HSBC Life (UK) Limited

Solvency and Financial Condition Report for the year ended 31 December 2020

Contents

HSBC

Statement of Directors' responsibilities in respect of the Solvency and Financial Condition Report (SFCR)

The Directors are required to ensure that the Company has a written policy in place (Reporting and Disclosure Policy) to ensure the ongoing appropriateness of any information disclosed.

The Directors acknowledge their responsibility for preparing the SFCR in all material respects in accordance with the PRA Rules and the Solvency II Regulations.

The Directors 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 the Solvency II Regulations as applicable to the insurer; and

b) it is reasonable to believe that the Company has continued to comply subsequently and will continue so to comply in future.

The SFCR was approved by the Board of Directors and was signed on its behalf by:

D A Clow
Director of HSBC Life (UK) Limited

Date: March 2021

Registered Office
8 Canada Square
London
E14 5HQ

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

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

Opinion
We have audited the following documents prepared by the Company as at 31 December 2020:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2020, ('**the Narrative Disclosures subject to audit**'); and

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

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

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

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

- Company templates S.05.01.02 and S.05.02.01;

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

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of the Company as at 31 December 2020 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report* section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern
Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Evaluating management's stress and scenario testing including the Solvency Capital Requirement and Risk Margin. This included consideration of the impact of downside scenarios;
- The review of correspondence with the PRA;
- The review of board papers and attendance at RAC meetings;
- The challenge of management's key actuarial assumptions for appropriateness within the current business environment, and;
- An assessment of the balance sheet, liquidity and solvency position at the year end.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from the date on which the Solvency and Financial Condition Report is authorised for issue. In auditing the Solvency and Financial Condition Report, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the Solvency and Financial Condition Report is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Company's ability to continue as a going concern. Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Emphasis of Matter - Basis of Accounting

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

Other Information

The Directors are responsible for the Other Information.

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

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

Responsibilities of Directors for the Solvency and Financial Condition Report

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

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

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

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

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Company/industry, we identified that the principal risks of non-compliance with laws and regulations related to the Companies Act 2006, the Prudential Regulation Authority's regulations, the Financial Conduct Authority's regulations and UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the Solvency and Financial Condition Report. We also considered those laws and regulations that have a direct impact on the Solvency and Financial Condition Report such as the Companies Act 2006, the Prudential Regulation Authority's regulations, the Financial Conduct Authority's regulations and UK tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the Solvency and Financial Condition Report (including the risk of override of controls), and determined that the principal risks were related to management bias in accounting estimates. Audit procedures performed included:

- Discussions with the Risk and Audit Committee, management (including those involved in the Risk and Compliance function), Internal Audit and the Company's legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud.
- Assessment of matters reported on the Company's whistleblowing register and the results of management's investigation of such matters.
- Reading key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority.
- Reviewing relevant meeting minutes including those of the Board, Risk and Audit Committee, the Executive Committee and Technical Governance Committee, as well as attending the Risk and Audit Committee.
- Reviewing data regarding policyholder complaints, the Company's register of litigation and claims, Internal Audit reports, compliance reports in so far as they related to non-compliance with laws and regulations and fraud.
- Procedures relating to the valuation of technical provisions, in particular mortality, morbidity and expense assumptions.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the Solvency and Financial Condition Report. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

Use of this report

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

Report on Other Legal and Regulatory Requirements

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

PricewaterhouseCoopers LLP
Chartered Accountants
London
March 2021

Summary

1. Business

The principal activity of HSBC Life (UK) Limited (the "Company") is to carry on the business of life insurance, manufacturing a range of protection and investment products. These products are sold through HSBC UK Bank plc (internal channels), and through external distribution channels. There were no material changes to the business during 2020.

The Company met the criteria under Policy Statement PS25/18 to be classified as a small firm for external audit purposes at 31 December 2019 which meant there was no audit requirement in respect of the SFCR. The comparative balances within this document are therefore unaudited. The Company no longer meets the criteria to be classified as a small firm for external audit purposes so the current year balances within certain sections of this SFCR have been subject to audit as detailed within the Report of the external independent auditors on pages 2-4.

2. Performance

The pre-tax profit of the Company in 2020 was £9million (2019: £41million profit). The £32million decrease compared to prior year is mainly due to an increase in commission expenses, driven by the growth in HSBC Life Protection (HLP) sales, lower tax fees on the Onshore Investment Bond (OIB), due to adverse market conditions as a result of the outbreak, a one-off reinsurance recapture fee and a net increase in insurance contract provisions.

3. System of governance

The Company's system of governance is well established and has a robust risk management framework that complies with Solvency II and SMCR requirements and also meets the group standards expected of a systemically important bank such as HSBC.

The Company operates fully under the Senior Managers and Certification Regime (SMCR). One of the many elements to develop since the onset of the new SMCR is the importance of ensuring that the apportionment of control management between functions is visible and consistently documented both to ensure there are no gaps in that accountability across all of the Company's activities and to ensure clear ownership.

4. Risk profile

The digital life protection product, HSBC Life Protection (HLP), which is sold through external intermediaries is growing significantly and changes the future risk profile of the Company. The key increasing risks are external distribution risks and third party failure risk. The Covid-19 outbreak has adversely impacted the Company over 2020, but solvency remained within appetite throughout. Claims have increased, but predominantly on the Over 50's (whole of life) proposition which has a low sum assured. Reinsurance has reduced the impact of the claims increase. The outbreak impacted sales significantly in the internal channel and the plan has been revised accordingly. Protection performance though the internal face to face channels halted during lockdown and combined with the pause in the housing market and the shift of focus from the Bank to servicing existing customers, other sales through the internal channels reduced dramatically. However, the Onshore Investment Bonds (OIB) and HLP have remained strong throughout the outbreak and it is expected that sales will recover sufficiently to not impact the longer term strategy. The ORSA will continue to assess the future risk profile, capital requirements and controls, assuming varying degrees of business volumes. There have been no other material changes to the Company's risk profile during the year.

The following table shows the make-up of the required capital (standard formula basis) by risk category:

	2020	2019
	£Million	£Million
Market Risk	**57**	54
Life underwriting risk	**63**	57
Health underwriting risk	**42**	44
Counterparty risk	**6**	5
Operational risk (includes Voluntary Capital Add-On of £25.9m)	**33**	33
Gross required capital pre-diversification	**201**	193
Diversification	**(51)**	(48)
Required capital (pre-tax)	**150**	145
Loss absorbing capacity of deferred tax	**(15)**	(22)
Required capital (post-tax)	**135**	123

Section C provides further information on the Risk Profile of the Company.

5. Valuation for solvency purposes

There have been no material changes to the Company's valuation of assets and liabilities for solvency purposes.

6. Capital management

The Company's solvency capital requirement (SCR) is determined on a standard formula basis with an additional voluntary capital add-on.

The Company's capital management policy is to manage to a target capital level of 150% of the Company's assessment of its capital requirement, subject to a minimum scenario impact whereby the Company is no longer able to sell any new business and maintains its existing expense base. Refer to section E.1 below for more detail on the capital management policy. The Company's risk appetite is that the solvency margin should remain above 140% of the Company's assessment of the capital required therefore no management action has been taken.

The Company's capital metrics are summarised below:

	2020	2019
	£'000	£'000
Excess of assets over liabilities	**197,943**	196,163
Solvency Capital Requirement (SCR)	**135,348**	123,284
Solvency ratio	**146%**	159%
Minimum Capital Requirement (MCR)	**33,837**	30,821

The Solvency ratio has decreased due to the capital requirements increasing by more than net assets, this was largely due to increased market and underwriting capital requirements as a result of business growth. Net assets have remained relatively stable in the year, mainly due to best estimate liabilities (BEL), excluding any unit liabilities, which are currently in a net asset position, reducing during the year as a result of new business being offset by increased expenses, whilst Capital has increased due to market risk and a reduction in the loss absorbing capacity of deferred tax (LACDT) in the year. Although the Solvency ratio has decreased, the Company's capital position remains strong and will continue to be monitored closely. There have been no material changes to the SCR and risk margin methodologies.

A. Business and performance

A.1. Business

(a) The name and legal form of the undertaking

HSBC Life (UK) Limited ("the Company") is a limited liability company domiciled and incorporated in the United Kingdom. Its registered office is:

8 Canada Square
London E14 5HQ
United Kingdom

(b) Financial supervision

The Company is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA. The registered offices are as follows:

Prudential Regulation Authority
20 Moorgate
London, EC2R 6DA
United Kingdom

Financial Conduct Authority
12 Endeavour Square
London, E20 1JN
United Kingdom

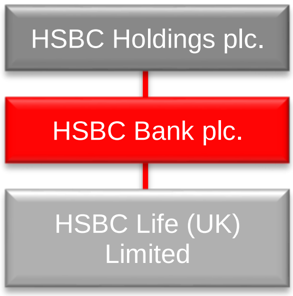
(c) External auditor

PricewaterhouseCoopers LLP is the Company's auditor for the financial year commencing 1 January 2020. The auditor's contact details are as follows:

PricewaterhouseCoopers LLP
7 More London Riverside
London SE1 2RT
United Kingdom

(d) Ownership and group structure

The Company is a wholly owned subsidiary of HSBC Bank plc and its ultimate parent company is HSBC Holdings plc.



The registered office of both HSBC Bank plc and HSBC Holdings plc is:

8 Canada Square
London E14 5HQ
United Kingdom

(e) Principal business activities

The Company's principal activity is to carry on the business of life insurance and manufacturing a range of protection and investment products. The protection products that are currently on sale include income protection, critical illness, term assurance, death, accident and sickness cover and whole of life cover. The only investment product that is currently on sale is the Onshore Investment Bond.

(f) Significant events

Since early January 2020, the Covid-19 outbreak has created a great deal of uncertainty and disruption for people, businesses and communities around the world. For further detail please refer to the Strategic report, in the Company's annual report and accounts for the year ended 31 December 2020.

A.2. Underwriting performance

The Company conducts its business in the UK only. The underwriting performance is summarised by line of business below:

	Health insurance		Index-linked and unit-linked insurance		Other life		Total	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000	**2020 £'000**	2019 £'000	**2020 £'000**	2019 £'000
Premiums written and earned								
Gross	**86,068**	87,325	**248,799**	220,745	**67,541**	66,069	**402,408**	374,139
Reinsurer's share	**(55,886)**	(54,853)	**(4,346)**	(2,919)	**(37,136)**	(36,463)	**(97,368)**	(94,235)
Net	**30,182**	32,472	**244,453**	217,826	**30,405**	29,606	**305,040**	279,904
Claims incurred								
Gross	**(40,539)**	(45,344)	**(68,144)**	(74,306)	**(42,322)**	(45,511)	**(151,005)**	(165,161)
Reinsurer's share	**28,168**	32,178	**1,748**	2,224	**32,090**	35,454	**62,006**	69,856
Net	**(12,371)**	(13,166)	**(66,396)**	(72,082)	**(10,232)**	(10,057)	**(88,999)**	(95,305)
Changes in other technical provisions								
Gross	**13,110**	(694)	**(247,955)**	(308,421)	**(14,128)**	20,681	**(248,973)**	(288,434)
Reinsurer's share	**(5,342)**	(2,521)	**1,261**	(1,166)	**7,965**	(7,597)	**3,884**	(11,284)
Net	**7,768**	(3,215)	**(246,694)**	(309,587)	**(6,163)**	13,084	**(245,089)**	(299,718)
Expenses incurred								
Administrative expenses	**(34)**	(49)	**(5)**	(7)	**(56)**	(81)	**(95)**	(137)
Investment management expenses	**-**	-	**(937)**	(546)	**-**	-	**(937)**	(546)
Claims management expenses	**(1,370)**	(1,523)	**-**	-	**(699)**	(526)	**(2,069)**	(2,049)
Acquisition expenses	**(6,803)**	(5,797)	**(9,283)**	(8,163)	**(17,230)**	(12,537)	**(33,316)**	(26,497)
Overhead expenses	**(6,979)**	(5,211)	**(969)**	(724)	**(11,438)**	(8,539)	**(19,386)**	(14,474)
Total expenses incurred	**(15,186)**	(12,580)	**(11,194)**	(9,440)	**(29,423)**	(21,683)	**(55,803)**	(43,703)
Net underwriting performance	**10,393**	3,511	**(79,831)**	(173,283)	**(15,413)**	10,950	**(84,851)**	(158,822)

Commentary on material variances

The increase in gross premiums is mainly due to the increase in unit-linked Onshore Investment Bond sales volumes from both internal and external sales channels. The increase in unit-linked premiums is partially offset by the decline in health insurance premiums due to a declining extant book of business and lower sales in 2020 from internal sales channels.

There has been a decrease in net claims incurred compared with prior period for all lines of business. The decrease in unit linked business was due to lower surrenders in relation to the Onshore Investment Bond in 2020 and lower net health insurance claims paid as a result of lower critical illness claims.

