

# **Managed Pension Funds Limited**

## **Solvency and Financial Condition Report ("SFCR") as at 31 December 2019**

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## Summary

### Business model and strategy

Managed Pension Funds Limited (“MPFL” and “the Company”) is a UK-based insurance company authorised by the Prudential Regulation Authority (“PRA”), and regulated by the Financial Conduct Authority (“FCA”) and the PRA. Its principal activity is to provide pooled investment management services to pension schemes and reinsurance platforms under unit-linked life insurance contracts. The Company’s client base is predominantly in the UK.

The Company offers only unit-linked contracts that offer no investment or liquidity guarantees, and that pass investment and liquidity risk onto the policyholder. MPFL outsources operational activities to SSGAL through an outsourced services agreement under which SSGAL is liable for losses resulting from this activity. State Street Global Advisors Limited (“SSGAL” or “SSGA UK”) provides investment management, sales, marketing, administration and support services to MPFL. The costs to the Company for the provision of these services are met out of MPFL fees charged to policyholders, plus any investment management fees deducted from specific funds less a retention amount due to MPFL. This retention is to enable the Company to meet its direct administrative expenses and to maintain a sufficient capital buffer so as to meet its regulatory obligations. The time horizon used by the Company for its business planning is five years rolling.

### System of governance

MPFL has in place a system of governance designed to be fully compliant with Solvency II and the Senior Managers & Certification Regime, and appropriate to its business.

MPFL’s Board comprises a Non-Executive Chairman, one additional Non-Executive Director, and two further Executive Directors. It meets at least quarterly and has overall responsibility for the governance of the Company.

There are Audit and Nomination Committees to which the Board delegates certain responsibilities. The Board also delegates certain day-to-day management responsibilities of the Company to the MPFL Working Group (“Working Group”), which comprises representatives from areas including Product, Operations, Risk, Finance, Legal, Compliance, Sales and Marketing, and Investment.

The below key functions are also established to support the Board in carrying out its responsibilities.

- Risk management Function;
- Compliance Function;
- Internal Audit Function;
- Actuarial Function; and
- Investment Management Function.

In compliance with Solvency II and the PRA’s Senior Managers & Certification Regime in December 2019, MPFL has policies and procedures in place to ensure that all persons in these capacities meet the requirements and this assertion is reviewed on an ongoing basis.

### Key risks

MPFL is run on a risk-averse basis and writes only unit-linked pension business that offers no guarantees on performance to policyholders. The risks of MPFL unit-linked assets are borne by the policyholders as explained in the policyholder disclosures. Investment risk is absorbed by the policyholders, since they fully fund the sub-funds and the entire return or loss of the sub-funds accrue to the policyholders, less specified fees which compensate the investment manager, administrator, securities lending agent and custodian for their services.

In running the business and managing its investments, MPFL is exposed to the following risks in the Solvency II Standard Formula module:

- Operational Risk;
- Market Risk (including Interest Rate, Equity, Spread, Currency and Concentration risk);

- Counterparty Default Risk; and
- Life Underwriting Risk.

### Underwriting and investment performance

As explained above, MPFL writes only unit-linked pension business that offers no guarantees on performance to policyholders and therefore no traditional underwriting is required. As a result the unit-linked assets and liabilities are closely matched.

The investment income from shareholder assets in the reporting period was £82,770 (2018: £64,472).

The tables below provide analysis of policyholder assets and the technical provisions it matches.

#### Assets held for unit-linked contracts

	2019 £'000	2018 £'000
At 1 January - Assets held for unit-linked contracts	29,976,505	37,269,724
Premiums written	4,109,353	6,077,565
Claims incurred	(5,869,118)	(11,686,400)
Investment return (net of all charges)	4,988,544	(1,684,384)
At 31 December - Assets held for unit-linked contracts	33,205,284	29,976,505

Inflow to policyholder funds decreased by £2 billion from the inflow in 2018, to £4.1 billion, whilst the level of outflow also decreased by £5.8 billion to £5.9 billion. The resulting net outflow from policyholder funds of £1.8 billion was driven by certain public sector clients consolidating their schemes with alternative providers and EU domiciled client withdrawing funds and when combined with a £5 billion investment return on the funds, resulted in a £3.2 billion year on year increase in the value of assets held to cover unit-linked liabilities. In 2018, there were net outflows of £5.6 billion which when combined with a £1.7 billion investment loss, resulted in a decrease of £7.3 billion in the value of assets held to cover unit linked liabilities. Fees charged to policyholders were based on the assets held to cover unit-linked liabilities and so saw a fall year on year.

#### Technical provisions

	2019 £'000	2018 £'000
Financial Statements technical provisions	33,205,284	29,976,505
Value of In-Force ("VIF")	(59)	(56)
Risk Margin	262	336
Solvency II technical provisions	33,205,487	29,976,785

### Capital requirement and own funds structure

The company determines its own solvency needs using the Standard Formula. As per the MPFL Capital Management Policy, the Board has set a capital ratio in excess of 210%. The table below provides the capital requirement and own funds structure of MPFL.

	2019 £'000	2018 £'000
Ordinary share capital (gross of own shares)	5,000	5,000
Reconciliation Reserve	10,536	9,897
<b>Total available own funds</b>	<b>15,536</b>	<b>14,897</b>
Solvency capital requirement (SCR)	4,406	5,989
<b>Minimum capital requirement (MCR)</b>	<b>3,187</b>	<b>3,288</b>
Ratio of Eligible own funds to SCR	353%	249%
<b>Ratio of Eligible own funds to MCR</b>	<b>487%</b>	<b>453%</b>

The total available own funds are classified as Tier 1 unrestricted. This also equates to own funds available and eligible to meet the Solvency Capital Requirement ("SCR") and the Minimum Capital Requirement ("MCR"). MPFL does not apply matching or volatility adjustments. Also, no transitional adjustments have been applied.

Throughout the reporting period the Company has maintained eligible capital above its calculated SCR.

### Significant business or other events

No other significant business changes or other events with material impact on the solvency and financial condition occurred over the reporting period.

