Hawthorn Life

Designated Activity Company

Solvency and Financial Condition Report

31.12.2023



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Summary

The European Union regulatory regime for insurance companies, known as Solvency II, came into force with effect from the 1st of January 2016. The regime requires certain reporting and public disclosure arrangements to be put in place by insurers, including this Solvency and Financial Condition Report (SFCR).

This report covers the business and performance of Hawthorn Life, its system of governance, risk profile, valuation for solvency purposes and capital management. The ultimate administrative body that has responsibility for all of these matters is the Board of Directors (the Board). The Company is authorised by the Central Bank of Ireland (CBI) to write Class I, Class III and Class IV long term life assurance business.

The Company commenced selling unit-linked investment products with optional guarantees into the UK in April 2005, closing to all new unit-linked business, including top-ups, in May 2009. Hawthorn Life has the benefit of an intra-group reinsurance treaty with Berkshire Hathaway Life Insurance Company of Nebraska (BHLN) that transfers all investment and insurance risks relating to the investment guarantees of its unit linked business. Following the successful completion of a merger with Berkshire Hathaway Reinsurance (Ireland) Designated Activity Company (BHRID) on the 1st of October 2017, the Company acquired reinsurance[1] business relating to mortality, morbidity and longevity risks, primarily originating in Europe and in the Asia-Pacific region.

The Company had a positive underwriting performance in 2023 with profit of £18.6m. The main drivers of this were positive underwriting performance on the life reinsurance line of business of £13.7m. The Company is well capitalised with an SCR coverage of 184% and an MCR coverage of 710%. The Company paid a dividend of £30m in 2023.

A primary responsibility of the Board is to ensure that capital is adequate to cover policyholder obligations and the required solvency requirements considering the nature and scale of the business, and the expected operational requirements. As detailed in this report, a number of mechanisms are in place to evaluate those levels and the outcome of those assessments show that the Company's capital is adequate at this time and for the expected requirements in the future.

HLD continues to maintain a UK branch. In terms of its authorisation, Hawthorn Life is dual regulated. It is authorised and regulated by the Central Bank of Ireland, is deemed authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. The UK Financial Services Contracts Regime, which allows EEA-based firms to operate in the UK for a limited period to carry on activities which are necessary for the performance of pre-existing contracts applies to the Company and its UK branch business. HLD remains a fully subscribed member of the Financial Services Compensation Scheme subject to UK domestic legislation which establishes the entitlement of EEA firms with UK Branches to avail of this statutory consumer protection scheme.

The Company's financial year runs to the 31st of December each year and it reports its results in sterling.

[1] In this document the term reinsurance is used to mean both reinsurance and retrocession business

A. Business and Performance

A.1. Business

Name and Address of Organisation:
Hawthorn Life Designated Activity Company
Swords Business Campus
Swords
Co. Dublin
Ireland

Supervisory Authority:
Central Bank of Ireland
Insurance Supervision Division
Spencer Dock
North Wall Quay
Dublin 1
Ireland

External Auditor:
Grant Thornton
Chartered Accountants and Statutory Audit Firm
13-18 City Quay
Dublin 2
Ireland

Group:
The parent undertaking and controlling party of Hawthorn Life is Columbia Insurance Company incorporated in the United States of America. The ultimate parent undertaking and controlling party is Berkshire Hathaway Inc. registered in the United States of America. See *Appendix A* for the Company's position in the legal structure of the group, related parties and branches.

Prior to 2013, the Company was known as Hartford Life Limited and was a wholly owned subsidiary of The Hartford Financial Services Group Inc. The sale of the Company to Berkshire Hathaway was completed in December 2013.

Lines of Business:
The Company commenced selling unit linked investment products with optional guarantees in April 2005 through its UK branch. The Company closed to all new business, including top-ups, in May 2009. Hawthorn Life has entered into a reinsurance treaty with Berkshire Hathaway Life Insurance Company of Nebraska (BHLN), which transfers all investment and insurance risks relating to the investment guarantees of its unit linked business.

On the 1st October 2017 the Company merged with Berkshire Hathaway Reinsurance (Ireland) Designated Activity Company (BHRID), another Dublin based Berkshire Hathaway Group company. This led to Hawthorn Life acquiring reinsurance business relating to mortality, morbidity and longevity risks - primarily originating in Europe and in the Asia-Pacific region - as well as reinsurance of longevity risk via longevity swaps.

Hawthorn Life is authorised by the Central Bank of Ireland (CBI) to write Class I, Class III and Class IV long-term life assurance business. Hawthorn Life's business plan outlines an appetite to engage in reinsurance transactions and acquisitions of inforce blocks of business.

A.2. Underwriting Performance

The company had a positive underwriting performance in 2023 with profit of £18.6m. *Table 1* outlines the underwriting performance for 2023.

Table 1: Profit and Loss Account: Technical Account for the period ended 31.12.2023

	31.12.2023 GBP £m	31.12.2022 GBP £m
Technical Account: Life Insurance Business		
Gross Premiums Written	72.5	40.8
Outward Reinsurance Premiums	(2.7)	(3.1)
Investment Income	27.6	(48.2)
Net Claims	(95.9)	(75.1)
Change in Life Assurance Provision	(0.8)	141.8
Other Technical Provisions	33.2	112.5
Net Operating Expenses	(14.4)	(140.9)
Tax Attributable to Life Assurance Business	(0.5)	0.2
Corporation Tax	(0.4)	9.7
Balance	**18.6**	**37.7**

New business volumes were broadly in line with expectations. *Table 2* details insurance and reinsurance premiums written during the year. Premiums were higher in 2023 mainly driven by the financing reinsurance contract entered in Q4 2022.

Table 2: Insurance and Reinsurance Premiums

	31.12.2023 GBP £m	31.12.2022 GBP £m
Earned Premiums by geographical location		
Ireland	0.6	0.7
UK	22.2	20.5
Other EEA (European Economic Area)	1.6	2.0
Rest of the World	48.1	17.6
Gross Premiums Written – Single	**72.5**	**40.8**
Reinsurance Premiums by geographical location		
Ireland	(0.1)	(0.1)
UK	(2.5)	(2.8)
Rest of the World	(0.1)	(0.2)
Outwards Reinsurance Premiums	**(2.7)**	**(3.1)**
Premiums Net of Reinsurance	**69.8**	**37.7**

A.3. Investment Performance

Table 3 outlines the investment income by asset type earned during the year.

Table 3: Investment Income by Asset Type

	31.12.2023 GBP £m	31.12.2022 GBP £m
Unit Linked Funds and Collectives	34.0	(51.0)
Debt Securities	4.1	(0.6)
Deposits	0.1	0.1
Foreign Exchange Revaluation	(10.6)	3.3
Total	**27.6**	**(48.2)**

Unit Linked Funds and Collectives

Investment income from unit linked funds and collectives include market gains of £22.0m (2022: gains of £68.7m). The impact of lapses were offset by gains in the equity and bond markets. Lapse rates have been in line with expectations in 2023.

Debt Securities
Debt security investment income comprises of:

- Positive income earned of £4.3m;
- Unrealised gains on investments of £0.2m;
- Foreign exchange losses (£0.1)m and,
- Realised losses on investments of (£0.3)m.

Deposits
Income from shareholder deposits was £0.1m.

A.4. Performance of Other Activities

Hawthorn Life has a lease on its premises at Swords Business Campus, Co. Dublin, Ireland. The Company does not have any other operating premises or any finance leases. There are no additional activities performed by the company other than those included in this document.

A.5. Any Other Information

Unit linked assets under management fell by 7% in 2023 (2022: fall of 18%). The impact of lapses were offset by gains in the equity and bond markets. Lapse rates have been in line with expectations in 2023. Hawthorn Life's principal performance indicators in 2023 are as follows:

Table 4: Hawthorn Life Key Performance Indicators

	31.12.2023 GBP £m	31.12.2022 GBP £m
Policyholder Assets Under Management	473.2	506.4
Net Profit for the Financial Year	18.6	37.7
Net Operating Expenses	7.8	5.9
Commissions	6.6	135.0
Retrocession Premiums	72.5	40.8
Net Claims	95.9	75.1
Retrocession Volumes	14,888	16,111
Total Assets	679.2	733.1
Shareholder Funds	272.1	283.5
Total Liabilities	407.1	449.6
	31.12.2023	**31.12.2022**
Number of Unit Linked Policies in Force	5,710	6,162

The Company does not hold securitised assets.

B. System of Governance

B.1. General Information on the System of Governance

The Board of Directors manages the business and affairs of the Company and is comprised of:

- 2 independent non-executive directors
  - Brendan McCarthy
  - Bríd Quigley
- 1 group non-executive director
  - Jonathan Collins (Chair)
- 2 executive directors
  - Alastair Murray (Chief Executive Officer)

- Aidan Burke (Chief Financial Officer)

The Board is primarily responsible for:

- Effective, prudent and ethical oversight;
- Setting and overseeing business strategy; and,
- Overseeing the implementation of strategy.

The role, responsibilities and procedures of the Board, including membership criteria and voting rights, are set out in an annually reviewed and approved terms of reference. The Board delegates authorities and responsibilities to the CEO who is responsible for the day–to-day management of Hawthorn Life.

The Board sits as the Audit Committee. The roles, responsibilities and procedures of the Audit Committee are set out in a Board approved terms of reference that are reviewed and approved annually. The primary role of the Audit Committee is to exercise oversight with respect to:

- The integrity of financial statements and information provided to shareholders and others;
- The Company's compliance with financial regulatory requirements;
- The adequacy and effectiveness of the internal control environment implemented and maintained by management; and,
- The qualifications, independence and performance of the external auditors who are accountable to the Audit Committee, the Board and the Company's shareholders.