Overall, Net technical provisions have increased in the year. On the investment side, net technical provisions have reduced due to market movements offsetting new business contributions. On Protection, net technical provisions have increased due to new business sales and an increase in expenses.

A.3. Investment performance

The Company's investment performance is summarised by asset class below:

2020	**Government bonds £'000**	**Corporate bonds £'000**	**Equity £'000**	**Investment funds £'000**	**Cash and deposits £'000**	**Derivatives £'000**	**Total £'000**
Investment income							
Dividends	**-**	**-**	**1,468**	**10,721**	**-**	**-**	**12,189**
Interest	**-**	**-**	**12**	**5,940**	**193**	**-**	**6,145**
Net gains and losses	**(709)**	**-**	**1,066**	**18,544**	**-**	**(31)**	**18,870**
Unrealised gains and losses	**333**	**3,801**	**(6,399)**	**55,495**	**56**	**(1)**	**53,285**
Total investment income	**(376)**	**3,801**	**(3,853)**	**90,700**	**249**	**(32)**	**90,489**
Investment management expenses							**(937)**
Net investment income and expenses	**(376)**	**3,801**	**(3,853)**	**90,700**	**249**	**(32)**	**89,552**

2019	Government bonds £'000	Corporate bonds £'000	Equity £'000	Investment funds £'000	Cash and deposits £'000	Derivatives £'000	Total £'000
Investment income							
Dividends	-	-	2,510	10,585	-	-	13,095
Interest	-	-	32	6,651	630	-	7,313
Net gains and losses	(29)	-	1,051	21,863	-	100	22,985
Unrealised gains and losses	3,382	1,557	6,626	141,545	114	-	153,224
Total investment income	3,353	1,557	10,219	180,644	744	100	196,617
Investment management expenses							(546)
Net investment income and expenses	3,353	1,557	10,219	180,644	744	100	196,071

Commentary on material variances
The decrease in investment income is largely due to lower unrealised gains on investment funds, equities and government bonds reflecting the adverse impact on certain world markets in different ways resulting in lower gains during 2020. There has also been a decrease in realised gains during 2020 which is mainly attributable to investment funds, government bonds and equities.

The investment income table above represents the Company's entire business, in other words all lines of business are included, similar to the underwriting performance above.

The Company does not recognise any gains or losses directly in equity and does not invest in securitisations.

A.4. Performance of other activities

	2020 £'000	2019 £'000
Fee and commission income	**3,056**	3,034
Total other income	**3,056**	3,034

Fee and commission income includes fund management based fees and front-end fees.

A.5. Any other information

There is no other material information regarding business and performance that has not already been disclosed in sections A.1 – A.4 above.

B. System of governance

B.1. General information on the system of governance

(a) Structure of the administrative, management or supervisory body (AMSB)

The Company Board of Directors, Chief Executive Officer (CEO) and leadership team are supported by business and risk committees in promulgating a suitable risk management culture to ensure that risks remain within the risk appetite set by the Board. These committees provide the Executive Management Committee (ExCo) and the Board with assurance that, through the risk management policies and practices, risks are being effectively managed. The Company's approach to risk management is driven by the Board and implemented through the Risk Management Framework and Policy (RMF&P) applying a "three lines of defence" model. This model has been updated in line with SMCR:

- First line of defence functions and committees are responsible for the day to day management, control and reporting of risk exposures. They monitor risks against agreed limits and indicators and review stress and scenario testing of risks, to assess the adequacy of mitigation plans. Key risk issues are reported to the ExCo, the Risk Management Meeting (RMM) and the Board.
- The Risk and Compliance Functions provides a second line of defence oversight on all categories of risk exposure to ensure that the risks, and the interdependencies across risks, are effectively managed.
- The third line of defence is provided by HSBC Group Internal Audit. The Head of Internal Audit for the Company has been appointed and reports directly to both the Risk and Audit Committee (RAC) and the Board itself.

The governance committee structure of the Company comprises the Board of Directors, two committees of the Board (RAC and the Technical Governance Committee (TGC)) and a number of other committees that encompass first and second line responsibilities. The Board and Senior Management have a statutory responsibility to manage risk and capital requirements to current regulatory and emerging Solvency II standards, encompassing any outsourced suppliers or support functions that provide services to the Company.

In addition to these committees, underpinning Business and Risk Forums allow technical debate amongst subject matter or risk experts before recommendations or decisions are referred to committees or individuals for approval.

- Risk Management Meeting (RMM)

RMM is a formal governance committee established to provide recommendations and advice to the Chief Risk Officer (CRO) with particular focus on risk culture, risk appetite, risk profile and enterprise-wide risk management.

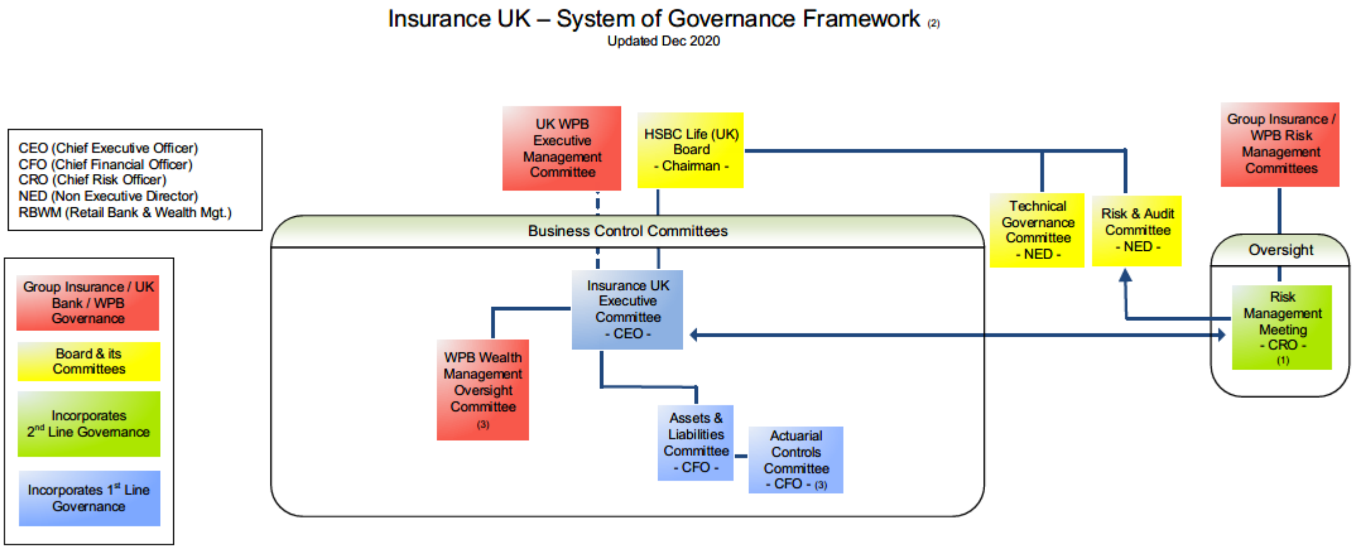
- Board Technical Governance Committee (TGC)

The role of TGC is to review and approve technical, governance and financial analysis papers on behalf of the Board. The TGC is required to ensure that any material matters are reported to, and considered by, the full Board.

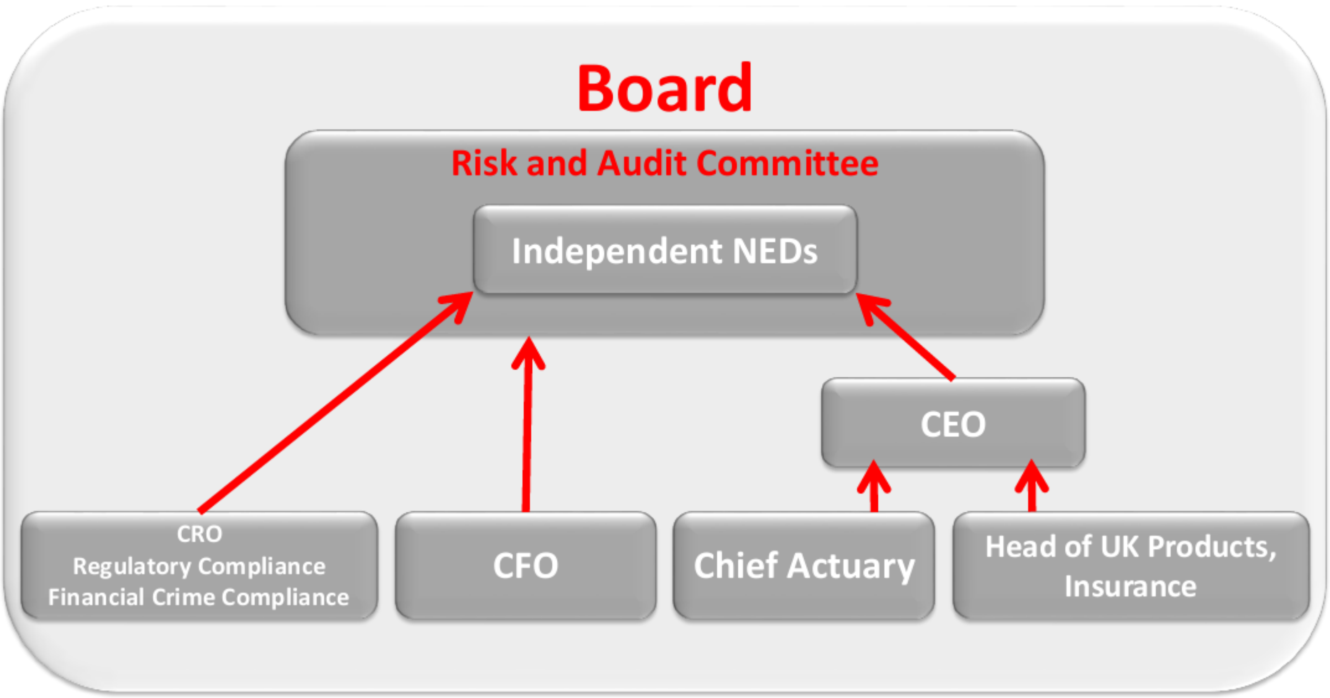
- Board Risk and Audit Committee (RAC)

RAC is the Board Committee that acts on the Board's account in, amongst other matters, the ongoing oversight of Risk Management systems and the effectiveness of the Governance structure, and their ongoing appropriateness for use by the Company's management in the control of the Risks within scope of this Policy. The RAC is required to ensure that any material matters are reported to, and considered by, the full Board.

The Company's governance committee structure remained broadly unchanged at year end and is detailed in the diagrams below:



The Company's key functions organisational structure is illustrated in the diagrams below:



Internal Audit provides independent assurance and sits outside the management structure and reports to HSBC Global Internal Audit in addition to reporting to the HSBC Life (UK) Limited Board.

As part of the regular SMCR requirements Statements of Responsibilities (SoRs) were updated during 2020 and remained largely unchanged with the exception of personnel change for the SMF17 and SMF 7 roles which have been approved by the PRA: The SMF3 role holder vacated the role during 2020 and the associated Product duties have been passed to the Head of Distribution, SMF18.

- Chief Executive Officer (CEO) SMF1

The CEO's specific responsibilities include:

- ➢ Carrying out the management of the conduct of the whole of the business;
- ➢ The execution of the firm's business model within the Company; and
- ➢ Leading the development of the firm's culture and standards in relation to the carrying on of its business and the behaviours of its staff, and for embedding in the day-to-day management of the firm.

- Chief Risk Officer (CRO) SMF4

The CRO is responsible for overseeing the implementation and ongoing effectiveness of risk management and associated procedures and controls in the Company. This includes the assessment of vulnerabilities through stress-testing and scenario analysis and reporting on this position through the annual Own Risk and Solvency Assessment (ORSA), in accordance with Solvency II Article 45.

- Head of Regulatory Compliance (HoRC) SMF16

The HoRC's specific responsibilities include:

- ➢ Maintain a permanent and effective compliance function which operates independently to assess the adequacy and effectiveness of the measures and procedures put in place and the actions taken to address any deficiencies in the firm's compliance with its regulatory conduct obligations;
- ➢ Advise and assist the relevant persons responsible for carrying out regulated activities to comply with the firm's conduct obligations under the regulatory system; and
- ➢ Ensuring that every person who performs a key function is a fit and proper person.

- Head of FCC (HoFCC) SMF17

The HoFCC's specific responsibilities include:

- ➢ Establishment and maintenance of effective anti-money laundering systems; and
- ➢ Compliance with the FCA's rules on systems and controls against money laundering.

- Chief Finance Officer (CFO) SMF2

The CFO's specific responsibilities include:
The production and integrity of the Company's financial information and its regulatory reporting, including:

- ➢ the valuation of the assets and liabilities:

  (a) assets shall be valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction;
  (b) liabilities shall be valued at the amount for which they could be transferred, or settled, between knowledgeable willing parties in an arm's length transaction.