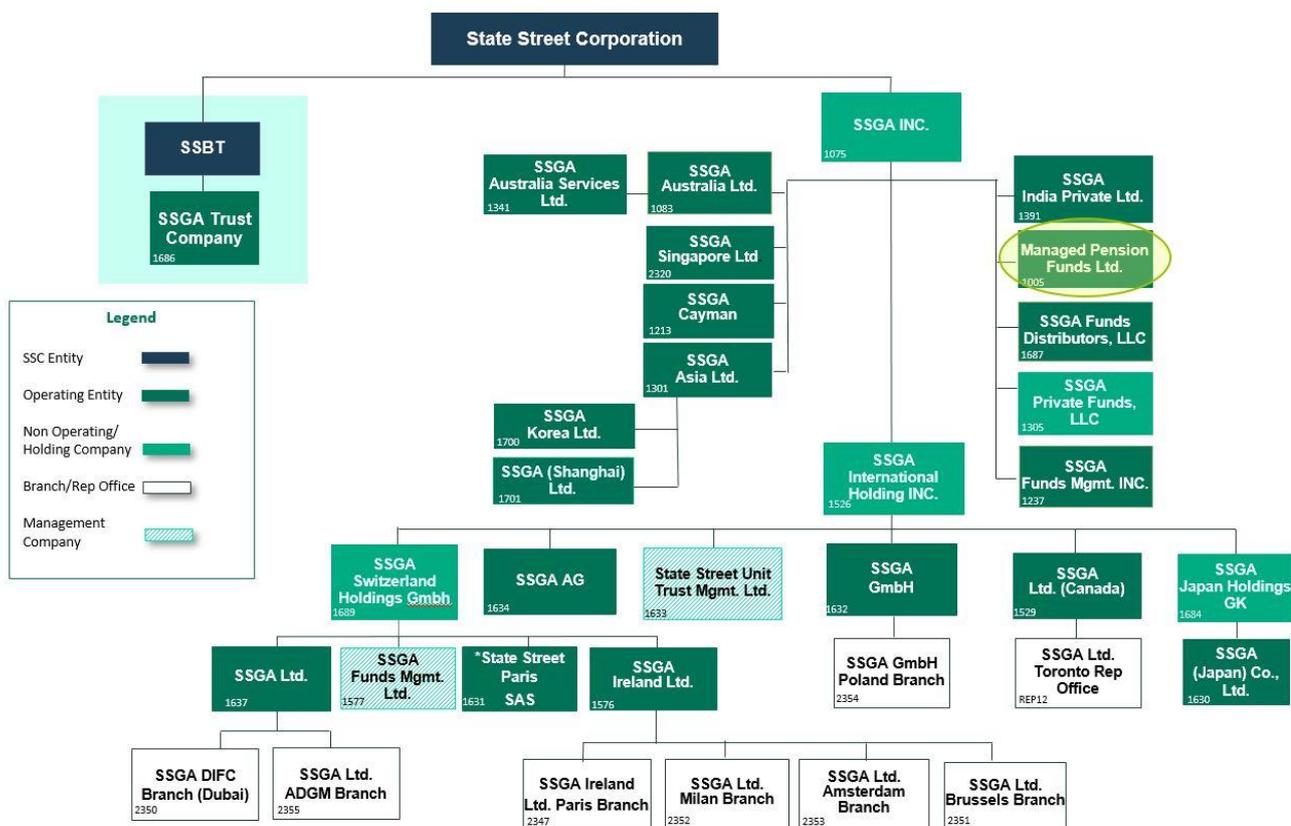
## Section A: Business and Performance

### A.1 Business

#### Company structure

MPFL is a wholly owned direct subsidiary of State Street Global Advisors (“SSGA Inc.”), which is wholly owned by State Street Corporation (“SSC”), the Parent Company of a US-based international financial services group (the “Group”).

The Group organisational structure is as follows as at 31 December 2019:



The Company operates as an integrated part of the Group and has outsourced all investment management, client facing and back office services to other Group companies through contractual agreements. The company has no employees.

#### Supervisory authority

MPFL’s regulators are:

PRA. Their address and telephone number are 20 Moorgate, London, EC2R 6DA; telephone 020 3461 7000.

FCA. Their address and telephone number are 12 Endeavour Square, London, E20 1JN.; Telephone 020 7066 1000.

SSGA Inc.'s regulators are:

Federal Deposit Insurance Corporation ("FDIC"). Their address and telephone number are 550 17th Street, NW, Washington, DC 20429; telephone +1 877-275-3342.

Federal Reserve ("Fed"). Their address and telephone number are 20th Street and Constitution Avenue NW, Mail Stop K-300, Washington, DC 20551; telephone +1 202-452-3000.

#### **External auditor**

MPFL's external auditor is: Ernst & Young LLP, 25 Churchill Place, London E14 5EY; telephone 020 7951 2000.

#### **Actuarial Function being outsourced to Willis Towers Watson**

MPFL's Actuarial Function being outsourced to Willis Towers Watson, Watson House, Reigate, Surrey RH2 9PQ; telephone 01737 241144

#### **Significant business or other events**

No significant business or other events occurred over the reporting period that had a material impact on MPFL.

The impact of Brexit on MPFL is not considered to be material in respect of loss of non-UK assets under management ("AUM"), and the subsequent impact to revenue. At the start of 2019, MPFL European policyholders contributed 3% of AUM and an equivalent proportion of estimated annual revenue, and the retained fee approach mitigates the Income Statement impact of AUM changes.

On 11 March 2020, the World Health Organisation declared the Covid-19 outbreak a pandemic. The situation has continued to evolve rapidly, and it is difficult to fully determine its future impact. In the weeks leading up to that date and subsequently there has been material volatility in global financial markets as a result of concerns over the future impact of the pandemic on the macro-economic environment and uncertainty about the immediate outlook for many companies. This has had a consequential impact on portfolio valuations and the value of assets held to cover unit linked liabilities. However, as a consequence of MPFL's investment management agreement (the "IMA") with SSGAL, the Company will continue to retain an element of fee income and so the impact on shareholder equity is minimal. Even if the fall in asset values is sustained, which in turn leads to a fall in the Company's management fees then the terms of the IMA means that total operating expenses will also decrease leading to a lower regulatory capital requirement and a higher capital coverage ratio.