The Board carries out the functions that would otherwise be delegated to a Risk Committee. The primary roles in this area include:

- Setting the risk appetite and overall risk tolerance limits;
- Approving and periodically reviewing the risk management strategy and related policies;
- Considering current risk exposures of the Company;
- Determining the Company's Capital Buffer; and
- Overseeing the risk management function, liaising regularly with the Chief Risk Officer to ensure the development and ongoing maintenance of an effective risk management system.

Hawthorn Life has established the following key control functions: Risk; Actuarial; Compliance and Internal Audit. These functions are responsible for providing oversight of and challenge to the business and for providing assurance to the Board. Hawthorn Life's staffing requirements, including the staffing requirements of the four key functions, are determined by the Board, who are responsible for ensuring that each key function is resourced adequately to discharge their responsibilities taking into account the nature, scale and complexity of the Company's business and affairs.

The head of each key function is of sufficient seniority to be able to exercise critical review of the Company's business. The heads of the Risk, Actuarial, and Compliance functions each have a direct reporting line to the Board and report quarterly on their activities. The Risk, Actuarial, and Compliance functions have business responsibilities, though are able to discharge control function responsibilities with operational independence. The Internal Audit function is independent from business operations and reports to the Audit Committee at its meetings.

There have been no material changes to the Company's system of governance over the reporting period.

B.1.1. Remuneration

Hawthorn Life has adopted a number of key principles concerning employee remuneration:

- Remuneration is linked to long term objectives and company performance;
- Hawthorn Life's Remuneration Policy does not challenge policyholder's interests;

- Remuneration awards must not threaten the ability to maintain an adequate capital base; and,
- Remuneration for service providers must not encourage risk taking that is excessive in view of the risk management strategy.

Group Non-Executive Directors (GNEDs) are paid directly by affiliate companies within the Berkshire Hathaway Group to align Company objectives with shareholder interests. Hawthorn Life does not make any payments of salary or bonus to its GNEDs. Independent Non-Executive Directors (INEDs) are compensated by fixed fee payments paid quarterly in arrears. The objective of this fixed form of remuneration is to ensure that independent assessments conducted by the INEDs are uncompromised by remuneration incentives.

The remuneration of the CEO and all other employees consists of a fixed base salary and an annual award. Annual awards are at management discretion and are paid to all employees who are deemed to have successfully contributed to the overall business objectives.

No Board member or other employee has any entitlement to shares or share options. There is no supplementary pension or early retirement schemes for the members of the Board or other key function holders. There were no material transactions during the reporting period with shareholders, with persons who exercise a significant influence on the Company, or with members of the Board of Directors.

B.2. Fit and Proper Requirements

Members of the Board, senior management and other nominated staff members are required to possess sufficient skills and experience and meet the standards of fitness and probity set out in Hawthorn Life's Fit and Proper Policy.

Where a position involves a technical or formal qualification, the individual must possess the relevant university degree, technical qualification or be admitted to practice with the recognised professional body. Where there is no technical or formal qualification required for a position, the individual must display a minimum level of experience to satisfy that they are capable of discharging the relevant responsibilities.

B.3. Risk Management System including the ORSA

Hawthorn Life's risk management system has been developed to enable the Board and management understand and manage the Company's risk profile over the short, medium and long term.

The risk management system includes the following key elements:

- A clearly defined risk management strategy which is consistent with business strategy;
- A defined risk appetite and overall risk tolerance limits;
- Written policies to:
    - Implement risk management strategy;
    - Facilitate control mechanisms;
    - Take into account the nature, scope and time horizon of the Company and the associated risks;
- The connection between the Own Risk and Solvency Assessment (ORSA), regulatory capital requirements and risk tolerance limits;
- Risk management responsibilities including the responsibilities of the Risk Function;
- Stress and scenario testing;
- The approach to underwriting and reserving risk, reinsurance and other risk mitigation techniques, asset liability management, investment risk management, liquidity risk management and strategic and reputational risk management; and,
- The identification, measurement, management, monitoring and reporting of risks on both and individual and aggregate level.

Hawthorn Life's risk management strategy is to:

- Ensure that the Board and Senior Leadership Team take into account the information reported as part of the risk management system in the decision making process;
- Optimise the balance of risk and return by embedding effective, well integrated risk management in the business;
- Operate continuous risk management, covering all relevant risk categories, with due regard to the Risk Appetite Statement; and,
- Promote an appropriate risk culture at all levels of the business.

B.3.1. Chief Risk Officer and Risk Function

The Board has appointed a Chief Risk Officer (CRO) who reports directly to the Board and has responsibility for managing the Risk Function and monitoring the effectiveness of the risk management system.

The Risk Function is responsible for:

- Facilitation of the setting of the risk appetite by the Board;
- Providing comprehensive and timely information on the Company's material risks which enable the Board to understand the overall risk profile of the organisation;
- Evaluating whether any internal investment limits are appropriate in view of the Company's obligation to meet its liabilities, by ensuring a number of appropriate stress tests are carried out on a regular basis;
- Reporting to the Board on risks that have been identified as potentially material;
- Reporting on other specific areas of risks on its own initiative and following requests from the Board;
- Maintaining an aggregated view on the risk profile of the undertaking which includes identifying and assessing emerging and sustainability risks and suggesting ways to deal with them appropriately;
- Regularly evaluating the design and effectiveness of the risk management system and reporting its findings to the Board, stating any shortcomings identified and giving recommendations as to how the deficiencies could be remedied;
- Coordinating each ORSA;
- Coordinating risk management activities across the Company and ensuring the implementation of each risk policy;
- Analysing, assessing and documenting the effectiveness of reinsurance, including monitoring the strength of reinsurance counterparties;
- Documenting the identification and assessment of risks; and,
- Maintaining a risk register.

B.3.2. Own Risk and Solvency Assessment

Through the ORSA process Hawthorn Life ensures that adequate and robust processes exist to assess, monitor and measure its risks and overall solvency needs, ensuring that the output from the assessment forms an important part of decision-making processes.

The assessment aims to ensure that the Board is aware of all material risks the Company faces and to enable the Board to make appropriate strategic decisions, regardless of whether risks are captured by the Solvency Capital Requirement (SCR) calculation or whether they are quantifiable. The ORSA process reports on the adequacy of capital and risk sensitivities that are used in shaping strategy and risk appetite.

As part of the ORSA process, the Board is responsible for:

- Ensuring that each ORSA assessment is appropriately designed and implemented;
- Taking an active part in the ORSA assessment, including steering how the assessment is to be performed and challenging the results;
- Challenging the identification and assessment of risks;
- Giving instruction on management actions to be taken if certain risks were to materialise;
- Challenging the assumptions behind the calculation of the SCR; and,
- Approving the ORSA policy.

Hawthorn Life's assessment of overall solvency needs includes an analysis of the sensitivity of the Company to changes in risk profile, including the influence of reinsurance arrangements, diversification effects and any other risk mitigation techniques.

Hawthorn Life will conduct an ORSA outside the regular annual time scale if there is a material change to the Company's risk profile, or there is a significant increase in the volatility of overall solvency needs relative to its capital position. The Board take into account the insights gained from the ORSA and wider risk management system in approving long and short-term capital planning, whilst considering business and risk strategies. Capital planning includes alternatives to ensure that capital requirements can be met even under unexpectedly adverse circumstances.

B.4. Internal Control System

Hawthorn Life's internal control system considers four distinct areas:

- The control environment
    - Includes policies and practices for appropriate ethical behaviour and compliance with relevant legislation;
- Control activities
    - Includes approvals, authorisations, verifications, reconciliations, management reviews, and other appropriate measures;
- Information and communication
    - Includes encouraging the reporting of negative news and permitting the cutting across of reporting lines where the situation calls for such action; and,
- Monitoring and reporting
    - Includes monitoring mechanisms to detect deficiencies.

The internal control system is designed to ensure:

- Company's compliance with applicable laws, regulations and administrative provisions;
- Effectiveness and efficiency of the Company's operations in light of its objectives; and,
- Reliability of financial and non-financial information.

B.4.1. Compliance Function

Part of the internal control system is a Compliance Function that is responsible for:

- Providing reasonable assurance to the Board on material compliance with relevant laws and regulation;
- Assessing possible impacts of changes in the legal environment; and,
- Identifying and managing compliance risk.

At a day-to-day business level, the Compliance Function:

- Maintains a Compliance Policy and Compliance Plan;
- Co-ordinates compliance reviews, testing and training;
- Embeds procedures and policies to ensure compliance with laws, regulations and codes of conduct;

- Reports on compliance issues;
- Acts as an adviser on compliance related matters; and,
- Promotes a culture of compliance throughout the business.

B.5. Internal Audit Function

Internal audit services are internally outsourced to Resolute Management Limited (UK), a Berkshire Hathaway Group company. The independence of the Internal Audit function and its objectivity from the activities it reviews is achieved through:

- Organisational status
  - Separation from other administrative and operational departments
  - Being internally outsourced;
- Objectivity of function
  - Receiving its mandate directly from the audit committee with authorisation to perform its roles and responsibilities on its own initiative; and,
- Reporting line
  - Reporting to the Audit Committee, not to Company management.