- ➢ the management of the allocation and maintenance of the Company's capital and liquidity and for the development and maintenance of the financial aspects of the Company's business model.

- Chief Actuary (CA) SMF20

The CA's specific responsibilities include:

- ➢ The production and integrity of the firm's actuarial information and its regulatory reporting, which includes the calculation of the Technical Provisions and the methodologies, assumptions used in calculations and data quality used in the calculation;
- ➢ Advising the Board on the management of the allocation and maintenance of the firm's capital and liquidity insofar as it influences the Company's Technical Provisions; and
- ➢ Oversight of the overall underwriting policy, claims processes and adequacy of reinsurance arrangements.

- Head of Internal Audit (HoIA) SMF5

The HoIA's specific responsibilities include:

  - Provide for an effective internal audit function including the independent evaluation of the adequacy and effectiveness of the internal control system and other elements of the system of governance; and
  - The independent evaluation of the Company compliance with the laws, regulations and administrative provisions adopted.

- Chief Distribution Officer & Acting Head of Product (CDO) SMF18

The CDO's specific responsibilities include:

  - Responsible for leading INGB's relationship with its third party distribution partners
  - Responsible for all products sold via INGB's digital and D2C sales channels
  - Responsible for INGB's product manufacturing and sourcing capability for customers and
  - Responsible for the management of the firm's reinsurance claims.

- Chief Operating officer (COO) SMF24

The COO's specific responsibilities include:

  - Responsible for the setting, and the delivery, of customer service standards
  - Accountable for ensuring that complaints are correctly identified; investigated thoroughly
  - Responsible for the firm's IT and
  - Responsible for the Business Continuity Framework.

During 2020 the SMF 3's responsibilities were reallocated between the SMF 18, SMF 24 and SMF 2.

- SMF 7 Group Entity Senior Manager Function role.
  - Ensuring that risks are appropriately managed/ mitigated in the business
  - Ensuring adherence to HSBC's Global Principles and
  - Ensuring that any remuneration structures incentivise and reward appropriate conduct and behaviours.

(b) Material changes in the system of governance

There were no material changes to the system of governance.

(c) Remuneration policy (Directors and employees)

The Company has no employees and thus no employee remuneration policy is disclosed. All staff are employed by a fellow subsidiary undertaking and a recharge is made to the Company.

The Directors' remuneration policy can be found in the 2020 Annual Report and Accounts for HSBC Holdings plc in the following section: Corporate Governance, Directors' Remuneration Report, Directors' Remuneration policy.

(d) Material transactions with shareholders, with persons who exercise a significant influence on the Company, and with members of the administrative, management or supervisory body

Refer to the Company's financial statements for the year ended 31 December 2020, Note 27 Related party transactions, for a summary of the material transactions.

(e) Adequacy assessment of the system of governance

The system of governance is well established and each element is considered to be working effectively. A System of Governance Effectiveness Review is undertaken annually by the Risk Function and the findings are presented to the Board. Operating within the strong HSBC Group Values Framework, there is a positive culture of continuous improvement and a focus on conduct risk and ensuring the right outcomes for the customer. Values based performance is linked to remuneration, encouraging desired behaviours. There is evidence of an effective culture of challenge in the business at both the Board and Board committees.

Significant progress has been made in development of forward looking aspects of the ORSA and in respect of risk appetite understanding and business awareness, but there are plans to further increase the quality of the risk based decision making and to further embed the risk analysis below senior manager level.

The governance structure and documented controls are assessed to be compliant with the requirements of Solvency II.

The responsibilities of the control functions are well established within the business and were formalised in preparation for Solvency II. As part of SMCR a robust No Gaps exercise was conducted ensuring all areas of the business were fully captured, documented and reflected in the Statement of Responsibilities (SoR) which was first lodged with the FCA during December 2018. These SoRs are reviewed at least annually with regular checks made by the Head of Governance and Business Standards, SoRs were submitted to the PRA in September 2020 and further updates submitted in November 2020.

B.2. Fit and proper requirements

(a) Description of the requirements concerning skills, knowledge and expertise applicable to the persons who effectively run the Company or have other key functions

The key functions are governed by the Individual Accountability Policy which includes the policy for 'fit and proper'. The fit and proper test is a test to assess an individual's suitability to perform a specific function. It will vary depending upon the function performed and will include consideration of personal characteristics, level of competence, qualifications and training. In particular, the test will consider:

- Honesty;
- Integrity;
- Reputation;
- Competence;
- Capability; and
- Financial soundness.

(b) Description of the process for assessing the fitness and the propriety of the persons who effectively run the Company or have other key functions

The Company is required to implement a range of checks that enable an informed decision to be made about the suitability of an individual for engagement or retention.

The Group has risk assessed all roles as requiring either Standard Vetting or Enhanced Vetting (EV), and has designated a series of vetting checks that enables HSBC to minimise the risk of unsuitable individuals being engaged by the Group in either population. Standard roles will be subject to vetting checks only at point of entry to the Group. EV roles will be subject to checks for both internal and external applicants prior to engagement and repeated every three years whilst the person remains in such a role.

Businesses and Functions must annually review the Enhanced Vetting Role (EVR) definition to ensure that the roles subject to EV continue to properly align with where the risk is perceived to be, and confirm that this review has been undertaken.

Certain roles may require the jobholder to be approved by regulators prior to the person starting in the role. These roles are clearly identified and procedures introduced and maintained so that the vetting team knows to undertake appropriate checks and regulatory approval is obtained prior to the person starting in the role.

Hiring managers undertake appropriate due diligence on internal candidates using performance management information, rating history, and through review of development plan information.

Performance Management includes, inter alia, objective setting, evidence based assessment against objectives, general performance in role and of values-aligned behaviours.

B.3. Risk management system including the own risk and solvency assessment

B.3.1 Risk management system

(a) Description of the risk management system

The Company has a Risk Management Framework and Policy (RMF&P) which governs the overall management of risk that the Company takes and holds to achieve its strategic aims. It spans multiple risk types and focuses on optimising the balance and interaction of the different types of risks and between risk and return. RMF&P provides an effective and efficient approach to govern and oversee the organisation and monitor and mitigate risks to the delivery of the strategy.

RMF&P promotes increased risk awareness throughout the organisation and facilitates better operational and strategic decision-making, promoting a strong risk culture and ensuring that how the Company operates is consistent with the nature and level of risk that stakeholders are willing to take.

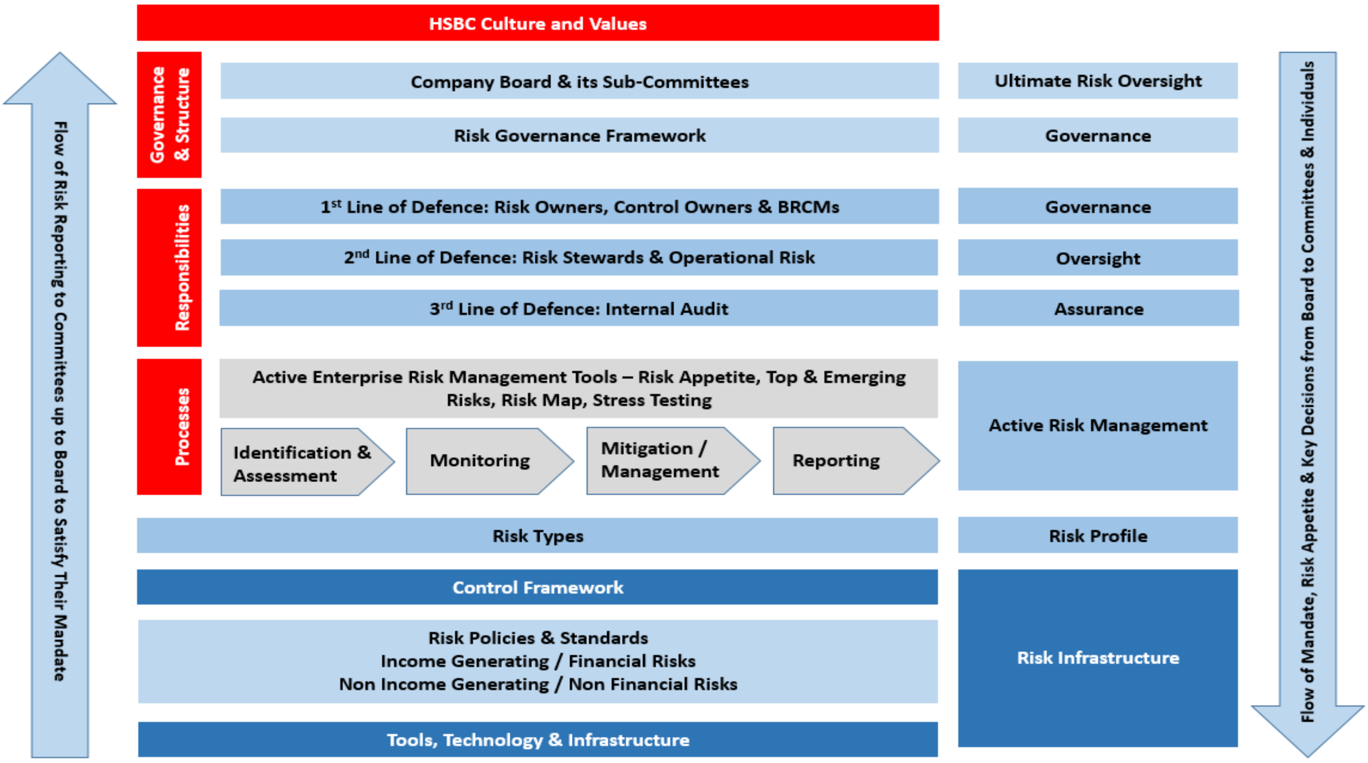
The Company's risk culture and values provide the principles that underpin the RMF&P. The Board sets the Company's strategy, risk appetite, plans and performance targets – in doing this the Board has an essential role in providing the 'tone from the top' to embed the risk culture within the organisation.

Day-to-day responsibility for risk management is cascaded through the delegation of individual accountability, with reporting and escalation facilitated through the Risk Governance structures. Policies, procedures and limits are defined to ensure activities remain within an understood and appropriate level of risk.

Identification, measurement monitoring and reporting of risks is essential to inform day-to-day and strategic decision making. This is supported by an effective system of controls to ensure compliance.

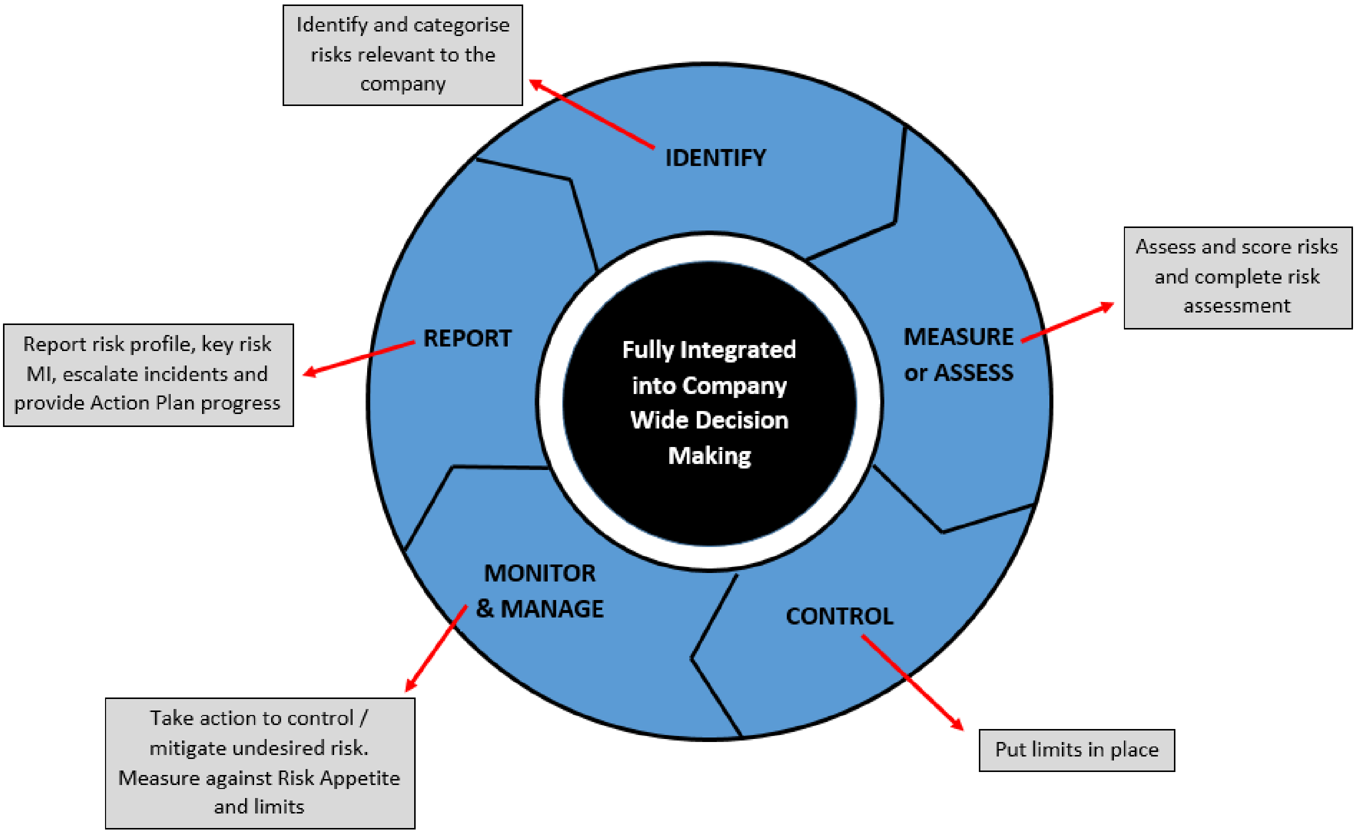
All employees have a role to play in risk management. Fundamental to the RMF&P is the implementation and operation of the three lines of defence model that takes into account the Company's business and functional structures. The model delineates management accountabilities and responsibilities over risk management and the control environment thereby creating a robust control environment to manage inherent and emerging risks.