SSGA Group has activated business continuity planning including a Pandemic Response Policy in response to Covid-19 which includes restricted travel, imposed quarantine periods for locations impacted, canceled conferences, and utilising business recovery locations. The majority of employees have been placed on a remote work rotation program either working from home or at an alternate site.

### **A.2 Underwriting performance**

MPFL writes only unit-linked pension business that offers no guarantees or otherwise provide any benefits beyond the return of funds under management. As a consequence, no traditional underwriting is required.

With regards to the unit-linked pensions business, the costs and rewards of investing are passed on to policyholders. The entire return or loss of the sub-funds accrue to the policyholders, less specified fees which compensate the investment manager, administrator, securities lending agent and custodian for their services. The unit-linked assets and liabilities are therefore closely matched. As MPFL does not undertake traditional underwriting activities, there is no quantitative information on current or previous underwriting performance to report. Covid-19 related market volatility is not expected to impact on underwriting performance.

### **A.3 Investment performance**

MPFL outsources investment management and operational activities to SSGAL through an outsourced services agreement. The design of MPFL is as an investment vehicle. Though the legal form of organisation is as an insurance entity issuing "policies" to its policyholders, the payout under the policies are based solely on the returns of specified MPFL sub-funds that policyholders invest in and which are managed in accordance with specified investment objectives.

The investment performance of the unit-linked funds has no direct impact on MPFL's performance, other than through the seed capital that MPFL places into new unit-linked funds.

MPFL's shareholder assets are predominantly held in a highly rated liquid cash or near cash equivalent, SSGA Liquidity PLC SSGA GBP Liquidity Fund ("SSGA Liquidity Fund"), although, as noted above, shareholder assets may also be used to seed new unit-linked funds from time to time, subject to limits approved by the MPFL Board ("the Board").

MPFL's Other Financial Investments accounted for at fair value through Profit or Loss generate realised gains and losses on disposal and interest receivable which is recognised in the Income statement on an accrued basis and unrealised gains and losses representing the difference between carrying value of seeding investments at the balance sheet date and their purchase price. Covid-19 related market volatility is expected to impact on unrealised gains and losses arising from seeding investments in equity and fixed interest securities which represented 4% of MPFL own funds at 31 December 2019.

The income from shareholder assets in the reporting period was £82,770 (2018: £64,472 ).

There are no securitised investments.

#### **A.4 Performance of other activities**

MPFL retains a fee income upon collection of its policy charges and pays the remainder to SSGAL as investment management fees under the investment management agreement. The retention is to enable the Company to meet its day-to-day direct administrative expenses and maintain a sufficient capital buffer to meet its capital requirements.

The charge paid to SSGAL is intended to cover all the costs in relation to the Group outsourced activities.

MPFL's financial profile is not expected to change materially over the planning period.

The Company has no leasing arrangements in place.

#### **A.5 Any other information**

There is no other information regarding MPFL's business and performance to add as all relevant information has been provided.

## Section B: System of Governance

### B.1 General information on the system of governance

The **Board** is comprised of a non-executive chairman, one additional non-executive director and two executive directors.

It meets at least quarterly, and its principal roles and responsibilities include:

- Setting (reviewing and amending as appropriate) the parameters of any delegations and any authorities to officers and staff engaged within the business and acting on behalf of the Company, including granting signing authorities and/or powers of attorney;
- Reviewing and ensuring the delineation of responsibilities for the Board and members of management of the Company, in particular lines of responsibility at the Company, immediate Parent and Group with respect to risk, compliance, legal, finance and audit;
- Overseeing, implementing and reviewing compliance with the Company's Articles of Association and corporate governance structure;
- Determining the goals and strategies of the Company in the context of the Group and Group strategy and overseeing their implementation;
- Reviewing and approving material new products and services and other business proposals relevant to the Company and its business;
- Ensuring that the Company has sufficient resources including capital and key and experienced staff for the business to meet its objectives and effectively manage risk;
- Considering the adequacy of all management information (and, where necessary requiring its enhancement) and reviewing, monitoring and, where applicable, approving standard reporting on the financial performance of the Company;
- Reviewing the risk appetite statement and monitoring Company performance with respect to risk concentration, liquidity and capital; and
- Modelling, fostering and monitoring the development of a sound culture within the Company and encouraging honest and ethical conduct by the Company and avoiding or appropriately managing conflicts of interest in accordance with the the Group's Standard of Conduct and applicable law and regulation.

The Board has delegated certain responsibilities to a Nominations Committee and an Audit Committee.

The Board has delegated certain day-to-day management responsibilities of the Company to the MPFL Working Group ("Working Group"), which comprises representatives from areas including Product, Operations, Risk, Finance, Legal, Compliance, Sales and Marketing, and Investment.

The **Working Group's** responsibilities include:

- All matters concerning the governance of MPFL;
- Reviewing periodic reporting and other applicable management information for MPFL, including key material risks, compliance, financial, operational or other relevant indicators and recommending or initiating remedial action where appropriate;
- Reviewing and monitoring major outsourcing arrangements that impact MPFL;
- Monitoring adherence to the risk appetite and risk tolerance established by MPFL. Reviewing the current risk exposures for MPFL in relation to the stated risk appetite and tolerance and recommending remedial action, where appropriate;
- Reviewing and approving Group policies that apply to MPFL and recommending revisions, where appropriate; reviewing significant exceptions or breaches to policies and guidelines impacting MPFL and initiating or recommending remedial action, where appropriate;
- Escalating significant matters to be reported to the Board; and

- Periodic review of the MPFL Management Responsibilities Matrix; monitoring the ongoing appropriateness of identified key functions, key function holders, Senior Manager Functions, and the allocation of prescribed responsibilities.

The Board delegates to the State Street Global Advisors Senior Managing Committee (the “SSGA UK SMC”) oversight of the Company’s corporate and fund governance, including those matters delegated by the Company to State Street Global Advisors Limited. The Working Group and the SSGA UK SMC escalate significant matters to the Board as necessary, and report to the Board on their actions under this delegation on a regular basis.