Additional controls to safeguard the independence of the Internal Audit function include:

- Independent from the Audit Committee in all aspects except for the approval of the annual internal audit plan;
- In performing, evaluating and reporting on audits the function is not subject to any instructions from the Audit Committee that would impair its independence and impartiality;
- Internal Audit does not undertake any additional roles within the Company; and,
- Where a conflict of interest arises or is identified during the course of investigation, the auditor in question is obliged to report such conflict to the Audit Committee.

B.6. Actuarial Function

The Head of Actuarial Function (HoAF) has responsibility for the tasks carried out by the Actuarial Function. The principal responsibilities of the Actuarial Function relate to the reliability and accuracy of technical provisions, including ensuring appropriate data and assumptions and methodologies.

The HoAF is required to provide sufficient information in order for the Board to adequately challenge key assumptions, expert judgements and results relating to experience analysis and the assumption setting process. The HoAF is required to provide an annual actuarial opinion on the technical provisions to the CBI and an annual report to the Board to support the actuarial opinion. The HoAF is expected to provide opinions on the underwriting policy, the adequacy of the reinsurance arrangements and contribute to the effective implementation of the risk management system (including providing an opinion to the Board in respect of each ORSA process).

As owner of the actuarial model used to calculate the technical provisions, the Actuarial Function is responsible for the calculation of the Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR) and works closely with the Risk Function in the producing the projections and stressed scenarios used in the ORSA. For the reinsurance business, these processes are assisted by the BICC[2] Actuarial Function and Risk Function.

The activities of the Actuarial Function are split between those involved in preparing output and/or analysis, performed by the Hawthorn Life and BICC actuarial teams, and those activities performed by the HoAF who provides oversight and validation. Segregation of duties within the Actuarial Function is

[2] British Insurance Company of Cayman, Canadian Branch (Canada) a Berkshire Hathaway Group company

implemented using a sign-off process involving two individuals when calculating technical provisions and solvency capital requirements.

B.7. Outsourcing

The Company has implemented an Outsourcing Policy designed to ensure that any outsourcing agreement entered into with respect of important or critical functions will not:

- Materially impair the quality of the system of governance;
- Unduly increase operational risk;
- Impair the ability of regulatory supervisors (i.e. the CBI for prudential matters and the Financial Conduct Authority / Prudential Regulatory Authority for issues connected with "general good" requirements in the UK) to monitor compliance with obligations; or,
- Undermine continuous and satisfactory service to policyholders.

The following relationships are presently deemed to be outsourced critical or important functions:

- Policy administration services provided by SS&C International Managed Services Limited (Ireland based);
- Taxation and payment administration services provided by Equiniti (UK based);
- Fund administration services provided by SS&C Investment Management Software Limited (SS&C IMS) (Ireland based);
- Internal audit and IT services provided by Resolute Management Limited (UK based) a Berkshire Hathaway Group company; and,
- Reinsurance accounting, treaty administration, claims management, risk management, actuarial services, reinsurance pricing services and related legal advice by BICC.

B.8. Any Other Information

B.8.1. Assessment of Adequacy of System of Governance

Hawthorn Life's system of governance provides for the sound and prudent management of the Company and has been designed to meet all regulatory requirements arising under the Solvency II Directive and the Corporate Governance Code for Credit Institutions and Insurance Undertakings. Management undertakes a cyclical review of the system of governance every three years and reports to the Board on its findings. The most recent review was reported to the Board in March 2022, which determined that the system of governance was satisfactory. There is no other material information regarding the Company's system of governance.

C. Risk Profile

Hawthorn Life uses the Solvency II standard formula to calculate its capital requirements, using five standard risk modules relating to:

- Life underwriting risk;
- Health underwriting risk;
- Market risk;
- Counterparty default risk, and;
- Operational risk.

The Company uses standard formula correlation matrices to aggregate capital requirements.

Regarding its variable annuity reinsurance partner, Hawthorn Life actively monitors:

- Its exposure to BHLN;

- BHLN's financial strength and key financial information; and,
- The effectiveness of the reinsurance arrangement.

Hawthorn Life does not use any special purpose vehicle constructs.

C.1. Underwriting Risk

Underwriting risk is the risk of a deviation of the actual claims payments from the expected amount of claims payments (including expenses)[3].

Mortality Risk
Mortality risk, where a change in value is caused by the actual mortality rate being higher than expected[4], arises primarily from the reinsurance business from a number of yearly renewable term and coinsurance treaties covering whole life and term business.

Hawthorn Life's variable annuity business also provides some mortality risk given that assumed mortality rates affect the run-off of the business, which in turn impacts the level of charge income and the level of expenses in future years.

Life Catastrophe Risk
The life catastrophe risk sub-module captures the risk stemming from extreme mortality events that are not sufficiently captured by the mortality risk sub-module. This again arises primarily from the reinsurance business.

Longevity Risk
Longevity risk, the risk of a change in value caused by the actual mortality rate being lower than expected[5], mainly arises from the reinsurance of longevity swaps. Longevity risk provides some measure of hedge against mortality risk.

For the variable annuity business longevity risk becomes an issue for Hawthorn Life given lifetime withdrawal guarantees, though this risk is reinsured to BHLN.

Lapse Risk
This is the risk of a change in value caused by deviations from the actual rates of policy lapses from their expected rates[6]. Variable annuity policyholder lapses also have a significant impact on Hawthorn Life's balance sheet. Changes to these lapse rates result in changes to:

- Future levels of charge income, and;
- Future levels of expenses.

Lapse risk is an issue for the reinsurance business arising from a number of yearly renewable term and coinsurance treaties covering whole life and term business.

Expense Risk
Hawthorn Life is exposed to the risk of increasing expenses and expense inflation. Expense risk can also result from the impact of high levels of lapses on charge income (where overhead expenses may not be quickly reduced to a suitably lower level) or an unexpected increase in the amount of expenses.

Disability / Morbidity Risk
This risk is the change of value caused by the actual disability and illness rates of the persons insured

[3] 2007, CEA Group Consultatif, *Solvency II Glossary,* p.55
[4] 2007, CEA Group Consultatif, *Solvency II Glossary,* p.42
[5] 2007, CEA Group Consultatif, *Solvency II Glossary,* p.37
[6] 2007, CEA Group Consultatif, *Solvency II Glossary,* p.36

deviating from the rates expected[7]. This risk arises from the critical illness block of reinsurance business.

C.2. Market Risk

This section describes Hawthorn Life's exposure to various market risks, arising from the level or volatility of market prices of financial instruments[8].

Equity Risk
Equity risk arises from the level or volatility of market prices for equities, with exposure arising in respect of all assets and liabilities whose value is sensitive to changes in equity prices[9]. Hawthorn Life is exposed to equity risk from the variable annuity business through underlying policyholder investment in equity funds, as decreasing equity values will:

- Reduce base contract charge income; and,
- Increase the value of policyholder investment guarantees (albeit fully reinsured)[10].

Currency Risk
Hawthorn Life's local currency for reporting purposes is GBP hence any exposure to currencies other than GBP creates currency risk. This arises in a number of areas, for example:

- Underlying variable annuity policyholder funds invested in assets denominated in foreign currencies;
- Future cashflows arising from the reinsurance business (a significant proportion of which is in New Zealand dollars); and,
- Expenses being partly denominated in euro.

Interest Rate Risk
Interest rate risk, the risk of a change in value caused by a deviation of the actual interest rates from the expected interest rates[11], is inherent in the projections by Hawthorn Life as interest rate assumptions are used in projecting future returns and discounting liabilities.

Other significant exposures to interest rate risk are through bond values, as changes in the level of interest rates will impact their market price, and the calculation of open-market annuity rates for lifetime withdrawal guarantees within the variable annuity business (albeit fully reinsured).

Credit Spread Risk
Credit spread risk is defined as the risk of a change in value due to a deviation of the actual market price of credit risk from the expected price of credit risk[12]. Hawthorn Life is exposed to this risk from variable annuity policyholders having a proportion of assets invested in corporate bonds which are exposed to the risk of falling value due to the widening of credit spreads.

C.3. Credit Risk

Credit risk reflects the possible losses due to the unexpected default, or deterioration in the credit standing, of counterparties. The scope of credit risk includes risk mitigating contracts (e.g. reinsurance arrangements), securitisations and derivatives, and receivables from intermediaries.

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[7] 2007, CEA Group Consultatif, *Solvency II Glossary,* p.41
[8] 2014, EIOPA, *The underlying assumptions in the standard formula for the SCR calculation,* p.13
[9] 2014, EIOPA, *The underlying assumptions in the standard formula for the SCR calculation,* p.17
[10] Although the investment guarantees are reinsured, Hawthorn Life's counterparty default risk relating to the reinsurer increases with decreasing equity values.
[11] 2007, CEA Group Consultatif, *Solvency II Glossary,* p.50
[12] 2007, CEA Group Consultatif, *Solvency II Glossary,* p.35

Hawthorn Life's main credit exposures are:

- Exposure to financing reinsurance counterparty due to the payment of initial commission;
- Exposure to BHLN through a reinsurance arrangement in respect of variable annuity guarantees;
- Counterparty risk arising from outstanding premiums and funds withheld; and,
- Exposure to banks through cash deposits.

Hawthorn Life also has significant UK government bond holdings.

C.4. Liquidity Risk

Liquidity risk is the risk that the Company is unable to realise investments and other assets in order to settle its financial obligations as they fall due. Hawthorn Life has liquidity exposure in relation to policyholder payments, reinsurance claims and single large ad-hoc expenses. Recognising the highly liquid nature of the shareholder asset profile and the liquidity controls in place, including an assessment of liquidity buffers and regular forward looking liquidity reports, liquidity risk is not considered significant at present.