The diagram below illustrates the risk management framework:



Risk Appetite is the Board's articulation of accepted and tolerated levels of risk and return on an enterprise wide perspective. Risk Appetite provides the anchor between the Strategy, Risk and Finance, enabling senior management to optimally allocate capital to finance strategic growth within tolerated risk levels. It provides a view on a medium to long term horizon.

Risk Appetite contributes significantly to a strong and integrated risk management framework and risk culture, helping direct and support sustainable growth against the backdrop of a heightened risk environment. Risk Appetite is also used in active risk management, alongside other enterprise risk management.



Identify and Assess	• Risk identification and assessment is paramount for the effective monitoring and management of risk, to ensure appropriate capital levels and return for risk exposure. Wherever possible risks should be assessed quantitatively. • At operational level, risk assessment may be made on portfolio or business line basis; however, at the top level management adopt a holistic approach in assessing and managing the risk profile of the Company. • Risk and Control Assessments and scenario analysis are used to identify and provide a forward looking assessment of risk. • Enterprise wide mechanisms include assessing the emergence of risks through Top & Emerging Risks Report, identifying trends through Risk Appetite Profile reporting, and identifying risks through Stress Testing.
Control and Monitor	• Effective monitoring allows business areas to provide senior management with timely information on the risks facing the Company, and on the effectiveness of risk management processes. • It enables proactive identification of issues before they materialise and can provide a forward-looking view of risk. • Mechanisms include assessing the continuing effectiveness of controls in place, setting and monitoring of key indicators, reviewing performance against Risk Appetite through the Risk Appetite Profile and assessing the Risk Map.

Mitigate/Manage	• Mitigation / management of risks allows timely resolution of issues and minimising of losses and other impacts. • Responses (mitigate, accept, transfer or avoid) are determined to ensure the Company remains within the appetite and tolerance thresholds agreed with the Board. • There is assignment and tracking of response actions. • Risk can only be 'risk accepted' by the risk owner, and should be formally documented. • Progress of mitigation / management is observed through the Enterprise Risk Reports, e.g. commentary on the Risk Appetite profile and Risk Map.
Reporting	• Reporting of current risk profile to risk committees through Enterprise Risk Reports and condensed portfolio management reports to cover key activities and risk exposures such as Credit & Market Risks, Regulatory Compliance, Financial Compliance, and Operational Risks. • Reports must align to the Company's committee structure to enable them to exercise their mandates. Reports must be fact-based (informed by risk data) and include 'opinions' / 'insights' to allow informed decision making. • Risk data aggregation and reporting should be in line with internal and external principles.
Risk Foundations	The processes, activities and structures required to enable management to create, maintain and embed a framework to Identify and Assess, Monitor; Manage/Mitigate and Report the risks we are, or might be, exposed to. This includes internal and regulatory requirements, the Group's Strategy, Company culture and organisation, systems, data and technology.

(b) Description of how the risk management system, including the risk management function, are implemented and integrated into the organisational structure and decision-making processes

Please refer to section B.1(a) above.

B.3.2 Own Risk Solvency Assessment (ORSA)

(a) ORSA process

The ORSA process comprises the following components:

- Identification and assessment of risks (including those that are not considered for regulatory capital purposes) both now and emerging.
- Assessment of data quality
- Assessment of current solvency needs by quantifying the risks and assessing the financial resources available to meet the capital required.
- Comparison of risk profile to risk appetite, with an explanation of any deviations and actions planned.
- Assessment of any deviation in risk profile from the assumptions underlying the capital requirement.
- Assessment of future solvency needs through production of a projected balance sheet allowing for new business and planned dividends, and an assessment of this against risk appetite.
- Stress and scenario analysis
- Reconciliation of the Own Economic Capital Balance sheet with the Standard Formula and any other bases used by the Company, including an assessment of the appropriateness of Standard Formula and of the Internal model for the relevant components.
- Validation by both the first line and second line
- Confirmation of continuous compliance with the regulatory requirements for the Technical Provisions and Capital.
- The results of the ORSA should inform the business strategy and be taken into account on an on-going basis in the strategic decisions of the Company. In particular, it should be taken into account in medium term capital management, business planning and product development and design.
- The ORSA should be challenged and signed off by the Board.
- The ORSA process will be subject to a regular independent review in line with regulatory requirements.

(b) ORSA reviewed and approval by administrative, management or supervisory body

A risk and solvency assessment is performed on a regular basis, no less than annually, and without delay following any change in the risk profile and subsequently approved by the Board of Directors.

(c) Own solvency needs and capital and risk management interaction

The capital requirement is determined by the Standard Formula. The Company has assessed that it should hold additional solvency capital beyond the Standard Formula SCR in relation to operational risk because of HBEU's profile. The Standard Formula is assessed for appropriateness against the risk profile on an annual basis. The operational risk add-on is calculated using a scenario based model which is integrated with the risk management system. Risks are identified, quantified and managed though a Risk Control Assessment process, and for each of the top risks a typical and extreme loss scenario is derived. These scenarios feed into the overall capital required.

The Company holds a capital buffer according to its Capital Policy. This takes into account Risk Appetite, scenario analysis, historic volatility and market practice. The Capital Policy links directly with the Risk Appetite and is monitored via the Risk Management Information. The Risk Appetite also specifies an appetite for the capital held against each risk type. The capital held for each risk is shown in the table in C1.1.b below.

B.4. Internal control system

(a) Internal control system

The Company maintains an acceptable level of internal control commensurate with the scale and nature of its operations. A proper internal control environment is of fundamental importance and is a process effected by all levels of staff, all of the time. The business must operate, and must be seen to be operating, in an orderly and efficient manner with proper controls in place to safeguard assets, operations and records in order to manage operational risk within appetite and to preserve the integrity of financial reporting.

Internal controls are subject to regular monitoring and include the following:

- personnel – clear and concise operational procedures available to all personnel to ensure that they can understand and carry out their responsibilities effectively and communicate any problems in respect of non-compliance;
- organisational structure - responsibilities and reporting lines are clearly defined and allocated;
- effective communication lines internally that escalate information quickly to the appropriate level;
- segregation of duties and potential conflicts of interest - key duties are segregated; areas of potential conflict are identified and mitigated appropriately;
- authorisation and approval - all transactions require authorisation and approval by an appropriate responsible person;
- an established financial control environment includes routine controls such as reconciliations, audit trails, spot checks and physical control with appropriate supervision by management;
- financial reporting is prepared in accordance with Group standards; risk assessments cover all risks facing the entity and are reported regularly;
- reliable information systems are in place to report all significant activities supported by adequate security and contingency arrangements; and
- business resumption and contingency plans are periodically tested to avoid disruption to business and potential losses.

(b) Compliance function

The Head of Regulatory Compliance has specific responsibilities which includes:

- Ensuring that the firm has complied with the regulations, conduct standards and administrative provisions adopted;
- To establish, implement and maintain adequate policies and procedures designed to detect any risk of failure by the firm to comply with its conduct obligations under the regulatory system, as well as associated risks, and put in place adequate measures and procedures designed to minimise such risks and to enable the appropriate regulator to exercise its powers effectively under the regulatory system; as well as to enable any other competent authority to exercise its powers effectively;
- To monitor and, on a regular basis, to assess the adequacy and effectiveness of the measures and procedures put in place in accordance with regulatory conduct requirements, and the actions taken to address any deficiencies in the firm's compliance with its obligations;
- To advise and assist the relevant persons responsible for carrying out regulated activities to comply with the firm's conduct obligations under the regulatory system;
- The oversight of the firm's regulatory reporting; and
- The obligation to satisfy itself that every person who performs a key function is a fit and proper person.

B.5. Internal audit function

(a) Internal audit function implementation

It is the policy of the HSBC Group that business units and support functions are audited by Global Internal Audit using a risk based approach.

Risks relevant to the business are assessed holistically and on an end to end basis. The in-scope processes, key applications and products are described within the Risk Profiles of the Company.

The Insurance Audit Team (Insurance audit) is a specialist team within Internal Audit (IA) which has primary responsibility for determining the annual audit plan and for auditing the UK insurance business. In doing so, it engages with the European Regional Audit team and other specialist audit teams to inform and, where necessary support, the audits for the Company.

Other specialist or functional audit teams may also conduct audits covering the Company exclusively, or as part of wider audits.

Insurance audit follows the IA methodology and Risk Assessments are tailored to meet the Company's specific requirements. This is then reflected in a population of potential audits specific to the Company.

(b) Independence and objectivity

IA role as the third line of defence is independent of the first and second lines of defence. In cases where IA performs similar testing or monitoring activities to those undertaken by the first or second lines of defence, these are undertaken as part of IA's independent assurance role and are not to be relied upon by management as a substitute for, or supplement to, first or second line of defence activities.

The independence of IA from day-to-day line management responsibility is fundamental to its ability to deliver objective coverage of all parts of the Group. IA must have an impartial, unbiased attitude and avoid any conflict of interest.

All IA teams report to the Group Head of Internal Audit either directly or via the Audit Head of a particular Business Line, Business Function, Region or Country and also to their respective Audit and Risk Committees. IA are standing attendees of the Company's RAC meetings.

IA is not responsible for the management of risk or the implementation of an effective control framework to mitigate risk to levels deemed to be acceptable to the Group. These areas are the responsibility of the Board and management. Consequently, IA personnel have no line responsibilities.

Staff seconded to IA for particular assignments are required to adopt the same standards and procedures as regards independence as permanent staff and are under the direction of IA management for the duration of their work.

B.6. Actuarial function

The Chief Actuary is responsible for the 1st line calibration of the actuarial elements of all material Model Applications, explicitly including, but not limited to, the Technical Provisions that are held on the Company's Balance Sheet. The Chief Actuary also has oversight duties in relation to key risk management and risk mitigation that impact the model calibration, notably (but not limited to) data accuracy, claims management, underwriting and reinsurance agreements.

B.7. Outsourcing

Outsourcing standards applied by the Company set out a structured approach to the establishment and management of arrangements with service providers. They have been established to ensure the risk from outsourcing does not impair the Company's financial performance or the soundness of the activities and quality of services to customers. Third parties are required to meet HSBC Group standards. These include, but are not limited to, the following areas:

- Secure handling of HSBC and customer information;
- Standards of customer care;
- Continuity of service; and
- Compliance with all applicable laws and regulations.

Key elements of the Company's activities are outsourced to external service providers, either to third parties or to other areas of the HSBC Group. Contractual agreements with third parties are supported by service level agreements while those with other areas of the HSBC Group are documented in internal performance level agreements.

Service provider performance is monitored on an on-going basis, and a comprehensive dashboard comprising key metrics for each service provider is reviewed quarterly by the UK Insurance Executive Committee (ExCo).

The Company has the following Material Outsourcing Arrangements:

Service provider	
Internal (HSBC Group)	**Description of service outsourced**
1. HSBC UK Bank plc (HBUK)	The Company outsources complaint handling services to HBUK.
2. HSBC Global Services (UK) Limited (ServCo)	The Company outsources management services to ServCo which include product management, customer services (policy underwriting, administration and claims processing), risk management, finance, human resources, property services, IT, investment accounting and unit pricing services.
3. Other HSBC Group Companies	Other Group companies provide asset management and actuarial services to the Company.
External (Third party)	
1. Onshore investment bond (OIB) and Externally distributed Protection administration service provider	The Company outsources the administration of the OIB product and the externally distributed protection product to an external service provider. The OIB is sold on three external intermediary platforms which provide custodian and pricing services to the Company.
2. HSBC Life Income Protection and Group Income Protection administration service provider	The Company outsources claims adjudication, administration and complaint handling for HSBC Life Income Protection and Group Income Protection products to a specialist provider of reinsurance of this type of product. The products are largely reinsured by the same provider.
3. Donnelly Financial Solutions (DFIN)	Donnelly Financial Solutions have been engaged to provide the PRIIPs solution for HSBC Life (UK) Ltd. This includes the production of the new Key Information Document (KID) as prescribed under the PRIIPS regulation. The services provided by DFIN include obtaining from fund managers data on their funds to produce calculations in fund and product KID's and publishing these documents on the HSBC website. Additionally, DFIN will manage the implementation of the above to include testing of data quality and accuracy before publication.