There are various governance committees within the Group, which review and set policies and procedures for the entities operating within the UK and, as applicable, Europe or globally. These committees have responsibilities to the Board and to other State Street entities. They are established to assist and support the Board in key strategic matters, review business activity and risks, and provide support in certain matters.

## **Roles and responsibilities of key functions**

### **Risk Management Function**

The Risk Management function assists the Board, Working Group and Audit Committee governing bodies within the Company in the effective operation of the risk management framework. The designated SMF4 has the responsibility of the Chief Risk Management function. The Chief Risk Management function reports to both the Board and the Working Group in relation to setting and controlling risk exposure.

The Chief Risk Management function conducts the following tasks as applicable to MPFL and detailed in the Risk Management Framework:

- Assisting the administrative, management or supervisory body and other functions in the effective operation of the risk management framework;
- Monitoring the risk management framework;
- Monitoring the general risk profile of the undertaking as a whole;
- Detailed reporting on risk exposures and advising the Working Group and the Board on risk management matters, including in relation to strategic affairs such as corporate strategy, mergers and acquisitions, and major projects and investments;
- Identifying and assessing emerging risks; and
- Working closely with the actuarial function holder.

### **Compliance Function**

As required by Article 46 of the Solvency II Directive, and as part of its internal control system, MPFL has an independent Compliance Function that reports to both the Board and the Working Group on regulatory matters and findings from the execution of the Company’s Compliance Oversight Programme (“COP”). As part of MPFL’s COP, a risk assessment is carried out to assess quantitative and qualitative factors and risks faced by the business that are rated against both inherent and environmental factors. The Head of SSGA EMEA Compliance has been designated with the responsibility of performing the Compliance function for MPFL. The Head of SSGA EMEA Compliance reports to both the Board and the Working Group on all Compliance matters.

### **Internal Audit Function**

In accordance with SUP 10.8.6 and Article 47 of Solvency II rules, MPFL has an independent Internal Audit Function, whose remit enables them to assess the adequacy and effectiveness of MPFL’s internal control system and the system of governance that is in place.

Internal Audit provides the following services:

- Establishing, implementing and maintaining an audit plan setting out the audit work to be undertaken, taking into account the Company’s activities, system of governance and activities outsourced to other Group companies;
- Reporting the audit plan to the Audit Committee;
- Issuing recommendations based on the result of the work carried out and submitting a written report on its observations and management actions on at least an annual basis;

- Validating the closure of issues based on the implementation of agreed management actions;
- Evaluating the adequacy and effectiveness of MPFL's internal control system and other elements of the system of governance; and
- Conducting audits that are not in the audit plan in response to identified risks or request from management or the Board.

As SMF5, the Head of Internal Audit or his delegate attends MPFL's Audit Committee and Board meetings at such times as required. The Audit Committee and the Working Group determine what actions to be taken with respect to each internal audit finding, and ensure those actions are carried out. Furthermore, SSC's Board of Directors and Audit Committee receive copies of all audit reports in relation to the provision of the internal audit services to MPFL. Group companies' management, related to outsourced MPFL activities, are required to prepare a corrective action plan to address issues raised in audits and service organisation control reviews of MPFL, where applicable.

### **Actuarial Function**

MPFL has a Statement of Work in place with Willis Towers Watson for the provision of effective actuarial services to the business as set out in SUP 1.3.13R and Article 48 of the Directive and supporting legislation.

The appointment requires the Chief Actuary, in his role as SMF20, to attend Audit Committee and quarterly Board meetings. The Chief Actuary has a fixed item on the agenda, providing updates to the Board on relevant matters impacting MPFL, any work currently being undertaken and makes recommendations on any issues impacting the business.

### **Investment Management Function**

In his role as SMF7, the Group Entity Senior Manager provides investment oversight and Board representation on the Global Investment Committee which has been established as part of the global governance framework, including for MPFL and SSGAL. The delegation of investment management by MPFL to SSGAL and oversight of this outsourced function is carried out by the Group Entity Senior Manager who provides regular reports to the Board.

### **Finance Function**

In accordance with the requirements of SUP 10.8.1 and Solvency II, the Finance function:

- Prepares a business plan that includes capital planning as part of the Own Risk and Solvency Assessment ("ORSA") process, covering a five-year horizon;
- Monitors the adequacy of financial resources, including capital, following any significant changes to the business profile and strategy of MPFL and on a quarterly basis formally reports to the Board; ensures MPFL at all times meets its Financial Resources Requirement and provides Financial Returns to the FCA and PRA on a timely basis; and
- Ensures that any breaches, or potential breaches, of the Financial Resources Rules are notified to the Compliance Officer promptly.

The Chief Finance Function as SMF2 and Key Function holder ensures that the Board receives timely and accurate financial information in order for them to monitor the business effectively.

### **Material changes to system of governance**

No material changes to the system of governance occurred during the reporting period.

### **Remuneration policy and practices**

The Company has no employees. The Group companies providing outsourced services to MPFL adopt SSC's global remuneration policy. In line with the Solvency II Delegated Regulation, the policy is designed to discourage excessive risk-taking and incorporates measures aimed at avoiding conflicts of interest. The MPFL Board also approves amendments to the Solvency II addendum that forms part of the global remuneration policy.

Key Remuneration Principles are:

- We emphasise total rewards, which means we focus on the total value of all components of our pay package (i.e., salary, benefits and incentive compensation), rather than on the value of each one individually;
- We target the aggregate annual value of our Total Rewards Program to be competitive with our business peers. We also benchmark pay for roles at State Street to relevant peer groups, by business and geographic market;
- We unequivocally support for equal pay for work of equal value. We hold our executive leaders accountable for promoting a diverse workforce and we employ rigorous processes to monitor that our compensation practices are fair and balanced, including administering annual compensation decision-making training for our managers, and have implemented a structured framework designed to guide manager decisions regarding individual pay actions;
- Funding for our total rewards program is subject to affordability and is designed to be flexible based on corporate performance. We continually monitor current and forecasted future performance and adapt our Total Rewards Program to help ensure that State Street can meet its financial commitments;
- We differentiate pay based on performance. Even in years when funding for our Total Rewards Program is constrained, we differentiate pay by individual in order to reward our highest performers;
- We align employees' interests with shareholders' interests by deferring a portion of incentive compensation at increasing percentages for employees with higher incentive compensation awards, and delivery of a portion of incentive compensation in equity-based vehicles with a higher proportion in equity for senior executives; and
- Our compensation plans are designed to comply with applicable regulations and related guidance, including aligning incentive compensation with appropriate risk management principles. We provide incentives that are designed not to encourage unnecessary or excessive risk-taking. There are established process controls and oversight, including incorporation of risk-based metrics into incentive pool funding determinations and individual award decisions. In addition, executive incentive compensation plan awards include significant levels of deferred remuneration and equity-based remuneration, which are further subject to ex-ante and ex-post adjustments (malus forfeiture and clawback inclusive).