C.5. Operational Risk

Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, from personnel and systems, or from external events. Specific risks of note along with their main mitigants are listed below.

Outsourcing Risk
Hawthorn Life recognises that as a consequence of outsourcing it is exposed to outsourcing risk. Much of Hawthorn Life's operational risk has been mitigated through outsourcing of policyholder administration, pension payments, information technology and fund administration, where the outsourcing partners have accepted financial liability for operational errors that occur within these outsourced services. Hawthorn Life has in place effective legal agreements, along with rigorous contingency planning and monitoring, to further mitigate this risk.

Claims Risk
Hawthorn Life has outsourced its policyholder administration to a regulated insurance intermediary, SS&C, which implements agreed processes for the administration of all types of policyholder transactions/claims. Hawthorn Life has robust governance in place to ensure that the outsourcing partner is adhering to agreed processes.

Anti-Money Laundering / Counter-Terrorist Financing
The Company maintains an Anti-Money Laundering (AML) and Counter Terrorist Financing (CTF) Handbook which sets out policies and procedures on how the Company prevents and detects potential money laundering and terrorist financing. SS&C conducts AML and CTF checks on behalf of Hawthorn Life in the provision of outsourced policy administration services. Hawthorn Life is committed to ensuring that the risk of money laundering and terrorist financing is minimised through compliance with all applicable AML and CTF legislation.

Fraud Risk
Hawthorn Life maintains an Anti-Fraud and Anti-Bribery Policy which sets out appropriate governance over how the Company prevents and detects fraudulent activity within its business. The Company promotes legal and ethical organisational behaviour by assigning responsibility for reporting actual or suspected fraudulent activity and providing guidelines to conduct investigations in respect of reported fraudulent activity.

Human Resource Risk
Human resource risk related to potential losses due to drain or loss of personnel, deterioration of

morale, inadequate development of human resources, inappropriate working schedule, inappropriate working and safety environment, inequality or inequity in human resource management or discriminatory conduct. The Legal and Compliance function is responsible for managing the Company's human resources responsibilities, maintaining related policies and procedures and ensuring compliance with applicable legislation.

Unit Pricing Risk
Unit pricing risk is an operational risk associated with the potential loss, financial and reputational, arising from the misstatement of daily unit prices. This risk is mitigated in two main ways:

- Outsourcing of the unit pricing function to a third party industry expert, SS&C IMS, who use a bespoke unit pricing system; and,
- A unit pricing governance structure within the Company's investment control framework.

Financial Reporting Risk
Financial reporting risk is the risk of material misstatement of financial reports. Hawthorn Life has implemented a financial control framework and Public Disclosure and Supervisory Reporting Policy. To mitigate financial reporting risk the Company employs accounting personnel that are adequately qualified and trained with job responsibilities commensurate with their expertise and experience. This is further supplemented by the use of external expertise as provided by:

- New England Asset Management (NEAM) in respect of accounting for shareholder investments;
- External consultants for the production of relevant tax returns;
- Outsourcing of policyholder administration accounting to SS&C; and,
- Outsourcing of fund accounting to SS&C IMS.

Financial statements are also subject to review by the Board, Audit Committee, Internal Audit and external audit.

Legal Environment Risk
This is the risk that insurance and reinsurance undertakings are unable to adapt their risk profile in response to sudden or unexpected changes in the legal environment, such as an unforeseen change in the legal retirement age. The Legal and Compliance function, supported by all other functions and external advisors where necessary, is responsible for monitoring the legal and regulatory environment in which the Company conducts business.

Cybersecurity Risk
Cybersecurity risk refers to the effect of hostile threats exploiting vulnerabilities in information systems with the intent to cause harm to the organisation and limit the ability to achieve objectives. Hawthorn Life's has in place an Information Security (inc. Cybersecurity) Policy aligned with wider Berkshire Hathaway group requirements and the 2017 CBI Cross Industry Guidance in Respect of Information Technology and Cybersecurity Risks.

Governance Risk
The Company's system of governance provides for sound and prudent management. The system of governance meets all regulatory requirements and is proportionate to the nature, scale and complexity of the business. It includes:

- Clear organisational structures;
- Clear reporting lines;
- Clear expression of the roles and responsibilities of each tier of management;
- A risk management system and internal control system which are appropriate to the nature, scale and complexity of the business; and,
- Documented policies on key requirements, aligned with each other and business strategy, which are approved by the Board on at least an annual basis.

Conduct Risk
Conduct risk refers to the risk the firm poses to its customers through its direct interaction with them. Hawthorn Life's product oversight and governance arrangements aim to prevent and mitigate customer detriment, support a proper management of conflicts of interests and ensure that the objectives, interests and characteristics of customers are duly taken into account.

C.6. Other Material Risks

Reputational Risk
Reputational risk is the risk that adverse publicity regarding business practices and associations, whether accurate or not, will cause a loss of confidence in the integrity of the institution. The Board and senior management ensure that all significant decisions are viewed through the prism of reputation management, and that decisions will not bring unduly adverse reputational consequences to the Company, its ultimate parent Berkshire Hathaway, or any other stakeholders.

Contagion Risk
Contagion risk is where insurance or reinsurance undertakings could be exposed to the risk that an adverse event or situation will spread from one undertaking to another. For example an insurance undertaking could be exposed to the financial weakness of other group entities affected by, for instance, market, reputation or operational risk. Hawthorn Life has multiple mitigants for contagion risk through: having multiple counterparties engaged in multiple lines of business; through reinsurance (BHLN); a surety bond guaranteeing the reinsurer's obligations (NICO); and a capital maintenance agreement and claims-payment guarantee (CIC).

Strategic / Business Model Risk
Strategic risk is risk of a change in value due to the inability to implement appropriate business plans and strategies, make decisions, allocate resources, or adapt to changes in the business environment[13]. A related risk, business model risk, refers to the risk of the current and prospective impact on the Company's earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes.

Hawthorn Life identifies, assesses and monitors actual or potential exposure to material strategic risks and the interconnectedness between these risks and other material risks, with any perceived significant threats to the Company's stated objectives raised and discussed at Board level. Significant changes to Hawthorn Life's business model are evaluated by senior management, with a business case (establishing the associated costs, benefits and risks) brought to the Board and where appropriate the CBI for approval prior to any significant new venture. The Company's Risk Appetite Statement is consequently updated as appropriate.

Emerging Risks
HLD feed into the NICO Group Enterprise Risk Management Committee who maintain a list of emerging risks that are constantly monitored – the present list contains the following:

- War;
- Sanctions Compliance;
- Expanded Regulation;
- Political;
- Social Inflation;
- Economic Inflation;
- Terrorism; and,
- Cybersecurity.

The identification and monitoring of emerging risks also occurs within Hawthorn Life through the Risk

[13] 2007, CEA Group Consultatif, *Solvency II Glossary,* p.51

Function supported by the internal Risk and Finance Forum and Operations Forum.

C.7. Climate Change

In relation to the variable annuity run off business the Company offers its policyholders a range of actively and passively managed funds and portfolios, including a suite of ready-made portfolios (funds of funds), to meet a range of risk profiles providing the policyholders with the ability to achieve market and sector based returns. HLD works with Morningstar Investment Management ("Morningstar"), an independent third party advisor, to select the funds on its investment proposition. As part of the Company's governance and oversight arrangements, the Company regularly reviews the latest Morningstar ratings of each fund along with its risk-adjusted performance against stated benchmarks and investment sectors. The Company's proposition management activities include, inter alia, the monitoring of the performance of all funds appearing on its proposition and the replacement of underperforming funds where this is warranted. In selecting replacement funds, the Company relies on the recommendations and ratings provided by Morningstar, including each fund's Environmental, Social and Governance (ESG) Sustainability Rating (reflecting the ESG risk of the fund's investments relative to its peers) and ESG Commitment Level (a qualitative assessment of how the fund takes ESG considerations into account in making its investment decisions).

According to the World Health Organization, climate change is impacting health in a myriad of ways, including by leading to death and illness from increasingly frequent extreme weather events, such as heatwaves, storms and floods; the disruption of food systems; increased pandemic risk via zoonotic illnesses and food, water and vector-borne diseases as well as mental health issues. Furthermore, climate change is undermining many of the social determinants for good health, such as livelihoods, equality and access to health care and social support structures. It estimates 250,000 additional deaths per year between 2030 and 2050 (0.3% additional deaths), which includes deaths from malnutrition, malaria, diarrhoea and heat stress. It will disproportionately affect the most vulnerable and disadvantaged living in poverty or with underlying health conditions and consequently the relatively affluent insured population covered by HLD's life retrocession and reinsurance businesses may be less affected.

HLD presently only hold government debt and cash within its shareholder investment profile and as such these investments are not considered high risk in relation to climate change. HLD is conscious of climate change within its own operations. Within the wider NICO Group HLD considers and implements initiatives to assess, reduce, and mitigate greenhouse gas emissions in its operations as part of the strategic planning process. Ongoing greenhouse gas and other related environmental conservation initiatives include the following:

- Implementing technology, equipment, and processes to reduce electricity and natural gas usage, such as transitioning from fluorescent to LED lighting, motion sensor lighting, installing high efficiency window blinds, and computer controlled thermostats;
- Updating computer equipment to take advantage of cutting-edge technology, often reducing energy usage as well as adding more computing power while using less equipment;
- Considering the benefits of increased work location flexibility and virtual meetings. This includes assessing the carbon footprint impacts associated with office space, commuting and associated travel;
- Advocating the recycling of paper, glass, and plastics to all personnel and providing options to make recycling convenient at office locations;
- Encouraging electronic communication versus paper usage;
- Supporting the use of reusable products to reduce one time use items; and
- Employing imaging technology to replace paper usage and long-term information storage.