All named outsourcing arrangements are domiciled in the UK unless stated otherwise.

All external suppliers have invoked their Business Continuity Plans (BCP) in response to the COVID-19 pandemic and provide regular updates. There has been no service level slippages or disruption to customer service.

B.8. Any other information

There is no other material information regarding the system of governance that has not already been disclosed in sections B.1 – B.8 above.

C. Risk profile

The following required sections are addressed in sections C1.1-5 below:

C.1. Underwriting risk;
C.2. Market risk;
C.3. Credit risk;
C.4. Liquidity risk;
C.5. Operational risk;
C.6. Other material risks.

C.1.1 Risk exposure

(a) Risk assessment

The Company has categorised risks into high level risk classes to facilitate effective management and to introduce consistency into the risk management process. The risks to which the Company is exposed are set out in section (b) below. Risks are assessed quantitatively where possible and for most this is done by stressing the risks using the EIOPA/PRA defined Standard Formula parameters (adopted by the PRA following Brexit) to determine the impact of an extreme event for each risk. This is complemented by other stress testing and management defined scenario analyses. The quantitative assessments are performed on a regular basis and monitored against the Board approved Risk Appetite and Tolerance thresholds. In addition to quantitative assessments, qualitative assessments are performed. A full qualitative assessment of all risk categories takes place annually and this is supported by regular assessments of emerging or increasing risks at the monthly RMM.

(b) Material risk exposures

The table below sets out the different risks the Company is exposed to along with either the quantitative (standard formula basis) or high level qualitative assessment for each:

Risk class	Scope	High level Assessment
Insurance Underwriting - Claims	The risk due to uncertainties in the occurrence, amount and timing of claim payments. This includes mortality, morbidity and catastrophe risks. The Company has no exposure to longevity risk.	£35million
Insurance Underwriting - Lapses	The risk due to uncertainties in the occurrence, amount and timing of lapses.	£79million
Insurance Underwriting - Expenses	The risk due to uncertainties in the occurrence, amount and timing of expenses.	£22million
Market	The risk of adverse movements in interest rates, market prices, currencies or inappropriate investment practices, causing losses to the Company.	£57million
Counterparty Credit	The risk that a counterparty of the Company will be unable or unwilling to meet a commitment that it has entered into with the Company. This includes Reinsurers, Corporate Bond Investments and intermediary clawback due to indemnity commission.	£6million
Liquidity	The risk that the Company, although solvent, either does not have sufficient financial resources to enable it to meet its obligations as they fall due, or can secure them only at excessive cost.	The Company holds sufficient liquid funds such that no additional capital is required.
Strategic	The risk that the business will fail to identify and react appropriately to opportunities and/or threats arising from changes in the market.	This is assessed through scenario analysis and the conclusion is that solvency can be maintained within the next five years, however poor strategic execution could lead to lower profits.
Strategic - New Business	This risk may arise from an insufficient volume of sales in order to cover acquisition costs or from selling more policies than expected leading to a strain on capital resources.	This is assessed through scenario analysis and the conclusion is that solvency can be maintained within the next five years, however low new business volumes could lead to lower profits. Low new business volumes leads to increased expense risk.
Strategic - Group	The risk borne by the Company from its responsibilities to and relationship with other members of the Group, including the activities of other Group members.	This is included within lapse risk and expense risk.
Operational	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk.	£35million. This is the internal view of operational risk using an internal scenario based model. The Standard Formula assessment is much less than this, but a voluntary capital add on of £26million is currently held to cover the deficiencies in the Standard Formula capital calibration for this risk.

Model	The risk of inappropriate or incorrect business decisions arising from the use of models that have been inadequately designed, implemented or used or that model does not perform in line with expectations and predictions.	This is included within Operational Risk
Regulatory Compliance (including Conduct)	The risks associated with breaching our duty to clients and other counterparties, inappropriate market conduct and breaching related financial services regulatory standards.	This is included within Operational Risk and lapse risk.

The high level assessment figures allow for diversification within each risk class stated above, except for operational risk which is shown net of all diversification (for consistency with reported figures).

The key increasing risks associated with the strategy are external distribution risks and third party failure risk all due to the growth in the HLP proposition. The Covid-19 outbreak has impacted the Company over 2020 but solvency remained within appetite throughout. Claims have increased, but predominantly on the Over 50's (whole of life) proposition which has low sums assureds. Reinsurance has also reduced the impact further. The outbreak impacted sales significantly in the internal channel and the plan has been revised accordingly, but Onshore Investment bonds and HLP have remained strong throughout the outbreak and it is expected that sales will recover sufficiently so as not to be a concern to the longer term strategy.

(c) Investments in accordance with the 'prudent person principle'

For the assets backing the Technical Provisions and Own Funds, the Company's Investment Strategy is to maximise return subject to adhering to the Company's Risk Appetite and the Prudent Person Principle. The key elements of the Investment Strategy are to:

- Ensure sufficient levels of liquid assets are held to meet all claims and expenses arising as part of normal business activity both as they fall due and in a stressed scenario;
- Manage interest rate risk and liquidity risk over the long term, primarily through matching net non-linked liabilities on a realistic basis (where positive) with assets of similar duration, yield and currency as far as possible;
- Cover the (non-negative) technical provisions, SCR and risk margin with sterling denominated assets of appropriate quality, liquidity and volatility;
- Limit investment credit risk by investing within the credit rating limits in the Company's latest approved Investment Credit Risk Mandate;
- Invest only in instruments and funds which are within our approved Market Risk Mandate where we are able to identify, assess and monitor the inherent risks of that investment; and
- Subject to the above, choose assets to maximise yields, where possible.

The application of the Investment Strategy and Policy results in investment in liquid high quality assets.

C.1.2. Material risk concentrations

There is a catastrophe concentration risk due to the large number of employees at the head office with staff insurance benefits. Capital for this is calculated based on the Standard Formula concentration scenario and the capital is held within the insurance underwriting risk capital component. This risk is materially reinsured. Note that this risk has significantly reduced in 2020 and early 2021 due to most staff working from home, but the capital requirements are unaltered as we expect this to only be a temporary reduction in risk caused by the outbreak.

Scenario analysis on the default of the key reinsurers has been performed to understand the risk and there is a recovery plan should this event materialise. The Counterparty Concentration risk seen in previous years has reduced significantly as the risk has been diversified amongst more reinsurers.

C.1.3. Risk mitigation techniques

The key risk mitigating technique is reinsurance, exchanging mortality and morbidity risks for counterparty risk. The Reinsurance Strategy sets out the approach and factors considered in the usage of reinsurance and the Reinsurance Policy provides the detailed considerations on implementing the strategy such as appetite limits for reinsurance. Reinsurance management information is monitored in the Risk Appetite on a quarterly basis, with escalations occurring, where necessary, on a monthly basis to the RMM.

Lapse risk is mitigated by regular monitoring of lapses to identify trends. Retention strategies can then be applied dependent on the root cause of the trend. The product approval process and product reviews are mechanisms to identify design issues that would lead to lapses and then action can be taken to review the design. Lapse risk is also monitored by individual intermediary and by intermediary channel type. A watch list exists for enhanced monitoring and any high lapse rates may result in intermediary suspension or exit.

Market risk is mitigated by asset and liability matching strategies, complying with the Investment Policy and managing investments within predefined limits for exposure and investment quality.

Operational risks are mitigated by various controls and processes. These are identified for each type of operational risk and have an assigned control owner. Key controls are tested for effectiveness. Key risk Indicators for each risk type are monitored quarterly.

C.1.4. Expected profit included in future premiums (EPIFP)

The total amount of the expected profit included in future premiums is £(1.2)m as at December 2020 (December 2019: £6.1m). The decrease is due to net reserves increasing, which reflects the run-off of the existing book of business and explicit provisions for IFRS17 costs, future premium reviews on reviewable products and expected future expense overruns, where Health reserves have stayed largely stable in the year.

The Company estimates the EPIFP by applying the following assumptions:

- Unit-linked life business: No profit is attributable to future premiums; and
- Non-linked regular premium business: All future profits are attributable to future premiums.

C.1.5. Stress testing and sensitivity analysis

A suite of testing is carried out which includes:

- Single risk stress tests;
- Multi-risk scenarios;
- Projected strategic risk scenarios;
- Business failure testing;
- Liquidity testing.

The scenarios are defined by management workshops with representatives from around the business. In addition, Board members provide steer on multi-risk and strategic risk scenarios.

The table below shows the impact of a various adverse shocks for each of the key risks:

	Impacts			
	Own Funds £million	**Net Capital Required £million**	**Free Assets £million**	**Impact on Solvency Margin** %
September 2020 actuals	191	123	68	156%
Insurance underwriting risk shocks				
Death and disability claims increase by 25% in all future periods (premiums are reviewed for reviewable policies)	(14)	(1)	(13)	(10%)
A pandemic results in the death of 25 out of every 100,000 people insured with HSBC over a short period	(2)	(0)	(2)	(2%)
Lapses reduce by 25% in all future periods	(1)	10	(11)	(13%)
Future expenses are 10% higher than expected	(9)	0	(9)	(7%)
Inflation is 100 basis points higher in all future periods	(8)	1	(8)	(7%)
Market and Credit risk shocks				
30% immediate fall in equity & property markets	(24)	(12)	(13)	(6%)
Interest rates are 100 basis points lower in all future periods	(20)	(1)	(19)	(15%)
Credit spreads are 150 basis points higher and 50% of corporate bonds are downgraded one step	(13)	4	(17)	(15%)
Increase in indemnity commission clawback default from 10% to 20%	(2)	0	(2)	(1%)
Operational risk shock				
1 in 25 assessed operational scenario	(11)	0	(11)	(9%)
Multi-factor market and pandemic reverse stress test	(66)	(9)	(57)	(46%)

The Company's solvency remains secure under each of these stresses other than for the multi-factor reverse stress test which is intentionally designed to breach capital requirements (note that it targets 110% solvency rather than 100% because the figures in the table are based on the Q3 2020 balance sheet which had a solvency position 10% higher than Q4 2020).

The multi-factor stress combines the equity, interest rate and credit spread stresses as well as a pandemic of 100 deaths in 100,000 (of the population insured with HSBC).

The Company is well capitalised and this is projected to remain the case over the business planning horizon, therefore despite the severity of some of the scenarios considered in the 2020 process, management action can be taken either to mitigate the event or to recover the solvency of the Company. The capital buffer of 50% (circa £60m) is sufficient to absorb a moderate stress or scenario.

The most onerous scenario considered in 2020 is a Poor intermediary strategy and oversight scenario. This scenario would have a severe impact, breaching risk appetite in the third year and continuing to deteriorate. The scenario, however, is very extreme as it assumes that there are no controls in place and no action is taken to address the issue. A further scenario is being worked on to investigate how these projections would change to allow for the existing mitigants and management actions in development.

Low business volumes is a key risk to the viability of the business. Flat new business volumes will reduce solvency in the medium term but not outside of appetite. Solvency can be protected by reducing expenses and project costs in the short to medium term, but this is not sustainable longer term. However, if the ultimate action to close to new business and transfer the book to another provider was required, it can be done without threatening solvency during the process. A level of sales at 50% of the plan in each future year would be sufficient to sustain the business as it delivers a stable surplus, has a solvency ratio well within appetite over the period, has a finite expense overrun period, and even delivers a small dividend stream. It should be noted that this is only one possible answer to the question of what is sustainable and other variations and business mixes would be possible.

The HLP proposition causes a small liquidity strain over the next few years but this trend will reverse in 2024. To lessen the impact on liquidity and in order to not present a constraint on dividends, corporate bonds should not be reinvested when they mature. Action could also be taken to move other assets into more liquid funds in order to support dividends beyond 2025 until the trend has sufficiently reversed.

C.7. Any other information

There is no other material information regarding risk profile that has not already been disclosed above.