In jurisdictions such as the UK where a prescribed maximum ratio between fixed and variable remuneration exists, robust governance processes are in place to oversee compliance with such ratios. In the UK, these are the responsibility of the UK Remuneration Committee and its primary duties are:

- the oversight of the process for identifying and determining the remuneration of EU Identified Staff ("EUIS") in the UK;
- the oversight of decisions made by those with authority to determine the remuneration of EUIS in the UK; and
- holistic oversight of non-UK EUIS remuneration matters, with a view to providing a central forum for consideration of issues and thereby enhancing consistency of approach across State Street EMEA.

Employees of the Group providing the outsourced services are also offered the opportunity to participate in the State Street flexible benefits scheme (the "Flexible Benefits Scheme"). Most benefits are generally consistent across all job grades in a market, although sometimes benefits may vary by job grade or other factors based on prevailing market practices or applicable regulations. Benefits include, but are not limited to, retirement and savings plans as well as health, disability, death, and ancillary benefits which vary by location based upon market practice. State Street does not currently operate any discretionary pension schemes.

Additionally, State Street has developed a methodology to identify individuals as Solvency II Staff who perform roles or conduct activities that can impact the risk profile of MPFL.

The list of Solvency II staff identified as a result of this process is approved by the MPFL Board of Directors.

All Solvency II Staff receive a detailed written communication including background information, MPFL's position and obligations, and the implications of being categorised as Solvency II Staff. The communication also outlines the prohibition on employing personal hedging strategies to undermine the risk alignment effects embedded in their remuneration arrangements.

A link is included in the communication to refer individuals to relevant guidance. All Solvency II Staff are required to acknowledge the communication and confirm receipt and understanding by completing training on State Street's online learning and development platform.

Control functions have reporting lines which are independent from the business units which they supervise and the global management for control functions is responsible for determining remuneration of control function staff, within overall State Street guidelines. Funding for these employees is based on overall corporate results and not by reference to the business units which individual control function employees supervise to avoid potential conflicts of interest.

### **Material transactions**

No material transactions were entered into during the reporting period with shareholders, with persons who exercise a significant influence on the undertaking, and with members of the MPFL Board or MPFL Working Group.

### **Assessment of adequacy of system of governance**

MPFL has in place a system of governance designed to be fully compliant with Solvency II and the Senior Managers & Certification Regime in December 2019 and appropriate to its business. As part of these obligations, MPFL is required to have in place a clear organisational structure and segregation of duties. These are set out in MPFL's Management's Responsibilities Matrix, which is owned by the chief executive and reviewed quarterly by the Working Group. MPFL also has in place permanent Risk Management, Compliance, Internal Audit and Actuarial functions. In addition, it also has in place a suite of policies relevant to its activities. These are reviewed at least annually. MPFL continues to review the adequacy of its systems of governance to ensure it continues to remain appropriate and proportionate to the activities of the business.

## **B.2 Fit and proper requirements**

Under article 294(2) of the Solvency II Delegated Regulation and the PRA's Senior Managers & Certification Regime in December 2019, MPFL is obliged to ensure that all persons who run the organisation or have other key functions are fit and proper. MPFL has policies and procedures in place to ensure that all persons have both the skills and experience that meet the requirements deemed fit and proper. These assessments are made both prior to MPFL submitting any application for regulatory approval to the PRA and on an ongoing basis.

## **B.3 Risk management system including the Own Risk and Solvency Assessment**

### **Risk management strategy and objectives**

The key objectives of MPFL's risk management strategy are to:

- Fully comply with all applicable laws, regulations and corporate policies;
- Ensure MPFL's financial goals and key business performance metrics are consistent with acceptable levels of risk as agreed by the MPFL Board and defined in MPFL policies;
- Foster a culture of risk excellence that extends across MPFL and all of its activities, inclusive of the MPFL business, driving comprehensive risk mitigation techniques and ensuring that identification and escalation of potential risks represent a core responsibility at all levels.

MPFL's approach to risk management is documented in the 2018 Risk Management Framework ("RMF") which includes:

- A clearly defined risk management strategy which is consistent with the overall business strategy;
- A clearly defined risk appetite and overall risk tolerance limits;
- A clearly defined decision-making process;
- Written policies that effectively ensure definition and categorisation of material risks by type to which MPFL is exposed, and the approved risk tolerance limits for each type of risk (i.e. risk appetite statement built into RMF); and

- Reporting procedures and processes that ensure that material risks are identified, managed, monitored, and reported, so as to avoid undue concentration of risk.

MPFL is also required to ensure that persons who hold key functions take into account the information reported within the RMF, as part of their decision-making process.

### **Risk management process**

A key step in the risk management process is the identification of risks.