To manage the physical, transition, and other risks associated with climate change, the wider group conducts robust catastrophe modelling. The climate risk focused stress testing considers the following impacts:

- Natural Catastrophe Risk
    - The Group is exposed to physical risks of climate change, including a potential increase in severe weather-related events. The stresses include multiple 500-year windstorm events. The Group believes this approach is more meaningful/conservative than focusing only on thermal stress testing;
- Transition Risk
    - The Group could face transition risk if companies in the investment portfolio face sudden drops in asset values or increased credit risk as a result of the transition to a lower carbon economy. This includes examining the preferred and common stock holdings on the Group's balance sheet;
- Litigation Risk
    - The Group could be exposed to litigation risk if parties who have suffered losses and damages from climate change seek to recover from insureds whom they believe are responsible;
- Pricing Risk
    - The Group protects itself against pricing risk in its property and casualty insurance policies in the coverage term, which is customarily written for one year and repriced annually to reflect changing exposures (increased possibilities of loss translate promptly into increased premiums). This reduces the climate change driven residual pricing risk significantly.
- Underwriting Risk
    - Certain climate change mitigation efforts are expected to decrease the demand for insurance for industries that produce non-renewable resources (i.e. coal, natural gas, and oil). Other mitigation efforts are likely to reduce the population of insureds for certain business units (i.e. auto and airline) leading to a decreased pool of insureds and associated premium.

The post-stress testing metrics are examined against minimum capital ratios established by the Group's multiple risk managers and committees. In April 2022, EIOPA launched a Climate Stress Test reflecting a sudden, disorderly transition to climate neutrality due to delayed government policy action, which results in a sharp rise in carbon prices. This abrupt carbon price increase triggers transition risk effects to the entire economy. The scenario was developed by EIOPA with the European Systemic Risk Board and the European Central Bank. HLD has ran this scenario against its business within the 2023 ORSA process.

Considering the results the Climate Stress Test alongside the Company's potential exposure to climate change risks, HLD do not consider the Company's exposure to climate change as material at this time. HLD are a relatively small and less complex insurer as per the CBI's PRISM system. The consideration of climate-related risk is deeply embedded in the wider Group's ERM framework. Climate-related risk considerations are actively considered within a number of the key risks in the enterprise risk inventory. This includes underwriting, reputational, and investment risk categories. HLD's new business is, by its nature, opportunistic and therefore unpredictable. However the effects of possible climate change on all new business will be considered in the short, medium and long terms.

C.8. Any Other Information

C.8.1. Assets and the Prudent Person Principle

Hawthorn Life only invests in assets and instruments whose risks the Company can properly identify, measure, monitor, manage, control, report, and appropriately take into account in the assessment of its overall solvency needs. All assets are invested in such a manner as to ensure the security, quality, liquidity and profitability of the portfolio as a whole. Assets held to cover technical provisions are invested in a manner appropriate to the nature and duration of the insurance and reinsurance liabilities.

The Company offers variable annuity policyholders a range of actively and passively managed funds and portfolios, providing the policyholder the ability to achieve market and sector based returns.

Policyholders are also offered the option to choose from a list of 'self-select' funds, where each policyholder can construct a portfolio which meets their risk profile within set product rules. The Company also offers a suite of ready-made portfolios.

Hawthorn Life works with Morningstar Investment Management (MIM), a third party investment expert, to select the funds made available on the investment proposition. As part of its overall governance arrangements regarding policyholder assets, the Company regularly reviews analysis on the latest Morningstar Analyst ratings along with each fund's risk-adjusted performance against stated benchmarks and investment sectors. The Board reviews a watch-list of underperforming funds against a range of peers and benchmarks and assesses any related management actions taken on a quarterly basis.

In selecting replacement funds, HLD relies on the recommendations and ratings provided by MIM, including each fund's Environmental Social and Governance (ESG) Sustainability Rating (reflecting the ESG risk of the fund's investments relative to its peers) and ESG Commitment Level (a qualitative assessment of how the fund takes ESG considerations into account in making its investment decisions).

Over the period in question of this report, Hawthorn Life did not:

- Complete any non-routine investment activity;
- Purchase or hold any assets not admitted for trading on a regulated financial market;
- Enter into or hold any derivative contracts; or,
- Hold or transact in securitised instruments.

Hawthorn Life:

- Does not solely rely on third party information to make decisions on its shareholder and policyholder assets;
- Has in place a set of key risk indicators in line with its Investment Risk Management Policy and business strategy;
- Takes into account the risks associated with the investments without relying only on the risk being adequately captured by the capital requirements;
- Regularly reviews and monitors the security, quality, liquidity and profitability of the portfolio as a whole by considering at least:
    - Any liability constraint, including policyholders' guarantees, and any disclosed policy on future discretionary benefits and, where relevant, policyholders' reasonable expectations;
    - The level and nature of risks that the company is willing to accept;
    - The level of diversification of the portfolio as a whole;
    - The characteristics of the assets;
    - Events that could potentially change the characteristics of the investments, including any guarantees, or affect the value of the assets; and,
    - Issues relating to the localisation and availability of the assets.

Hawthorn Life describes in its Investment Policy how it identifies and manages any conflict of interest that arises regarding investments and documents the actions taken to manage such conflicts. The Company ensures that its investments of unit-linked contracts are selected in the best interest of policyholders and beneficiaries taking into account any disclosed policy objectives. In the case of unit linked business Hawthorn Life takes into account and manages the constraints related to unit linked contracts, in particular liquidity and any contractual or legal transferability constraints.

C.8.2. Risk Concentrations and Risk Mitigation

Hawthorn Life recognises that it is exposed to unit-linked products with optional guarantees that were sold into the UK. The Company currently reinsures 100% of the guarantees on its existing variable

annuity business to BHLN. Hawthorn Life continually monitors the effectiveness of risk mitigation and the HoAF provides an annual Actuarial Opinion on the Adequacy of Reinsurance Arrangements to the Board.

Regarding the reinsurance business, detailed data on the location of insured lives is not available to assess concentration risk, but the amount of group business is small and business is spread across multiple clients and territories. However as a result of the financing reinsurance treaty entered into in 2022, a significant proportion of the individual mortality business is in respect of New Zealand lives. Under an internal arrangement implemented from July 2016, any large per-life exposures in excess of the Company's risk appetite are reinsured to BHLN.

Hawthorn Life's considerable own funds allow it to accept risk concentration within the shareholder asset portfolio.

C.8.3. Stress Testing and Scenario Analysis

The Company carries out a proportional stress testing and scenario analysis exercise on at least an annual basis as part of its ORSA process, and also:

- Prior to a material shareholder dividend payment;
- Prior to a material change in investment strategy; and,
- During periods of rapidly changing financial markets.

As part of the 2023 ORSA process Hawthorn Life stressed the 30.06.2023 balance sheet for numerous individual risks, chosen to reflect the Company's present and potential future risk profile.

The most recent ORSA has confirmed the Company had sufficient financial resources to:

- Continually comply with regulatory capital requirements;
- Continually comply with technical provisions;
- Meet its risk appetite over the short and medium term;
- Withstand a wide range of stresses; and,
- Withstand a number of severe scenarios.

C.8.4. Other Material Information

Hawthorn Life has no exposure arising from off-balance sheet positions nor has transferred any risk to special purpose vehicles. There is no other material information regarding the risk profile of Hawthorn Life.

D. Valuation for Solvency Purposes

D.1. Assets

Assets are recognised in conformity with FRS102/103. Where there is a clash between FRS102/103 and valuation principles as set out in Article 75 of Directive 2009/138/EC the company uses the Article 75 valuation method[14]. Hawthorn Life values all assets based on the assumption that it will pursue its business as a going concern. The Company values each of its assets separately, with each asset recognising all accrued income and expenses. All investments are held in assets where there is an active price in an active market.

[14] This states that, *"Assets shall be valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction".*

Hawthorn Life does not currently use any alternative valuation methods for its assets. Where an investment is non-routine in nature the Company will choose a suitable valuation methodology that is in conformance with relevant standards. These valuation approaches may then be subject to independent review and oversight by the Board. There are no material differences in the valuation bases, methods and assumptions used in the valuation for solvency purposes and those used for valuation purposes within the financial statements.

See *Table 5* for detail of Hawthorn Life's assets at 31.12.2023.