D. Valuation for solvency purposes

Below is the solvency and financial statement balance sheets as at 31 December 2020 which illustrates the differences between the two bases due to reclassification and valuation adjustments:

Balance sheet	Valuation reference	Solvency £'000	Financial statements £'000	Difference £'000	Reclassification adjustments £'000	Valuation adjustments £'000	Note
Assets							
Deferred acquisition costs		0	508	(508)	0	(508)	
Investments (other than assets held for index-linked and unit-linked funds)	D1.1.	213,556	2,108,318	(1,894,762)	(1,894,764)	2	
- Equities		0	46,614	(46,614)	(46,614)	0	
- Government Bonds		9,146	8,941	205	205	0	
- Corporate Bonds		84,780	83,563	1,217	1,216	1	
- Investment funds		69,630	1,969,165	(1,899,535)	(1,899,536)	1	
- Derivatives		0	35	(35)	(35)	0	
- Deposits other than cash equivalents		50,000	0	50,000	50,000	0	
- Other investments		0	0	0	0	0	
Assets held for index-linked & unit-linked funds	D1.1.	1,977,148	0	1,977,148	1,977,148	0	
Loans & mortgages to individuals		0	0	0	0	0	
Reinsurance recoverables from:							
Life and health similar to life, excluding index-linked and unit-linked	D.1.2, D.2	(2,692)	86,075	(88,767)	0	(88,767)	
- Health similar to life	D.1.2, D.2	(21,061)	0	(21,061)	0	(21,061)	1
- Life excluding health and index-linked and unit-linked	D.1.2, D.2	18,369	86,075	(67,706)	0	(67,706)	1
Life index-linked and unit-linked	D.1.2, D.2	(2,792)	0	(2,792)	0	(2,792)	1
Insurance & intermediaries receivables	D1.3	310	310	0	0	0	
Reinsurance receivables	D1.3	21,326	21,326	0	0	0	
Receivables (trade, not insurance)	D1.3	1,912	3,421	(1,509)	(1,508)	-1	
Cash and cash equivalents	D1.4	45,981	126,859	(80,878)	(80,877)	-1	
Any other assets, not elsewhere shown		0	0	0	0	0	
Total assets		**2,254,749**	**2,346,817**	**(92,068)**	**(1)**	**(92,067)**	
Liabilities							
Technical provisions - life (excluding index-linked and unit-linked)		30,951	180,536	(149,585)	0	(149,585)	
Technical provisions - health (similar to life)		(3,372)	0	(3,372)	0	(3,372)	
- TP calculated as a whole		0	0	0	0	0	
- Best Estimate	D.2	(20,954)	0	(20,954)	0	(20,954)	1
- Risk margin	D.2	17,582	0	17,582	0	17,582	1
Technical provisions - life (excluding health and index-linked & unit-linked)		34,323	180,536	(146,213)	0	(146,213)	
- TP calculated as a whole		0	180,536	(180,536)	0	(180,536)	1
- Best Estimate	D.2	14,582	0	14,582	0	14,582	1
- Risk margin	D.2	19,741	0	19,741	0	19,741	2
Technical provisions - index-linked & unit-linked		1,961,317	1,973,616	(12,299)	0	(12,299)	
- TP calculated as a whole		1,973,623	1,973,616	7	0	7	1
- Best Estimate	D.2	(32,947)	0	(32,947)	0	(32,947)	1
- Risk margin	D.2	20,641	0	20,641	0	20,641	2
Provisions other than technical provisions		357	357	0	0	0	
Deferred tax liabilities	D.3.1	13,680	307	13,373	0	13,373	3
Derivatives		0	0	0	0	0	
Debts owed to credit institutions		0	0	0	0	0	
Insurance & intermediaries payables	D.3.2	24,802	24,801	1	0	1	
Reinsurance payables	D.3.2	10,720	10,720	0	0	0	
Payables (trade, not insurance)	D.3.2	14,979	14,978	1	0	1	
Any other liabilities, not elsewhere shown		0	569	(569)	0	(569)	
Total liabilities		**2,056,806**	**2,205,884**	**(149,078)**	**0**	**(149,078)**	
Excess of assets over liabilities		**197,943**	**140,933**	**57,010**	**(1)**	**57,011**	

Note	***Reference***
1	*Refer D.1.(b)1. Material differences between the solvency and IFRS balance sheets, Material solvency accounting basis adjustments: Best estimate liabilities.*
2	*Refer D.1.(b)2. Material differences between the solvency and IFRS balance sheets, Material solvency accounting basis adjustments: Risk margin.*
3	*Refer D.1.(b)3. Material differences between the solvency and IFRS balance sheets, Material solvency accounting basis adjustments: Deferred tax.*

D.1. Assets

(a) Material classes of assets

Refer to Note 2. Summary of significant accounting policies, in the Company's financial statements, for the year ended 31 December 2020.

D.1.1 Investments

Investments include the following financial asset classes:

1.1.1 Investments other than assets held for index-linked and unit-linked funds which include the following asset categories:

- corporate bonds;
- cash;
- investment funds; and
- deposits other than cash equivalents.

1.1.2 Assets held for index-linked and unit-linked funds which include the following asset categories (grouped together and shown as a single balance on the solvency balance sheet):

- equities;
- investment funds;
- derivatives; and
- cash and cash equivalents.

All investment assets are valued on a fair value basis for solvency purposes, in line with the Company's IFRS accounting policies in the financial statements. Under these accounting policies, all the investments assets are at fair value through profit and loss.

Fair values of investments other than assets held for index-linked and unit-linked funds are based on quoted market prices for identical instruments in active markets for equities, corporate bonds and investment funds while the fair values of deposits other than cash are equal to the notional amounts invested.

Fair values of investment assets held for index-linked and unit-linked funds are based on quoted market prices for identical instruments in active markets for equities, investment funds and derivatives. Refer to Note 14 and 15. Financial assets at fair value through profit or loss, in the Company's financial statements for the year ended on 31 December 2020 for further detail on the IFRS valuation of financial assets.

Deposits other than cash equivalents comprise short term deposits, other than transferable deposits, that have a remaining maturity of less than one year and cannot be used directly to make payments at any time. Exchanging these deposits for cash or transferable deposits is not subject to significant penalties or restrictions.

As these assets are reported on a fair value basis in the IFRS financial statements, there are no adjustments required for solvency purposes. The solvency valuation for interest bearing investments will include accrued interest as at 31 December 2020.

There have been no changes to the recognition or valuation bases for investments during the current year.

D.1.2. Reinsurance recoverables

Reinsurance recoverables are technical provisions and the valuation information is included in section D.2 Technical provisions below.

D.1.3. Receivables

Receivables include the following asset classes:
a) insurance & intermediaries receivables;
b) reinsurance receivables; and
c) receivables (trade, not insurance, income tax recoverable).

The receivable balances consist mainly of balances due from reinsurers.

Receivables, on the solvency balance sheet, are financial assets in terms of IFRS. These receivables are classified as fair value through profit or loss, which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

In order to estimate the fair value of these receivables, they have been assessed for counterparty default risk. The counterparty default risk assessment did not produce any material adverse results and thus no adjustments were required to the receivables. Receivables are credit-impaired when there is observable data to support that a credit impairment loss is required, this will be recognised in the Statement of profit or loss, further detail on this is included in note 2 Summary of significant accounting policies, in the Company's financial statements, for the year ended 31 December 2020. For solvency valuation purposes, based on the fair value assessment, the receivable balances, including any adjustments where appropriate, are deemed to be at fair value.

There have been no changes to the recognition or valuation bases for receivables during the current year.

D.1.4. Cash and cash equivalents

Cash and cash equivalents include highly liquid, transferable deposits that are readily exchangeable for currency on demand at par and which are directly usable for making payments, without penalty or restriction.

Cash and cash equivalents are financial assets and thus are classified at fair value through profit or loss in the IFRS financial statements. Short-term bank deposits have been reclassified from cash equivalents under IFRS to 'Deposits other than cash equivalents' for solvency purposes on the basis that they cannot directly be used to make payments until they reach maturity date and are subject to restrictions. The solvency valuations include accrued interest receivable as at 31 December 2020, where applicable.

There have been no changes to the recognition or valuation bases for cash and cash equivalents during the current year.

(b) Material differences between the solvency and IFRS balance sheets

Reclassifications of assets held for index-linked and unit-linked funds:

For solvency purposes the assets held for index-linked and unit-linked funds are reclassified, which has no net asset impact on the balance sheet. All assets and unit-linked derivative liabilities that are held by unit linked and index linked contracts are grouped together in one line on the solvency balance sheet. These unit-linked and index-linked assets and derivative liabilities are reclassified from their respective financial asset categories under IFRS to 'assets held for index-linked and unit-linked funds' on the solvency balance sheet.

Material solvency accounting basis adjustments:

(b) 1. Best estimate liabilities (BEL)

The unit-linked and non-linked IFRS technical provisions, included in the IFRS statutory accounts, are reversed as they will be replaced by the best estimate liabilities on a solvency basis. The technical provisions include both the gross liabilities and reinsurance recoverables. The best estimate liabilities are the technical provisions on a solvency basis (refer to section D.2 below).

(b) 2. Risk margin

The risk margin is included on a solvency basis and is calculated as part of the technical provisions valuation (refer to section D.2 below).

(b) 3. Deferred tax

The corporation tax reporting basis is the IFRS statutory accounts. Any adjustments made to the IFRS balance sheet for solvency reporting should be considered for related deferred tax adjustments. The adjustments above represent valuation changes between the tax basis (IFRS) and solvency basis which will impact the Company's profit or loss account and result in temporary differences. Deferred tax is calculated at the prevailing tax rate on these temporary differences.

D.2. Technical provisions

(a) Value of technical provisions and main assumptions

The table below gives the technical provisions for each material line of business:

2020	**Best Estimate Liability (BEL)**				
	Gross £'000	**Reinsurance £'000**	**Net £'000**	**Risk Margin £'000**	**Total £'000**
Health similar to life	**(20,954)**	**21,061**	**107**	**17,582**	**17,689**
Life excluding health and index-linked and unit-linked	**14,582**	**(18,369)**	**(3,787)**	**19,741**	**15,954**
Life index-linked and unit-linked	**1,940,676**	**2,792**	**1,943,468**	**20,641**	**1,964,109**
	1,934,304	**5,484**	**1,939,788**	**57,964**	**1,997,752**

2019 (unaudited)	Best Estimate Liability (BEL)				
	Gross £'000	Reinsurance £'000	Net £'000	Risk Margin £'000	Total £'000
Health similar to life	(34,638)	20,480	(14,158)	19,313	5,155
Life excluding health and index-linked and unit-linked	20,341	(12,694)	7,646	17,305	24,952
Life index-linked and unit-linked	1,638,970	13,721	1,652,692	16,543	1,669,234
	1,624,673	21,507	1,646,180	53,161	1,699,340

Commentary on material variances

The movement in the Best Estimate Liability on non-linked business is due to movement in provisions for the new business written in the year, partially offset by the run-off of the existing book. In addition, explicit provisions are held for future reviews on the Term Assurance and Income Protection book of business. Similar to prior year, a reserve is held for the present value of future tax fees arising on the Onshore Investment Bond. The increase in Life unit-linked during 2020 was mainly due to new business and market movements during the period, with notable recoveries in the final months of 2020.

There have been no changes to risk margin methodology in the year and the increase in value represents increases in the SCR, updates to the cashflow runoff profile and changes in discount rates over the year.

- Methodology

The methodology used to calculate technical provisions follows the provisions of the PRA rules and Solvency II regulations.

The approach taken to calculate the best-estimate liability is as follows:

Liabilities are largely estimated with a policy-by-policy approach. Liabilities not estimated in this way are those where policy grouping or a model points approach is taken or where a universal provision is made outside of the projection model. All policies in force at the valuation date contribute to the total liability.

Material policy cashflows consist of policyholder premiums, policyholder charges, policyholder claims from adverse events, maturity benefits, expenses and investment income.

Note that any cashflows relating to reinsurance are excluded since the best-estimate liability is defined to exclude the risk mitigating effects from reinsurance contracts. However, the technical provisions are also calculated on a net of reinsurance basis which includes amounts recoverable from reinsurance contracts.

The cashflow projections are based on a number of assumptions which are given below. In general,

- Economic assumptions are on a market-consistent basis.
- Non-economic assumptions are set based on an analysis of the Company's recent experience.
- For each policy, cashflows are summed within each month and discounted back to the valuation date using the risk-free yield curve published by the PRA for the calculation of technical provisions.

- Risk margin

The risk margin is calculated in accordance with Article 58 of the Level 2 guidance using the Cost of Capital method. In line with the regulations, all risks are considered other than those within the Market Risk module. The methodology is to project capital requirements at future time points using suitable risk drivers, aggregate using standard formula correlations, multiply by 6% cost of capital and discount back to the valuation date using risk-free rates.

- Segmentation

The regulations specify that life insurance obligations should be segmented into homogeneous risk groups, and as a minimum by lines of business, when calculating technical provisions.

The approach of HSBC Life UK has been to segment by lines of business as required; and then by primary risk driver, identified as either death, disability/morbidity or savings. This gives a total of nine possible categories for segmentation.