Risk Identification (“RI”) process leverages the corporate Material Risk Identification (“MRI”) process. The MRI is one of State Street’s primary risk identification programs and utilises a top-down and a bottom-up approach to identify the most significant exposures for the firm across all on- and off- balance sheet risk-taking activities, including credit, market, liquidity, interest rate, operational, fiduciary, business, reputation and regulatory risks. For MPFL, the RI is undertaken as part of the annual ORSA cycle. The primary output is a risk inventory that establishes the material risk exposures MPFL has as a firm. The framework for this process builds on other routine risk assessment and monitoring programmes:

MPFL follows the Group-approved programmes to identify the material risks of the business:

- The Material Risk Identification (“MRI”) process;
- Risk and Control Self-Assessment (“RCSA”) - This is a structured workshop-based programme conducted on an annual basis for UK entities. The programme supports a business assessment of risks and controls used within business activities;
- Loss Event Management, including collection of internal, and monitoring of external, operational loss data and risk events. This provides important information to support the effective management and measurement of operational risk;
- Key Risk Indicators (“KRIs”) - used to monitor the level and trend of the organisation’s risk profile and adherence to risk appetite on at least a quarterly basis. The objective of KRI reporting is to serve as an “early warning” mechanism that allows managers to take proactive action to manage and mitigate risks as exposure changes. KRIs are a key component of MPFL’s escalation process and communicate material exposures to the Board, Working Group and relevant committees; and
- New Business and Product Review and Approval (“NBPRA”). The primary focus of this process is to evaluate the risk inherent in new business and product proposals to the sponsoring business unit, other business units and Group; and new business or products are considered as part of the formulation of the Business Plan. Additionally any changes in the business profile (e.g. significant new business or products) are considered during the MRI process.

### **Implementation and integration**

Aligned to corporate policies, risks are monitored and challenged through MPFL’s governance and committee structure. Responsibilities are allocated as follows:

#### **The Board**

- Reviews, challenges and approves the MPFL risk appetite;
- Monitors actual risk profile against risk appetite;
- Reviews MPFL’s current risk exposures in relation to its stated risk appetite and tolerance, at least quarterly, and monitors remedial mitigating actions as appropriate and tracks to resolution; and
- Aligns with SSC and SSGA group strategy and related risk appetite statements.

#### **The Working Group**

- Oversees the production of strategic plans and budgets incorporating MPFL’s overall risk appetite;
- Drives risk awareness and understanding of risk appetite;
- Challenges proposals for metrics, limits and statements;
- Monitors business specific Risk Appetite Statement (“RAS”) metrics, risk limits and KRIs on an on-going basis and escalate breaches to risk;

- Proactively manages mitigation actions agreed in the event of breaches; and
- Ensures risk appetite is considered in the development of new businesses and products.

### **ORSA process**

MPFL undertakes an ORSA on at least an annual basis through the following process:

- Identification of the risks to which the Company is (or will be) exposed, taking into consideration its business model and the business environment in which it operates;
- Quantification of the internal capital for each measurable risk type recognised within the risk identification phase;
- Projection of the main components of the Statement of Financial Position and the Income Statement over the forecast period. Five-year financial projections, based on MPFL's approved Business Plan, are developed and used as the base case for the ORSA;
- Stress test analysis to assess the vulnerability of the company to exceptional but plausible adverse events. The Board owns the definition and parameterisation of the stress scenarios, in consideration with applicable regulatory requirements. The base case financial model is stressed using a range of severe single and combined stress scenarios to determine the profit and capital impact on MPFL, and to inform the quantification of Pillar 2 requirements;
- Aggregation of capital requirements;
- Assessment versus the Company's risk appetite;
- Verification that the Company's total capital (i.e. its available financial resources) is adequate in terms of size and composition to cover all material risk types to which the Company is exposed, as measured by the total internal capital. Capital requirements are compared to available resources to confirm that MPFL has adequate capital resources; and
- Preparation of ORSA Report, which is reviewed and challenged by the Actuarial function, Subject Matter Experts ("SMEs") and the Working Group and ultimately approved by the Board.

The ORSA is integrated into MPFL's risk management framework and decision-making processes as follows:

- The use of stress testing and scenario analysis are also incorporated within the Company's forecasting of revenues, costs, expected losses and potential regulatory capital requirements;
- Inclusion of ORSA impacts as a standing item on the Working Group and the Board agendas;
- Integration of an assessment of impacts on the future risk management or solvency of the Company into key business decisions such as the launching and seeding of new unit-linked funds;
- The ORSA is used as a core input to the strategic decision making in the Company, in particular in the acquisition of new business;
- The existing risk identification methodology associated with NBPRA, as well as other corporate procedures, considers the ORSA implication of any new initiative impacting the Company as a core input to the decision making process; and
- Quarterly updates of the quantification of material risks in the ORSA are presented to the Board.

### **ORSA review and approval**

As noted earlier in this section, the draft 2019 ORSA Report, based on Statement of Financial Position as at 31 December 2018 was reviewed and challenged by the Working Group as an integral part of the ORSA process, and the final ORSA Report was reviewed and approved by the Board on 26 November 2019.

### **Determination of own solvency needs**

MPFL determines its own solvency needs using the Standard Formula.

### **Interaction between capital management activities and risk management system**

The ORSA forms an integral part of the risk and capital management processes of MPFL. The Board uses the ORSA to maintain an effective link between the Company's risk profile and its capital, thus ensuring that MPFL has adequate capital to cover its risks and operate effectively within its capital framework. In particular, the Board

reviews MPFL's capital adequacy as outlined in the ORSA at each Board meeting or more frequently as necessary, following any significant changes to the business profile and strategy of the Company.

## **B.4 Internal control system**

### **Internal Control System**

MPFL has procedures and processes in place with clear designated lines of responsibility and reporting arrangements. The Company's internal control system ensures compliance with applicable laws and regulations instills good practice and facilitates the identification of non-compliance risk and the assessment of the impact on MPFL of any changes to the legal and regulatory environment.

### **Compliance function**

The Company has an independent Compliance Function that reports to both the Board and the Working Group on regulatory matters and findings from the execution of the Company's COP.

## **B.5 Internal audit function**

As noted earlier, MPFL has an independent Internal Audit Function through an outsourcing agreement that is in place with the Group for the provision of internal audit services. Their remit enables them to assess the adequacy and effectiveness of MPFL's internal control system, Information Technology ("IT") including cyber security robustness and the system of governance that is in place.

Internal Audit attends all MPFL's Audit Committee meetings and also its Board meetings at such other times as required. The Board and the Working Group determine what actions are to be taken with respect to each internal audit finding and recommendation, and ensure those actions are carried out. This function is independent and no conflict of interest arises for the persons carrying out the role.