Table 5: Hawthorn Life Assets at 31.12.2023

	31.12.2023 GBP £m	31.12.2022 GBP £m
Government Bonds	156.3	155.9
Assets Held for Index-Linked and Unit-Linked Funds	475.8	501.3
Reinsurance Recoverables	9.2	17.1
Deposits with Cedants	2.3	1.8
Insurance and Intermediaries Receivables	22.6	28.6
Deferred Tax Asset	9.2	9.7
Receivables (Trade, not Insurance)	0.6	0.7
Cash and Cash Equivalents	6.0	19.2
Property, Plant and Equipment held for Own Use	0.0	0.0

Please note the following explanations:

- Government and Corporate Bonds
    - Debt securities including corporate and government bonds are valued at fair value using the current market price (inclusive of accrued interest) as quoted in an active market;
- Assets held for Index-Linked and Unit-Linked Funds
    - Assets held for unit-linked funds are invested into a range of authorised unit trusts and Open Ended Investment Companies (OEICs)
    - Assets invested in unit trusts are valued at the bid price and those invested in OEICs are valued using the single price issued daily
    - Hawthorn Life values its holding in each fund separately. The valuation of these assets includes the recognition of all accrued income and expenses in respect of these assets;
- Reinsurance Recoverables
    - Hawthorn Life uses a valuation method that is consistent with the valuation approach set out in Article 75 of Directive 2009/138/EC;
- Deposits with Cedants
    - Funds withheld by clients in accordance with the terms of treaty arrangements and valued at current market value;
- Insurance and Intermediaries Receivables
    - Receivables related to policyholder investment management fees;
- Reinsurance Receivables
    - Amounts which are receivable from BHLN under the reinsurance treaty;
- Receivables (Trade, not Insurance)
    - All income and expenditure is recognised on an accrual basis i.e. the non-cash effects of transactions and other events are reflected, as far as possible, in the financial statements for the accounting period in which they occur;
    - This includes all other receivables not classified as insurance and intermediary related;
- Cash and Cash Equivalents
    - Monetary assets are held at current market value; and,
- Property, Plant and Equipment held for Own Use
    - Tangible fixed assets are stated at cost or valuation net of depreciation and any provision for impairment.

D.1.1. Deferred Tax

The Company has a deferred tax asset of £9.2m. Deferred tax is recognised to the extent that it can be regarded that it is more likely than not that there will be suitable taxable profits from which the future reversal of timing differences can be deducted. The recoverability of any deferred tax asset is assessed, at least annually, using the Solvency II best estimate assumptions and risk neutral projection methodology, as described below in Section D.2.3. The Company has further unrelieved tax losses carried forward in both the UK and Ireland, the size of the potential/unrecognised deferred tax asset is £22.2m at year-end 2023.

D.2. Technical Provisions

D.2.1. Value of Technical Provisions

Table 6 shows the value of technical provisions, including the amount of the best estimate of liabilities and the risk margin for Hawthorn Life's business.

Table 6: Hawthorn Life Technical Provisions 31.12.2023

	31.12.2023	**31.12.2022**
	GBP £m	**GBP £m**
Variable Annuity	509.4	550.8
Immediate Annuity	1.1	1.1
Life	(186.2)	(211.9)
Health	(0.3)	(0.3)
Best Estimate Liability (incl. Claims Outstanding / IBNR)	**323.9**	**339.7**
Risk Margin	67.2	74.9
Technical Provisions	**391.1**	**414.6**

D.2.2. Methods Used to Calculate Technical Provisions

Stochastic Simulation Approach
The key risks affecting the cash-flows associated with Hawthorn Life's variable annuity product guarantees are low interest rates and a fall in equity markets. Where contracts have attaching financial guarantees and contractual options, a fall in equity markets may reduce the value of the unit fund, which would result in the corresponding guarantee becoming more valuable. Due to the nature of these guarantees, there is not a symmetrical decrease in guarantee value following an increase in unit values.

As a result, in order to adequately reflect the risks affecting the cash-flows associated with these guarantees and options, it is necessary to simulate the levels of the unit funds under a large number of scenarios. Hawthorn Life then calculates the present value of cash-flows under each scenario, using scenario specific discount rates. The related reserves are then calculated as the average of the present values calculated across each scenario.

Hawthorn Life allows for dynamic policyholder behaviour in the calculation of the present value of cash-flows (e.g. the likelihood of policyholders lapsing will be affected by the 'moneyness' of their guarantees and their withdrawal status).

Deterministic Approach
The key risks affecting the cash-flows associated with Hawthorn Life's reinsurance business are movements in mortality rates, increases in morbidity rates, increases in lapse/termination rates, and currency movements. The key risks affecting Hawthorn Life's expenses are an increase in the amount of expenses, currency movements and a fall in interest rates. The key risks affecting the cash flows

associated with Hawthorn Life's immediate annuities are a fall in interest rates and a fall in mortality rates.

Hawthorn Life calculates the best estimate in respect of reinsurance, expenses and annuities using a deterministic approach where the Company derives best estimate assumptions and calculates the present value of cash-flows based on these assumptions.

D.2.3. Bases and Main Assumptions used for Technical Provisions

Main Assumptions
The main assumptions influencing the level of technical provisions include:

- Risk free rates
    - Used to determine future fund growth and discount rates. These are set in line with sterling overnight index swap, New Zealand and euro swap rates at the valuation date and are checked quarterly against the risk free rates published by EIOPA;
- Expenses
    - Expense assumptions are updated annually in line with the most recent operational plan and are projected forward allowing for inflation and assuming that the Company is open to new business;
- Foreign exchange rates
    - The euro to sterling and New Zealand dollar to sterling rates are used to convert the euro expense reserve, and New Zealand dollar cash-flows to sterling at the valuation date;
- Lapse rates
    - Lapse rates (including recapture) are updated in line with the lapse experience of the business;
- Longevity assumptions including mortality improvements
    - Longevity assumptions are reviewed annually in line with the mortality experience of the business. Where insufficient experience is available Hawthorn Life reviews the mortality basis used by industry; and,
- Morbidity and Mortality
    - Morbidity and mortality assumptions are reviewed as required in line with the experience of the business. Morbidity assumptions include incidence rates and recovery rates.

D.2.4. Level of Uncertainty within Technical Provisions

There are no material sources of uncertainty in the calculation of the technical provisions. Cashflow projections take account of uncertainties in the cashflows as follows:

- Timing, frequency and severity of insured events
    - Allowance for fluctuations in the timing and severity of claims is made through assumptions, including dynamic policyholder behaviour assumptions for the variable annuity business, which are reviewed and updated at least annually in line with the actual experience of the business;
- Claim amounts, claims inflation, settlement and payment period
    - Allowance for uncertainty associated with variable annuity claims through stochastic simulations of unit funds over a large number of scenarios;
- Amount of expenses
    - Expense assumptions are set in line with the most recent operating plan and are reviewed at least annually;
- Expected future developments
    - Legal, social and economic developments are monitored on an on-going basis with allowance for these factors made as appropriate;
- Policyholder behaviour

    - Variable annuity cash-flow projections allow for dynamic policyholder behaviour whereby lapse and withdrawal decisions are based on policy moneyness levels. These assumptions are benchmarked against actual experience at least annually;
- Path dependency
    - The variable annuity cash-flows associated with bonds and pensions are path-dependent (e.g. guarantee level, lapse rate and withdrawal status depend on the evolution of the unit fund). Allowance for path-dependence is made through stochastic simulations of unit funds over a large number of scenarios; and,
- Dependencies between causes of uncertainty
    - Allowance for the dependencies between causes of uncertainty through the use of dynamic policyholder behaviour assumptions for variable annuity business.

Regarding data quality, the following are considered:

- Fitness for purpose;
- Consistency over time;
- Timeliness;
- Adequacy of information technology systems; and,
- Availability of individual policy data and of historical data.

For variable annuity business, no material uncertainties or limitations have been found in the data.

Much of the data and information sources used for reinsurance business have some degree of imperfection and the lead-time between the effective date of data and valuation date may be a year or more due to the way retrocession market operates. Such realities do not prevent the use of the data and information available, but these are considered carefully in determining assumptions that impact the technical provisions.

D.2.5. Simplifications

No other material simplifications are applied in the calculation of technical provisions.

D.2.6. Recoverables from Reinsurance Contracts

The Company holds a reinsurance treaty with BHLN to reduce risks associated with guarantee liabilities from the unit linked bond and pension products. Collateralised assets are held on the Hawthorn Life balance sheet as protection against BHLN default. For the reinsurance business, there is an internal reinsurance arrangement on large single life exposures, which is immaterial overall for the reinsurance business.

D.2.7. Material Changes in Assumptions

Over the period 01.01.2023 to 31.12.2023 Hawthorn Life made the following key changes to assumptions used to calculate the technical provisions:

- GBP risk free rates
    - A model input change was required during 2023 to ensure the GBP yield curve used to calculate the best-estimate liabilities was a suitable match to the EIOPA rates. This change increased the net BEL by £0.3m;
- Lapse rates
    - Variable annuity assumptions were updated in line with experience leading to an adjustment in base and dynamic lapse factors to reflect experience, the impact on the net BEL was an increase of £0.6m;
- Longevity

    - Longevity assumptions were updated in line with favourable experience and the mortality improvement tables were updated to CMI 2021, the impact on the net BEL was a decrease of £2.1m
- Expenses
    - Variable annuity and reinsurance expenses were updated in line with the most recent operating plan and expense allocations. The combined impact on the net BEL was a decrease of £2.0m;
- Growth rates
    - Variable annuity unit growth rates were increased in line with interest rates at the end of 2023. The impact on the net BEL was an increase of £1.1m;
- Contract terms
    - Updating assumptions to allow for revised contract terms on a large reinsurance contract increased the net BEL by £2.2m;
- Risk margin impact
    - The associated impact of the above assumption changes on the Risk Margin was a decrease of £1.0m.

D.2.8. Other Information Relating to Technical Provisions

Hawthorn Life:

- Uses the same basis, methods, models and main assumptions in its valuation for solvency purposes and the valuation in financial statements;
- Does not apply the matching adjustment;
- Does not apply the volatility adjustment;
- Does not apply the transitional risk-free interest rate-term structure; and,
- Does not apply the transitional deduction to technical provisions.