The table below gives a high level overview of allocation to these groups:

Risk Driver	Health insurance	Index- / unit-linked life insurance	Other life insurance
Death	-	Unit-linked life protection	Life Term Assurance Group Life
Survival	-	-	-
Disability / Morbidity	Income Protection, Waver Of Premium, accelerated Critical Illness, standalone CI, Group IP & CI	Unit-linked standalone and accelerated CI	-
Savings	-	Unit-linked life savings	-

Assumptions

- Lapse/Paid-Up Rates

All products have mechanisms by which the policyholder can choose to take some action which changes future cashflows in some way. These include terminations, surrenders, paid-up (i.e. ceasing regular contributions in whole or in part) and ad-hoc partial withdrawals. Assumptions about the rate at which these actions occur are estimated annually following an analysis of the Company's experience over a recent period.

- Claim Rates

The Company's products involve the payment of the sum assured to the policyholder in the event of an adverse event such as death or sickness. Assumptions about the rate at which these events occur are estimated annually by analysing all the Company's available historic claims experience.

- Expenses

Expense assumptions are based on the estimated administrative costs for the current year. These are separated into acquisition, maintenance and claims processing costs. The expenses are allocated between products, and further by acquisition and maintenance costs. The expenses assumed aim to reflect the expected future inflation and business volumes in 2020, as well as the changes to the Company.

- Market/Credit Assumptions

All financial projections are made at the risk-free interest rate provided by the PRA. No volatility adjustment or matching premium is added. The best estimate price inflation assumptions are set equal to the implied inflation rates as published by the Bank of England. Claims inflation is set equal to price inflation, whereas expense inflation is calculated as price inflation plus an adjustment, to reflect that whilst most of HSBC Life UK's expenses increase in line with earnings, rather than prices, it is reasonable to allow for salary increases to be partially offset by increased productivity. Other market and credit assumptions are made with reference to external data for example Standard & Poor's default rates.

- Other Assumptions

Future management actions:
Solvency II requirements allow management actions to be taken into account in the calculation of Technical Provisions and capital requirements. The Company allows for management actions in respect of expenses and for reviewing premiums and charges, where it is within the conditions of the policy, in the event of an adverse claims event.

- Future Discretionary Benefits:

The Company has no products with future discretionary benefits.

- Taxation:

The Company has assumed that the application of current tax legislation will not change, except where future changes have been substantively enacted.

(b) Level of uncertainty associated with the value of technical provisions

Material uncertainty in the calculation of technical provisions:
Uncertainty relates primarily to how future actual experience will differ from the best estimate assumptions used to calculate the technical provisions. The key assumptions are interest rates, lapse rates, expenses, mortality rates, and morbidity rates. A robust assumption setting process is followed in order to ensure the uncertainty is well understood.

Claims assumptions are based on long term experience. In light of Covid-19 the claims experience in 2020 has been reviewed and for one product the assumptions were kept unchanged, due to the uncertainty caused by Covid-19, where previous long term experience was suggesting a reduction. Otherwise no claims assumptions were changed due to Covid-19. Similarly persistency experience has been reviewed and no changes to assumptions were made because of Covid-19. The Company continues to monitor for any changes to long term experience due to Covid-19. The level of uncertainty within the assumptions used in the calculation of the technical provisions is regularly monitored and is not considered to have a material impact on total liabilities under reasonably foreseeable events.

Refer to Note 3. Management of insurance and financial risk, in the Company's financial statements for the year ended 31 December 2020 for further detail on material uncertainty in the calculation of technical provisions.

(c) Material differences between solvency and financial statements valuation

The valuation in the financial statements uses the IFRS reporting basis, which uses reserves calculated for the PRA Returns before the introduction of Solvency II legislation on 1 January 2016. These reserves use assumptions with a margin for prudence within them and do not allow reserves to be assets within a product group.

For solvency purposes the Company uses the Solvency II regulations. This basis sets liabilities to be calculated using best-estimate assumptions and includes a risk margin within the liabilities.

Refer to section D above for the quantitative analysis of the valuation differences.

(d) Matching adjustment

No matching adjustment is applied.

(e) Volatility adjustment

The volatility adjustment is not used.

(f) Transitional risk-free interest rate-term structure

The transitional risk-free interest rate-term structure is not applied.

(g) Transitional deduction

The transitional deduction is not applied.

(h) (i) Recoverables from reinsurance contracts and special purpose vehicles

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified within 'loans and receivables'), as well as longer term receivables (classified as 'reinsurance assets') that are dependent on expected claims and benefits arising under the related reinsured insurance contracts.

Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

(h) (ii) Material changes in assumptions made in the calculation of technical provisions

There are no material changes in the relevant assumptions compared to the previous reporting period.

D.3. Other liabilities

(a) Methods and assumptions used in the valuation of other liabilities, excluding technical provisions

D.3.1. Deferred tax liabilities

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the IFRS balance sheet and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. The majority of the deferred tax balance in the financial statements as at 31 December 2020 is due to the transitional adjustment relating to the insurance tax changes implemented by HMRC with effect from 1 January 2013. The deferred tax relating to the transitional adjustment will expire on 31 December 2022.

The corporation tax reporting basis is the IFRS statutory accounts. Any adjustments made to the IFRS balance sheet for solvency valuation purposes should be considered for related deferred tax adjustments. The difference between the technical provisions in the financial statements and the best estimate liabilities (including risk margin) in the solvency balance sheet results in a material increase in deferred tax liabilities.

The amount of deferred tax relating to temporary differences, unused tax losses and unused tax credits for which no deferred tax asset is recognised in the financial statements is £82,430k (2019: £86,493k). These amounts have no expiry date.
There has been no change to the recognition or valuation basis for deferred tax liabilities during the current year.

D.3.2. Payables

Payables include:
- Insurance & intermediaries payables;
- Reinsurance payables; and
- Payables (trade, not insurance).

Payables are classified as fair value through profit or loss in the IFRS financial statements. The valuation of all material balances are annually assessed, on an individual basis, to estimate their fair value. For solvency valuation purposes, based on the fair value assessment, the payable balances, including any adjustments where appropriate, are deemed to be at fair value.

There have been no changes to the recognition or valuation basis for payables during the current year.

(b) Material differences between solvency and financial statements valuation

Refer to section D.1.(b) 3. "Deferred tax" above.

D.4. Alternative methods for valuation

No alternative valuation method has been used.

D.5. Any other information

There is no other material information regarding the valuation of assets and liabilities for solvency purposes that has not already been disclosed in sections D.1 – D.4 above.

E. Capital management

E.1. Own funds

(a) Objectives, policies and processes employed for managing its own funds

The Company must hold a buffer over the solvency capital requirement, for the following reasons:

- To enable it to write new business, that is to meet the development costs of new contracts and the capital requirements from writing new business;
- To ensure solvency (without need for capital injection) on an ongoing basis withstanding ordinary volatility in economic and non-economic experience, and in the event of mild stress scenarios; and
- To protect against regulatory intervention.

The optimum level of capital buffer ensures that:

- A capital injection is not required over the planning time horizon with an acceptable confidence level to the Parent Banking entity; and

- Excess capital is not sitting with the Company reducing return on capital to the shareholders.

In terms of Solvency II, Pillar 1, the Company's solvency capital requirement (SCR) is determined on a standard formula basis. Solvency II, Pillar 2, requires the Company to do its own assessment of the capital required for current and future risks.

The PRA requires the capital requirement for the Company, under Solvency II Pillar 2, to be based on the Company's own capital assessment. The Company's own capital assessment is the internal capital assessment basis used for managing the Company. It utilises internally developed methodology based on the Group's Operational Risk model for operational risk assessment, and the PRA Standard Formula for the assessment of all other risk types.

- Triggers for reviewing the capital management policy

If at any point there are material changes in the Solvency II reporting basis, or in the Company's strategy, or material deviations from the annual operating plan (AOP), then dividends should be put on hold and this policy reviewed. It should also be reviewed on an annual basis.

- Capital planning period:

The business' capital planning period is for the next 5 years.

- Material changes:

The capital management policy is to manage to the target capital level of 150% of the Company's own assessment of the capital required under Solvency II Pillar 2. Where the actual capital exceeds the target level, a dividend should be paid to bring the solvency margin down to the target level. The risk appetite is that the solvency margin should remain above 140% of the Company's assessment of the capital required. The appetite range considered various factors such as the impact of various market events, future growth of the Company and market practice.

There have been no material changes to the objectives, policies and processes for managing own funds during the year.

(b) – (d) Structure, amount and quality of own funds (Pillar 1)

The table below summarises the structure of the Company's basic own funds:

Basic own funds: Tier 1	**2020** **£'000**	2019 (unaudited) £'000
Ordinary share capital	**94,375**	94,375
Reconciliation reserves	**103,568**	101,788
Excess of assets over liabilities	**197,943**	196,163

- Basic own funds: Tier 1

The Company only has Tier 1 own funds and all own funds are eligible to cover the Solvency Capital Requirement and Minimum Capital Requirements. The Company's own funds are not subordinated and have no fixed duration.

1. Ordinary share capital

The Company's ordinary share capital possesses the necessary characteristics to be classified as tier 1 capital as required in the Solvency II Directive. The Board can rescind its resolution to pay a dividend at any time up to the time of actual payment.

2. Reconciliation reserve

The reconciliation reserve consists of excess of assets over liabilities less ordinary share capital. Article 88 of the Solvency II Directive states that basic own funds include excess of assets over liabilities. Excess of assets over liabilities is considered to be free from any foreseeable liabilities and available to absorb losses due to adverse business fluctuations, both on a going-concern basis as well as in the case of winding-up and thus is classified as tier 1 own funds.

3. Foreseeable dividends

The Company treats foreseeable dividends as any proposed dividends that are approved by the Board up to the date that the Solvency II regulatory reports are approved by the Board. An interim dividend becomes payable to the shareholder when it is paid, rather than when the Board resolves to pay it. There is no legal liability to pay interim dividends, even when it has been declared by the Board. The Board can rescind its resolution to pay an interim dividend at any time up to the time of actual payment.

The Company has no foreseeable dividend as at 31 December 2020.

- Significant changes during the year

There has been no significant change in the Company's own funds during 2020.

(e) Material differences between equity in the financial statements and the excess of assets over liabilities

Equity versus excess of assets over liabilities

The table below summarises the difference between the total shareholders' equity in the IFRS statutory accounts and the excess of assets over liabilities (own funds) for solvency purposes:

IFRS versus solvency	**2020** **£'000**	2019 (unaudited) £'000
Total shareholders' equity (IFRS)	**140,933**	133,731
Accounting basis adjustments	**57,010**	62,432
Excess of assets over liabilities (Solvency)	**197,943**	196,163

Refer to D.1.(b) above for the material solvency accounting basis adjustments.

(f) Transitional arrangements

The Company has not applied any transitional arrangements.

(g) Ancillary own funds

The Company currently has no ancillary own funds.

(h) Significant restriction affecting the availability and transferability of own funds

The Company does not deduct any items from own funds and has no restrictions on the availability and transferability of its own funds as it is all Tier 1.

(i) Own fund ratios

The Company does not disclose any ratio's in addition to the ratios in S.23.01 in the QRT's.

	2020 £'000	2019 (unaudited) £'000
Excess of assets over liabilities (Solvency)	**197,943**	196,163
Solvency capital requirement (SCR)	**135,348**	123,284
Solvency ratio	**146%**	159%
Minimum capital requirement (MCR)	**33,837**	30,821

The solvency ratio of 146% is based on the standard formula SCR, whereas the 150% target under Solvency II Pillar is based on standard formula ("STF") for all risk modules except Operational Risk, which the Company calculates using STF plus a Voluntary Capital Add On ("VCAO"). The two metrics were bridged in February 2018, following the approval of the VCAO, and hence the metrics are broadly comparable.

(j) Principal loss absorbency mechanism and trigger point

The principal loss absorbency mechanisms (PLAM) and trigger point in terms of paragraph (1)(e) of Article 71 of the Delegated Regulations only applies to the following own funds items:

- paid-in subordinated mutual member accounts;
- paid-in preference shares and the related share premium account; and
- paid-in subordinated liabilities.

The Company does not make use of any of the own funds items listed above and thus the PLAM and related trigger points are not applicable.

E.2. Solvency capital requirement and minimum capital requirement

(a) & (b) Solvency Capital Requirement (SCR) split by risk modules and Minimum Capital Requirement (MCR)

- Solvency Capital Requirement

The amounts of the undertaking's Solvency Capital Requirement (standard formula basis) split by risk modules is as follows:

Risk module	2020 £'million	2019 (unaudited) £'million
Market	**57**	54
Default risk	**6**	5
Life underwriting	**63**	57
Health underwriting	**42**	44
Non-life underwriting	**-**	-
Gross capital before diversification	**168**	160
Less: Diversification between sub-risk modules	**(51)**	(48)
Basic SCR (BSCR)	**117**	112
Operational risk (includes Voluntary Capital Add-On of £25.9m)	**33**	33
Aggregate capital before diversification	**150**	145
Less: Diversification between BSCR and operational risk module	**-**	-
Aggregate capital after diversification	**150**	145
Less: Loss absorbing capacity of tax and technical provisions	**(15)**	(22)
SCR	**135**	123

The final amount of capital held will be based on the Company's own assessment of the capital needed to maintain the business.