## **B.6 Actuarial function**

The Actuarial Function is outsourced to Willis Towers Watson under a formal Statement of Work agreed with MPFL. The SSGA EMEA Chief Finance Officer is the SMF2 role holder who provides the internal oversight of the Actuarial Function.

The responsibilities of the Actuarial Function in MPFL cover:

- Coordination of the technical provisions;
- Data quality;
- Monitoring experience;
- Underwriting policy and reinsurance arrangements;
- Internal and external actuarial reporting; and
- Contributing to the risk management system.

Additionally, the Actuarial Function provides advice and an actuarial opinion on asset-liability valuation and matching, the current and prospective solvency position, stress and scenario tests for technical provisions and asset-liability management, and other forms of risk transfer or risk mitigation techniques for insurance risks.

The requirement to coordinate the calculation of the technical provisions can be summarised as the requirement for the Actuarial Function to provide an opinion on whether the technical provisions have been calculated in accordance with the Solvency II rules, and to ensure any approximations and/or limitations have been addressed appropriately. The Actuarial Function is directly responsible for ensuring that the assumptions and methodologies used to value the unit-linked business are appropriate. The Actuarial Function is also responsible for reviewing the SCR.

The Actuarial Function assesses the consistency of the data used in the calculation of the technical provisions against the data quality standards as set out in the Delegated Acts and Implementing Technical Standards and

Guidelines, in particular by assessing the adequacy of the data checks carried out by MPFL. The Actuarial Function carries out independent high-level checks on the information supplied to the Actuarial Function for consistency with MPFL's report and accounts, including checks that the individual asset data supplied reconcile with the total non-unit and unit-linked funds and that any movements can be explained.

The Actuarial Function verifies the best estimate assumptions used in the calculation on the basis of an annual assessment of the expenses and charges on policies, based on actual experience and the information supplied by the Finance Function. External information on risk-free yields and inflation is expected to be updated on a quarterly basis.

Underwriting policy includes the terms on which new business is written; the Actuarial Function will advise on the impact on the technical provisions and the SCR of any material changes in the terms on which MPFL writes new business, including the introduction of any new products.

The Actuarial Function reports to the Board quarterly and will promptly report to the Working Group any issues arising, either from the information provided or through the work undertaken, that may have a material impact on the financial position of MPFL. The Actuarial Function will also provide input to the Risk Management Function on the risks MPFL runs in so far as they may have a material impact on MPFL's ability to meet its liabilities to policyholders and on the capital needed to support the business, including regulatory capital requirements.

## **B.7 Outsourcing**

An EMEA Outsourcing Policy exists, that is applicable to all UK businesses, legal entities and UK-based branches in place, as such is inclusive of MPFL.

MPFL has appointed a UK senior manager who is responsible for oversight of the business lines' and corporate functions' portfolio of outsourced arrangements (the Outsourcing Oversight Manager); and a UK Outsourcing Arrangement Owner for each arrangement who is responsible for ensuring correct documentation for each arrangement and ongoing oversight of each arrangement.

It has developed and implemented a programme to:

- Identify all internal and external arrangements that are categorised as material by the FCA;
- Ensure appropriate contractual agreements are in place;
- Ensure efficient oversight of outsourcing arrangements, including KRI metrics and reporting to the Working Group and the Board;
- Undertake annual outsourcing assessments of in-scope arrangements;
- Provide oversight of IT resilience initiatives underway in group entities; and

The oversight of the outsourced operating model is the responsibility of the Board. The Board delegates to the State Street Global Advisors Senior Managing Committee (the "SSGA UK SMC") oversight of the Company's corporate and fund governance, including those matters delegated by the Company to State Street Global Advisors Limited. The Working Group and the SSGA UK SMC escalate significant matters to the Board as necessary, and report to the Board on their actions under this delegation on a regular basis

## **B.8 Any other information**

There is no other material information regarding MPFL's system of governance to add.

## Section C: Risk Profile

### C.1 Underwriting risk

MPFL writes only unit-linked pension business that offers no guarantees or otherwise provide any benefits beyond the return of funds under management. The Company is therefore not exposed to traditional underwriting risk; only the life expense risk is applicable. Covid-19 related market volatility is not expected to impact on underwriting risk.

### C.2 Market risk

Market risk arising on the unit-linked funds is borne by policyholders, as explained in policyholders disclosures. Market risk for MPFL relates primarily to price fluctuations in the funds where its shareholder assets are placed. As at 31 December 2019, MPFL has £0.76m (2018: £0.93m) of seed money invested in various unit-linked funds and £14.28m (2018: £14.17m) invested in SSGA Liquidity Fund. The seed money is placed in a range of sub-funds with exposure to, for example, bonds, equities and liquidity funds. Seed money is removed from the funds if not required.

The placements in equities on currencies other than GBP amounted to £0.12m triggering an exposure to currency risk. The Spread and Concentration risk on shareholder assets is driven by the exposure to the SSGA liquidity fund and funds with exposure to bonds. As at the reporting date, the portion of the seed money that has an exposure to the SSGA liquidity fund was £0.50m and the exposure for various bond funds were £0.14m.

Interest rate risk is the possibility that changes in interest rates will result in higher or reduced income from MPFL's interest bearing financial assets. MPFL does not hold interest bearing liabilities. MPFL's shareholder assets exposed to interest rate risk are the part of the seed money placed in unit-linked funds that are exposed to bonds. Interest earned or the unrealised gains or losses on valuation of this exposure are reported as part of the Investment Income.

There is also a market risk on the portion of the seed money that is exposed to equity securities in the unit-linked funds.

Following the reporting date Covid-19 market volatility has impacted the portion of seed money held in investments other than the SSGA liquidity fund. This has not materially impacted MPFL market risk.

The total capital requirement in respect of Market Risk calculated using the Standard Formula, as at 31 December 2019 was £0.30m (2018: £0.41m). There were no material changes over the reporting period.

### C.3 Credit risk

Credit risk is the current or prospective risk to earnings and capital arising from an obligor's failure to meet the terms of any contract with MPFL relating to assets held.

Credit risk within the unit-linked funds is borne by the policyholders as explained in policyholder disclosures. The majority of MPFL's other financial investments are held in a highly liquid fund with AAA Standard & Poor's credit rating, therefore the risk of default is considered to be minimal.