D.3. Other Liabilities

Hawthorn Life values all other liabilities based on the assumption that it will pursue its business as a going concern. Liabilities are valued at the amount for which they could be transferred, or settled, between knowledgeable willing parties in an arm's length transaction.

The Company recognises its other liabilities in conformity with FRS102/103. Where there is a clash between FRS102/103 and valuation principles as set out in Article 75 of Directive 2009/138/EC the company uses the Article 75 valuation method. All expenditure is recognised on an accrual basis (i.e. the non-cash effects of transactions and other events are reflected, as far as possible, in the financial statements for the accounting period in which they occur, and not for example, in the period in which any cash involved is received or paid).

There are no material differences in the valuation bases, methods and assumptions used in the valuation for solvency purposes and those used for valuation purposes within the financial statements.

The amounts receivable or payable in respect of these items are included in the balance sheet until they are settled. These liabilities are held at current value. Included in these liabilities are:

- Deposits from reinsurers held under the reinsurance treaty;
- Insurance and intermediaries payables are liabilities arising out of insurance operations, including amounts payable to policyholders;
- Reinsurance payables under reinsurance treaties; and,
- Payables (trade, not insurance) are liabilities not related to policy expenses.

Table 7: Other Liabilities

	31.12.2023 GBP £m	31.12.2022 GBP £m
Deposits from Reinsurers	9.2	17.0
Insurance and Intermediaries Payables	7.7	10.2
Reinsurance Payables	0.1	7.4
Payables (Trade, not Insurance)	1.7	1.6

D.4. Alternative Methods for Valuation

The Company does not apply any alternative methods of valuation in the calculation of any assets or liabilities.

D.5. Any Other Information

There is no other material information regarding the valuation of assets and liabilities for solvency purposes.

E. Capital Management

The Company's capital consists of share capital, share premium account, deferred tax asset and retained earnings. The capital is considered to be unrestricted 'Tier 1' basic own funds for Solvency II purposes with the exception of the deferred tax asset which is considered to be 'Tier 3' basic own funds. There is currently no intention that the Company will issue other forms of capital, however should it subsequently do so, Hawthorn Life will ensure before issuance that the terms and conditions of any new own funds item are clear and unambiguous, they meet the appropriate Solvency II requirements and are classified correctly.

A Company objective is to efficiently utilise excess capital held, whether by returning it to its parent or achieving a higher return through investment. At the time of approval of this report, there is no set schedule for dividend payment over the three-year business planning period. The most recent ORSA assumed that surplus capital would be used to support new business in accordance with the business plan, rather than returning it to the shareholder.

Hawthorn Life will maintain an appropriate buffer over SCR as per its Risk Appetite Statement while maintaining a Capital Management Policy and a Capital Management Plan. There have been no material changes on capital management objectives, policies and processes over the reporting period.

E.1. Own Funds

The Company's own funds are composed of ordinary share capital of £1.4m, share premium of £75.1m, deferred tax asset of £9.7m and reconciliation reserves amounting to £197.3m. In 2023, the Company paid a dividend of £30.0m. There are no ancillary own funds and own funds items are not subject to transitional arrangements.

Table 8: Own Funds

	31.12.2023 GBP £m	31.12.2022 GBP £m
Ordinary Share Capital (Gross of Own Shares)	1.4	1.4
Share Premium	75.1	75.1
Deferred Tax Asset	9.2	9.7
Reconciliation Reserve	186.4	197.3
Total Basic Own Funds	272.1	283.5

E.1.1. Amount of Eligible Own Funds

All own funds are eligible to cover both solvency and minimum capital requirements and there are no proposed dividends.

E.1.2. Ratio of Eligible Own Funds to SCR / MCR

The company is well capitalised with an SCR coverage of 184% and an MCR coverage of 710%.

Table 9: Ratio of Eligible Own Funds to SCR / MCR

	31.12.2023 GBP £m	31.12.2022 GBP £m
SCR	148.2	163.9
MCR	37.1	41.0
Ratio of Eligible Own Funds to SCR	184%	173%
Ratio of Eligible Own Funds to MCR[15]	710%	668%

E.1.3. Excess of Assets over Liabilities versus Equity as per Financial Statements

There is no difference between the equity as shown in the financial statements and the excess of assets over the liabilities as calculated for solvency purposes.

E.1.4. Other Information

Hawthorn Life has:

- Not taken advantage of any transitional arrangements;
- No items of ancillary own funds;
- No items deducted from own funds; and,
- No restrictions affecting the availability and transferability of own funds within the Company.

[15] Deferred tax asset is not eligible to meet MCR

E.2. Solvency Capital Requirement and Minimum Capital Requirement

E.2.1. Solvency Capital Requirement Split by Risk Module

Table 10 shows the components of the SCR at the 31st of December 2023. The Company calculates its SCR using the Solvency II standard formula.

Table 10: SCR 31.12.2023

	31.12.2023 GBP £m
Equity Risk	9.0
Foreign Exchange Risk	51.1
Interest Rate Risk	20.3
Concentration Risk	0.0
Credit Spread Risk	2.1
Market Risk Diversification	(19.8)
MARKET RISK	**62.8**
Mortality Risk	46.9
Longevity Risk	10.6
Disability Risk	17.3
Lapse Risk	73.8
Life Catastrophe Risks	19.6
Life Expense Risk	13.0
Life Underwriting Diversification	(70.8)
LIFE UNDERWRITING RISK	**110.4**
Disability Risk	2.0
Lapse Risk	0.4
Mortality / Longevity Risks	0.0
Health Expense Risk	0.0
Health Pandemic Risk	0.0
Health Diversification	(0.4)
HEALTH UNDERWRITING RISK	**2.1**
Cash at Banks	0.4
Reinsurer	5.3
Debtors	1.0
Counterparty Diversification	(0.4)
COUNTERPARTY DEFAULT RISK	**6.2**
Risk Module Diversification	(38.8)
OPERATIONAL RISK	**5.5**
TOTAL SOLVENCY CAPITAL REQUIREMENT	**148.2**

The Company did not make an adjustment for the loss-absorbing capacity of deferred taxes within the calculation of the Solvency Capital Requirement as at the 31st of December 2023 (2022: Nil).

E.2.2. Simplified Calculations

Hawthorn Life uses the simplified calculation of the SCR for life catastrophe risk on the variable annuity business. The Company's cash-flow projection model does not allow additive increases to be applied to mortality rates for the first 12 months of the projection for the variable annuity product groups. The mortality risk SCR on the variable annuity business at 31.12.2023 is £0.2m showing that Hawthorn Life's variable annuity business is not sensitive to mortality risk, and given that the life catastrophe risk is £31k (using the simplified calculation) the use of the simplified method is deemed appropriate under the principle of proportionality.

HLD's total *Life Catastrophe Risk SCR* is then calculated as the sum of the *Life Catastrophe Risk SCRs* for the individual product categories across the variable annuity and life reinsurance businesses (which does not use the simplified approach).

E.2.3. Minimum Capital Requirement Inputs

Table 11 shows the inputs used to calculate the Minimum Capital Requirement (MCR).

Table 11: Inputs to MCR

	Total 31.12.2023 GBP £m	Total 31.12.2022 GBP £m
Obligations with Profit Participation - Guaranteed Benefits	0.0	0.0
Obligations with Profit Participation - Future Discretionary Benefits	0.0	0.0
Index-linked and Unit-linked Insurance Obligations	500.2	533.8
Other Life (re)Insurance and Health (re)Insurance Obligations	0.0	0.0
Total Capital at Risk for all Life (re)Insurance Obligations	15,474.1	16,218.4
Linear MCR	**14.3**	**15.1**
Solvency Capital Requirement	148.2	163.9
MCR Cap	**66.7**	**73.8**
MCR Floor	**37.1**	**41.0**
Combined MCR	37.1	41.0
Absolute Floor of the MCR	3.5	3.4
Minimum Capital Requirement	**37.1**	**41.0**

E.2.4. Material Changes to SCR and MCR

Table 12 shows the change in the SCR and MCR over the 12 months to 31.12.2023.

Table 12: Changes to SCR and MCR over 2023

	31.12.2023 GBP £m	31.12.2022 GBP £m	Change GBP £m
Market Risk	62.8	73.2	(10.4)
Life Underwriting Risk	110.4	122.3	(11.9)
Health Underwriting Risk	2.1	2.2	(0.2)
Counterparty Default Risk	6.2	6.9	(0.7)
Risk Module Diversification	*(38.8)*	*(44.2)*	5.4
Operational Risk	5.5	3.4	2.0
TOTAL SOLVENCY CAPITAL REQUIREMENT	**148.2**	**163.9**	(15.7)
TOTAL MINIMUM CAPITAL REQUIREMENT	**37.1**	**41.0**	(3.9)

E.3. Use of Duration Based Equity Risk Sub-Module in Calculation of SCR

Hawthorn Life does not apply the duration-based equity risk sub-module.

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

The company uses the Solvency II standard formula and does not use an internal model.

E.5. Non-compliance with the MCR and Non-compliance with the SCR

There has been no instance of non-compliance with either the SCR or the MCR throughout 2023.