- Minimum Capital requirement

The Minimum Capital Requirement for HSBC Life (UK) Ltd. is calculated as £33.8million (2019: £30.8million).

There are no balances relating to the SCR and MCR which are currently under supervisory assessment.

(c) Simplified calculations used for standard formula

No simplified calculations have been used for standard formula.

(d) Undertaking- specific parameters used for standard formula calculations

No undertaking-specific parameters have been used for standard formula calculations.

(e) Local regulatory capital add-on non-disclosure option during transition period

The Company holds a Voluntary Capital Add-on of £25.9m within its Operational Risk Module as agreed with the PRA on 27 February 2018.

(f) Local regulatory capital add-on disclosure (if non-disclosure option above has not been exercised)

The Company holds a Voluntary Capital Add-on of £25.9m within its Operational Risk Module as agreed with the PRA on 27 February 2018.

(g) Minimum Capital Requirement (MCR) inputs

The Minimum Capital Requirement is based on the EC regulations with the following inputs:

- Unit Linked best estimate liability for products without guarantees;
- Basic SCR, using the standard formula calculations;
- Total Capital at risk, after reinsurance is allowed for.

The best estimate liability for non-linked products is set to a minimum of zero in order to avoid reducing the Minimum Capital Requirement.

(h) Material change to the Solvency Capital Requirement (SCR) and to the Minimum Capital Requirement (MCR)

There have been no material changes to the Solvency Capital Requirement and Minimum Capital Requirement over the reporting period.

E.3. Use of the duration-based equity risk sub-module in the calculation of the solvency capital requirement

Duration-based equity risk sub-module has not been applied in the calculation of the solvency capital requirement.

E.4. Difference between the standard formula and internal model used

The Company does not currently use an internal model.

E.5. Non-compliance with minimum capital and solvency capital requirements

The Company has complied with both the MCR and SCR during the year.

E.6. Any other information

There is no other material information regarding capital management that has not already been disclosed in sections E.1 – E.5 above.

Glossary of terms

Term/Acronym	Definition
AMSB	Administrative, management or supervisory body
BSCR	Basic Solvency Capital Requirement
Board	Board of Directors of HSBC Life (UK) Limited
CA	Chief Actuary
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGT	Capital Gains Tax
CRO	Chief Risk Officer
EIOPA	European Insurance and Occupational Pensions Authority
EPIFP	Expected profit included in future premiums
ExCo	Executive Management Committee
Group	HSBC Holdings plc. and its subsidiaries
Group Insurance	HSBC Group's insurance function which oversees the insurance businesses across the different global regions.
HBEU	HSBC Bank plc
HBUK	HSBC UK Bank plc
HLP	HSBC Life Protection
HoUPI	Head of Wealth Insurance
IA	Internal audit
LACDT	Loss Absorbing Capacity of Deferred Tax
NED	Non-executive director
ORSA	Own Risk Solvency Assessment
RAC	Risk and Audit Committee
RBWM	Retail Bank and Wealth Management
RMM	Risk Management Meeting
ServCo	HSBC Global Services (UK) Limited
SFCR	Solvency and Financial Condition Report
SIMR	Senior Insurance Managers Regime (applicable to insurance companies)
SMCR	Senior Manager Certified Regime
SMF	Senior Manager Function
SMR	Senior Managers Regime (applicable to banks)
SoR	Statement of responsibilities
TGC	Technical Governance Committee
VCAO	Voluntary Capital Add On

Appendix 1: Quantitative reporting templates (QRT's)

S.02.01.02
S.05.01.02
S.05.02.01
S.12.01.02
S.17.01.02 (Non-life thus not applicable)
S.19.01.21 (Non-life thus not applicable)
S.22.01.21 (No long term guarantees or transitional measures are applied thus not applicable)
S.23.01.01
S.25.01.21
S.25.02.21 (Standard formula only thus not applicable)
S.25.03.21 (Standard formula only thus not applicable)
S.28.01.01
S.28.02.01 (Only Life insurance activities thus not applicable)

HSBC Life (UK) Limited

Solvency and Financial Condition Report

Disclosures

31 December

2020

(Monetary amounts in GBP thousands)

General information

Undertaking name	HSBC Life (UK) Limited
Undertaking identification code	213800KZ35X4GE4TK590
Type of code of undertaking	LEI
Type of undertaking	Life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 December 2020
Currency used for reporting	GBP
Accounting standards	IFRS
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

S.02.01.02 - Balance sheet
S.05.01.02 - Premiums, claims and expenses by line of business
S.05.02.01 - Premiums, claims and expenses by country
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

		Solvency II value
	Assets	C0010
R0030	Intangible assets	0
R0040	Deferred tax assets	0
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	213,556
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	0
R0100	*Equities*	0
R0110	*Equities - listed*	0
R0120	*Equities - unlisted*	0
R0130	*Bonds*	93,926
R0140	*Government Bonds*	9,146
R0150	*Corporate Bonds*	84,780
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	69,630
R0190	*Derivatives*	0
R0200	*Deposits other than cash equivalents*	50,000
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	1,977,148
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	0
R0260	*Other loans and mortgages*	0
R0270	Reinsurance recoverables from:	-5,485
R0280	*Non-life and health similar to non-life*	0
R0290	*Non-life excluding health*	0
R0300	*Health similar to non-life*	0
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	-2,693
R0320	*Health similar to life*	-21,061
R0330	*Life excluding health and index-linked and unit-linked*	18,369
R0340	*Life index-linked and unit-linked*	-2,792
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	310
R0370	Reinsurance receivables	21,325
R0380	Receivables (trade, not insurance)	1,913
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	45,981
R0420	Any other assets, not elsewhere shown	0
R0500	**Total assets**	2,254,749

S.02.01.02

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	0
R0520	*Technical provisions - non-life (excluding health)*	0
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	0
R0550	*Risk margin*	0
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	0
R0590	*Risk margin*	0
R0600	Technical provisions - life (excluding index-linked and unit-linked)	30,952
R0610	*Technical provisions - health (similar to life)*	-3,372
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	-20,954
R0640	*Risk margin*	17,582
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	34,324
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	14,582
R0680	*Risk margin*	19,741
R0690	Technical provisions - index-linked and unit-linked	1,961,318
R0700	*TP calculated as a whole*	1,973,623
R0710	*Best Estimate*	-32,947
R0720	*Risk margin*	20,641
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	357
R0760	Pension benefit obligations	0
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	13,680
R0790	Derivatives	0
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	24,802
R0830	Reinsurance payables	10,720
R0840	Payables (trade, not insurance)	14,978
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	0
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	0
R0900	**Total liabilities**	2,056,806
R1000	**Excess of assets over liabilities**	197,943

S.05.01.02

Premiums, claims and expenses by line of business

Life

		Line of Business for: life insurance obligations						Life reinsurance obligations		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
	Premiums written									
R1410	Gross	86,068		248,799	67,541					402,407
R1420	Reinsurers' share	55,887		4,346	37,136					97,368
R1500	Net	30,182		244,453	30,404					305,039
	Premiums earned									
R1510	Gross	86,068		248,799	67,541					402,407
R1520	Reinsurers' share	55,887		4,346	37,136					97,368
R1600	Net	30,182		244,453	30,404					305,039
	Claims incurred									
R1610	Gross	40,539		68,144	42,322					151,005
R1620	Reinsurers' share	28,168		1,748	32,090					62,006
R1700	Net	12,371		66,396	10,232					88,999
	Changes in other technical provisions									
R1710	Gross	-13,110		247,955	14,128					248,973
R1720	Reinsurers' share	-5,342		1,261	7,965					3,884
R1800	Net	-7,768		246,694	6,163					245,089
R1900	**Expenses incurred**	15,186		11,193	29,423					55,803
R2500	**Other expenses**									
R2600	**Total expenses**									55,803

S.05.02.01

Premiums, claims and expenses by country

Life

		C0150	C0160	C0170	C0180	C0190	C0200	C0210
		Home Country	Top 5 countries (by amount of gross premiums written) - life obligations			Top 5 countries (by amount of gross premiums written) - life obligations		Total Top 5 and home country
R1400								
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
	Premiums written							
R1410	Gross	402,407						402,407
R1420	Reinsurers' share	97,368						97,368
R1500	Net	305,039						305,039
	Premiums earned							
R1510	Gross	402,407						402,407
R1520	Reinsurers' share	97,368						97,368
R1600	Net	305,039						305,039
	Claims incurred							
R1610	Gross	151,005						151,005
R1620	Reinsurers' share	62,006						62,006
R1700	Net	88,999						88,999
	Changes in other technical provisions							
R1710	Gross	248,973						248,973
R1720	Reinsurers' share	3,884						3,884
R1800	Net	245,089						245,089
R1900	**Expenses incurred**	55,803						55,803
R2500	**Other expenses**							
R2600	**Total expenses**							55,803

S.12.01.02

Life and Health SLT Technical Provisions

			Index-linked and unit-linked insurance			Other life insurance						Health insurance (direct business)					
		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, including Unit-Linked)		Contracts without options and guarantees	Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
R0010	**Technical provisions calculated as a whole**		1,973,623			0					1,973,623	0					0
R0020	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		0			0					0	0					0
	Technical provisions calculated as a sum of BE and RM																
	Best estimate																
R0030	**Gross Best Estimate**			-32,947	0		14,582	0			-18,365		-20,954	0			-20,954
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default			-2,792	0		18,369	0			15,577		-21,061	0			-21,061
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re			-30,155	0		-3,786	0			-33,941		107	0			107
R0100	**Risk margin**		20,641			19,741					40,383	17,582					17,582
	Amount of the transitional on Technical Provisions																
R0110	Technical Provisions calculated as a whole		0			0					0	0					0
R0120	Best estimate			0	0		0	0			0		0	0			0
R0130	Risk margin		0			0					0	0					0
R0200	**Technical provisions - total**		1,961,318			34,324					1,995,642	-3,372					-3,372

S.23.01.01

Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	94,375	94,375		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	103,568	103,568			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0230	**Deductions for participations in financial and credit institutions**	0				
R0290	**Total basic own funds after deductions**	197,943	197,943	0	0	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	197,943	197,943	0	0	0
R0510	Total available own funds to meet the MCR	197,943	197,943	0	0	
R0540	Total eligible own funds to meet the SCR	197,943	197,943	0	0	0
R0550	Total eligible own funds to meet the MCR	197,943	197,943	0	0	
R0580	**SCR**	135,348				
R0600	**MCR**	33,837				
R0620	**Ratio of Eligible own funds to SCR**	146.25%				
R0640	**Ratio of Eligible own funds to MCR**	584.99%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	197,943
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	94,375
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	103,568
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	1,185
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	
R0790	**Total Expected profits included in future premiums (EPIFP)**	1,185

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	57,282		
R0020	Counterparty default risk	5,637		
R0030	Life underwriting risk	63,101		
R0040	Health underwriting risk	42,482		
R0050	Non-life underwriting risk	0		
R0060	Diversification	-50,507		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	117,995		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	6,622
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	-15,169
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency Capital Requirement excluding capital add-on**	109,448
R0210	Capital add-ons already set	25,900
R0220	**Solvency capital requirement**	135,348
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0
	Approach to tax rate	C0109
R0590	Approach based on average tax rate	Yes

	Calculation of loss absorbing capacity of deferred taxes	**LAC DT**
		C0130
R0640	LAC DT	-15,169
R0650	LAC DT justified by reversion of deferred tax liabilities	-13,801
R0660	LAC DT justified by reference to probable future taxable economic profit	0
R0670	LAC DT justified by carry back, current year	-1,368
R0680	LAC DT justified by carry back, future years	0
R0690	Maximum LAC DT	25,716

USP Key

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

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

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

S.28.01.01

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

	Linear formula component for non-life insurance and reinsurance obligations	C0010
R0010	MCR_{NL} Result	0

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

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCR_{L} Result	20,530

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits		
R0220	Obligations with profit participation - future discretionary benefits		
R0230	Index-linked and unit-linked insurance obligations	1,973,623	
R0240	Other life (re)insurance and health (re)insurance obligations		
R0250	Total capital at risk for all life (re)insurance obligations		9,592,122

	Overall MCR calculation	C0070
R0300	Linear MCR	20,530
R0310	SCR	135,348
R0320	MCR cap	60,907
R0330	MCR floor	33,837
R0340	Combined MCR	33,837
R0350	Absolute floor of the MCR	3,338
R0400	**Minimum Capital Requirement**	33,837