinsurers' share	**R1720**	-2,372						-2,372
Net	**R1800**	-146,725						-146,725
Expenses incurred	**R1900**	44,622						44,622
Other expenses	**R2500**							-
Total expenses	**R2600**							44,622

S.12.01.02 – Life and Health SLT Technical Provisions (GBP thousands) – (1 of 2)

			Index-linked and unit-linked insurance				Other life insurance				
		Insurance with profit participation		Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees	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)**
		C0020	**C0030**	**C0040**	**C0050**	**C0060**	**C0070**	**C0080**	**C0090**	**C0100**	**C0150**
Technical Provisions calculated as a whole	**R0010**		2,254,361							1,442,073	3,696,434
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**		42,400								42,400
Technical Provisions calculated as a sum of BE and RM											
Best Estimate											
Gross Best Estimate	**R0030**				-635					-406	-1,041
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**				-635					-406	-1,041
Risk Margin	**R0100**		351							224	575
Amount of the transitional on Technical Provisions											
Technical Provisions calculated as a whole	**R0110**										
Best estimate	**R0120**										
Risk margin	**R0130**										
Technical Provisions - total	**R0200**		2,254,077							1,441,891	3,695,968

S.12.01.02 – Life and Health SLT Technical Provisions (GBP thousands) – (2 of 2)

		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 (GBP thousands) – (1 of 2)

		Total	Tier 1 – un-restricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35						
Ordinary share capital (gross of own shares)	R0010	11,300	11,300			
Share premium account related to ordinary share capital	R0030					
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070					
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	11,887	11,887			
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	23,187	23,187			
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	23,187	23,187			
Total available own funds to meet the MCR	R0510	23,187	23,187			
Total eligible own funds to meet the SCR	R0540	23,187	23,187			
Total eligible own funds to meet the MCR	R0550	23,187	23,187			
SCR	R0580	9,713				
MCR	R0600	4,371				
Ratio of Eligible own funds to SCR	R0620	238.72%				
Ratio of Eligible own funds to MCR	R0640	530.49%				

S.23.01.01 - Own Funds (GBP thousands) – (2 of 2)

		C0060	
Reconciliation reserve			
Excess of assets over liabilities	**R0700**	23,187	
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**	11,887	
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 (GBP thousands)

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0100
Market risk	R0010	702		
Counterparty default risk	R0020	315		
Life underwriting risk	R0030	449		
Health underwriting risk	R0040			
Non-life underwriting risk	R0050			
Diversification	R0060	-402		
Intangible asset risk	R0070			
Basic Solvency Capital Requirement	R0100	1064		

Calculation of Solvency Capital Requirement		C0100
Operational risk	R0130	9,026
Loss-absorbing capacity of Technical Provisions	R0140	
Loss-absorbing capacity of deferred taxes	R0150	-377
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency capital requirement excluding capital add-on	R0200	9,713
Capital add-on already set	R0210	
Solvency capital requirement	R0220	9,713
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 (GBP thousands) – (1 of 2)

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 (GBP thousands) – (2 of 2)

Linear formula component for life insurance and reinsurance obligations

		C0040
MCR_L Result	R0200	25,571

		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	3,652,993	
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	25,571		
SCR	R0310	9,713	-	-
MCR cap	R0320	4,371		
MCR floor	R0330	2,428		
Combined MCR	R0340	4,371		
Absolute floor of the MCR	R0350	3,338		
-	-	C0070		
Minimum Capital Requirement	R0400	4,371		