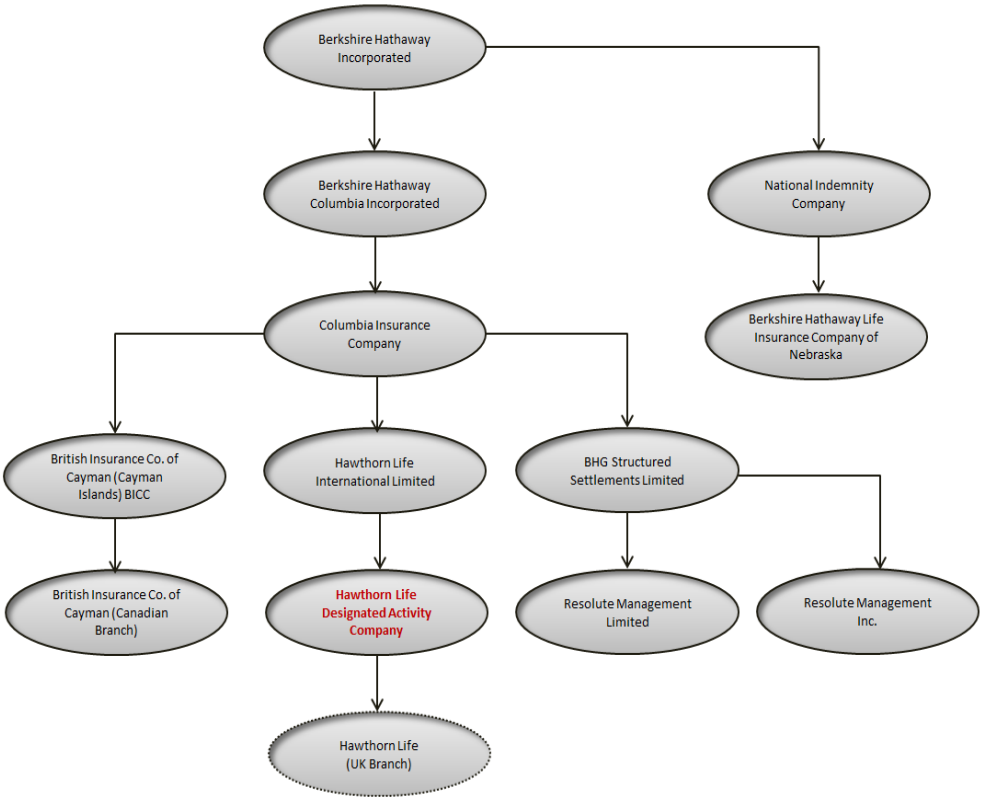
E.6. Any Other Information

Regarding the calculation of solvency requirements:

- The company has not taken advantage of any transitional measures;
- The Company does not apply undertaking specific parameters in the calculation of the SCR; and,
- The Company is not required to apply a capital add-on or required to use any particular undertaking specific parameters in the calculation of the SCR.

Appendix A: Hawthorn Life Position in Group

Figure 1: Hawthorn Life DAC Position in the Legal Structure of Group (Relevant Companies)



Appendix B: Annual Quantitative Reporting Templates

Hawthorn Life

Solvency and Financial Condition Report

Disclosures

31 December

2023

(Monetary amounts in GBP thousands)

General information

Undertaking name	Hawthorn Life
Undertaking identification code	635400RKRNPGLTBBK217
Type of code of undertaking	LEI
Type of undertaking	Life insurance undertakings
Country of authorisation	IE
Language of reporting	en
Reporting reference date	31 December 2023
Currency used for reporting	GBP
Accounting standards	Local GAAP
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: Life insurance and reinsurance obligations
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	
R0040	Deferred tax assets	9,227
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	10
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	156,312
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	0
R0100	*Equities*	0
R0110	*Equities - listed*	
R0120	*Equities - unlisted*	
R0130	*Bonds*	156,312
R0140	*Government Bonds*	156,312
R0150	*Corporate Bonds*	0
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	0
R0190	*Derivatives*	
R0200	*Deposits other than cash equivalents*	0
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	475,753
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	
R0270	Reinsurance recoverables from:	9,247
R0280	*Non-life and health similar to non-life*	0
R0290	*Non-life excluding health*	
R0300	*Health similar to non-life*	
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	55
R0320	*Health similar to life*	0
R0330	*Life excluding health and index-linked and unit-linked*	55
R0340	*Life index-linked and unit-linked*	9,193
R0350	Deposits to cedants	2,317
R0360	Insurance and intermediaries receivables	22,561
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	562
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	5,994
R0420	Any other assets, not elsewhere shown	
R0500	**Total assets**	681,983

S.02.01.02

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	0
R0520	*Technical provisions - non-life (excluding health)*	0
R0530	*TP calculated as a whole*	
R0540	*Best Estimate*	
R0550	*Risk margin*	
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	
R0580	*Best Estimate*	
R0590	*Risk margin*	
R0600	Technical provisions - life (excluding index-linked and unit-linked)	-127,522
R0610	*Technical provisions - health (similar to life)*	379
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	-316
R0640	*Risk margin*	696
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	-127,902
R0660	*TP calculated as a whole*	
R0670	*Best Estimate*	-185,167
R0680	*Risk margin*	57,265
R0690	Technical provisions - index-linked and unit-linked	518,621
R0700	*TP calculated as a whole*	
R0710	*Best Estimate*	509,385
R0720	*Risk margin*	9,236
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	9,193
R0780	Deferred tax liabilities	
R0790	Derivatives	
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	7,701
R0830	Reinsurance payables	140
R0840	Payables (trade, not insurance)	1,702
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	
R0900	**Total liabilities**	409,834
R1000	**Excess of assets over liabilities**	272,149

S.05.01.02

Premiums, claims and expenses by line of business: Life insurance and reinsurance obligations

		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							5,904	66,586	72,490
R1420	Reinsurers' share			2,585					153	2,738
R1500	Net			-2,585	0			5,904	66,433	69,752
	Premiums earned									
R1510	Gross							5,904	66,586	72,490
R1520	Reinsurers' share			2,585					153	2,738
R1600	Net			-2,585	0			5,904	66,433	69,752
	Claims incurred									
R1610	Gross			57,426	91			1,619	29,359	88,494
R1620	Reinsurers' share			34						34
R1700	Net			57,392	91			1,619	29,359	88,460
R1900	**Expenses incurred**			6,578	0			592	7,245	14,415
R2510	**Balance - other technical expenses/income**									2
R2600	**Total technical expenses**									14,417
R2700	**Total amount of surrenders**			29,499	914					30,413

S.12.01.02
Life and Health SLT Technical Provisions

		Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, including Unit-Linked)	Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees					Contracts without options and guarantees	Contracts with options or guarantees			
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
R0010	**Technical provisions calculated as a whole**									0	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
	Technical provisions calculated as a sum of BE and RM																
	Best estimate																
R0030	**Gross Best Estimate**			29,588	479,797		1,073			-186,240	324,218					-316	-316
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default				9,193					55	9,247						0
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re			29,588	470,604		1,073	0		-186,294	314,971					-316	-316
R0100	**Risk margin**		9,236			45				57,220	66,501					696	696
R0200	**Technical provisions - total**		518,621			1,118				-129,019	390,719					379	379

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)	1,406	1,406		0	
R0030	Share premium account related to ordinary share capital	75,150	75,150		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	186,366	186,366			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	9,227				9,227
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**	272,149	262,922	0	0	9,227
	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	272,149	262,922	0	0	9,227
R0510	Total available own funds to meet the MCR	262,922	262,922	0	0	
R0540	Total eligible own funds to meet the SCR	272,149	262,922	0	0	9,227
R0550	Total eligible own funds to meet the MCR	262,922	262,922	0	0	
R0580	**SCR**	148,221				
R0600	**MCR**	37,055				
R0620	**Ratio of Eligible own funds to SCR**	183.61%				
R0640	**Ratio of Eligible own funds to MCR**	709.54%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	272,149
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	85,782
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	186,366
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	216,558
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	
R0790	**Total Expected profits included in future premiums (EPIFP)**	216,558

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	62,814		
R0020	Counterparty default risk	6,219		
R0030	Life underwriting risk	126,003		Catastrophe Risk
R0040	Health underwriting risk	2,052		
R0050	Non-life underwriting risk	0		
R0060	Diversification	-40,213		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	156,876		

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

		C0100
	Calculation of Solvency Capital Requirement	
R0130	Operational risk	5,471
R0140	Loss-absorbing capacity of technical provisions	-14,126
R0150	Loss-absorbing capacity of deferred taxes	
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**	148,221
R0210	Capital add-ons already set	0
R0211	*of which, capital add-ons already set - Article 37 (1) Type a*	0
R0212	*of which, capital add-ons already set - Article 37 (1) Type b*	0
R0213	*of which, capital add-ons already set - Article 37 (1) Type c*	0
R0214	*of which, capital add-ons already set - Article 37 (1) Type d*	0
R0220	**Solvency capital requirement**	148,221
	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

		Yes/No
		C0109
	Approach to tax rate	
R0590	Approach based on average tax rate	0

		LAC DT
		C0130
	Calculation of loss absorbing capacity of deferred taxes	
R0640	LAC DT	
R0650	LAC DT justified by reversion of deferred tax liabilities	0
R0660	LAC DT justified by reference to probable future taxable economic profit	0
R0670	LAC DT justified by carry back, current year	0
R0680	LAC DT justified by carry back, future years	0
R0690	Maximum LAC DT	0

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	14,333

		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	500,192	
R0240	Other life (re)insurance and health (re)insurance obligations	0	
R0250	Total capital at risk for all life (re)insurance obligations		15,474,064

	Overall MCR calculation	C0070
R0300	Linear MCR	14,333
R0310	SCR	148,221
R0320	MCR cap	66,700
R0330	MCR floor	37,055
R0340	Combined MCR	37,055
R0350	Absolute floor of the MCR	3,495
R0400	**Minimum Capital Requirement**	37,055