The risk of default on policyholder receivables is mitigated due to the ability to compulsorily redeem policyholder units to recover fees (although such redemption would need to be carefully managed). In the event of any quarterly fee premiums being irrecoverable in this manner, under the terms of the investment management agreement with SSGA, the equivalent amounts due to SSGA would be cancelled. To enhance risk mitigation, a process has been put in place that will retain fee income ultimately payable to SSGA in respect of any amounts owed, so this risk falls on SSGA. Covid-19 related market volatility is not expected to impact MPFL credit risk.

Counterparty default risk arises for MPFL based on its cash deposits, which as at 31 December 2019 was £1.09m (2018: £0.49m).

The capital requirement for this risk calculated using the Standard Formula, as at 31 December 2019 was £0.16m (2018: £0.07m).

#### **C.4 Liquidity risk**

Any liquidity risk arising on the unit-linked funds is borne by policyholders, as explained in policyholder disclosures. The Board and the Working Group monitor the liquidity of all unit-linked funds.

MPFL has a liquidity requirement, relating to its ongoing operational expenses and tax liabilities. Cashflows are managed to ensure MPFL's liabilities can be settled as they fall due.

Covid-19 related market volatility is not expected to impact MPFL liquidity risk.

There were no material changes over the reporting period.

#### **C.5 Operational risk**

MPFL seeks to effectively manage and mitigate Operational risk in support of achieving its objectives and to fully comply with all regulatory requirements.

Group companies provide operational services to MPFL for which any claim could arise. These services are governed by arm's length agreements, each of which require the service provider to make good any operational losses on behalf of an MPFL policyholders or an MPFL fund, arising from its negligence, wilful default, fraud, or, in respect of SSGAL, consequential losses. These services include an IT component which address IT resilience and cyber security.

MPFL considers that Operational Risk is successfully mitigated due to these service agreements. The oversight of all outsourced functions is the responsibility of the Board.

Covid-19 related market volatility is not expected to impact MPFL operational risk.

The capital requirement for this Risk calculated using the Standard Formula, as at 31 December 2019 was £4.14m (2018: £5.58m). There were no material changes over the reporting period.

#### **C.6 Other material risks**

##### **Group Risk**

Group risk is defined as the risk that the financial position of a Company may be adversely affected by its relationships (financial or non-financial) with other entities in the same group or by risks which may affect the financial position of the whole group, for example reputational contagion.

MPFL is a subsidiary of State Street Global Advisors Inc. ("SSGA Inc."), which sets the global SSGA strategy. As a member of a larger group, MPFL is exposed to Group risk through the following areas:

- Contagion risk as a result of reputational damage or group financial pressures; and
- Intra-group exposures with operational dependencies between entities.

While it is unlikely that the Parent will fail, if it were to, MPFL would need to evaluate the viability of its business model.

##### **Risk mitigation techniques**

MPFL is run on a risk-averse basis and writes only unit-linked pension business that offers no guarantees on performance to policyholders. As a result, the risks that remain with MPFL are limited.

Reinsurance is not currently used as a risk mitigation technique for MPFL.

#### **C.7 Any other information**

There is no other material information regarding MPFL's risk profile to add.

## Section D: Valuation for Solvency Purposes

For the purpose of regulatory reporting, MPFL's total assets and liabilities are summarised below. This compares the assets and liabilities as valued and reported in the statutory Financial Statements for the year to 31 December 2019 with the Solvency II values.

	Statutory Financial Statements 31 December 2019	Solvency II 31 December 2019
	£'000	£'000
<b>Assets</b>		
Collective Investments Undertakings	15,047	15,047
Assets held for index-linked and unit-linked contracts	33,205,284	33,205,284
Insurance and intermediaries receivables	8,288	8,288
Receivables (trade, not insurance)	20	20
Cash and cash equivalents	1,660	1,660
<b>Total assets</b>	<b>33,230,299</b>	<b>33,230,299</b>
<b>Liabilities</b>		
Technical provisions - index-linked and unit-linked	33,205,284	33,205,487
Deferred tax liabilities	29	0
Insurance & intermediaries payables	9,124	9,124
Payables (trade, not insurance)	152	152
<b>Total liabilities</b>	<b>33,214,589</b>	<b>33,214,763</b>

### D.1 Assets

#### Value of assets

The valuation methodology used for each type of assets reported in the Solvency II Balance Sheet has been provided as follows:

#### Collective Investments Undertakings

Collective Investments Undertakings are investments that are held in the SSGA Liquidity Fund, with an additional £0.76m (2018: £0.93m) held in unit-linked funds as seed capital. These assets are recognised at either fair market value or nominal value (in the case of cash deposits); they are then measured at fair value using quoted or unquoted market prices.

Assets held for index-linked and unit-linked contracts.

Unit-linked investment contracts written by MPFL are without fixed terms and their value is dependent on the fair market value of the underlying financial assets and derivatives.

The fair values of the underlying financial assets and derivatives are derived in accordance with the valuation hierarchy set out in Delegated Act Article 10(2)-10(5). Methods used maximise the use of observable market inputs for the same or similar instruments and may be grouped as follows:

- Fair value is determined using observable, unadjusted quoted prices in active markets for identical assets ("Level 1").

- Fair value is determined using inputs other than quoted prices included within level 1 inputs that are observable, either directly or indirectly through corroboration with market data (“Level 2”).
- Fair value is determined using inputs that are not observable, reflecting assumptions that the market participants may use in pricing an investment (“Level 3”).

The £33.2bn (2018: £30.0bn) assets held to cover unit-linked liabilities at 31 December 2019 were valued as follows:

	2019 £'000	2018 £'000
Level 1	24,294,699	24,161,868
Level 2	8,797,027	5,450,739
Level 3	1,602	268
Net receivables on unit-linked funds	111,956	363,630
	<b>33,205,284</b>	<b>29,976,505</b>

For both 31 December 2019 and 2018, Level 1 valuation applied to listed equities and liquidity funds. Level 2 valuation applied to bonds, mutual funds and derivatives, and Level 3 valuation applied to equity investments that were suspended or unquoted.

Net receivables amounts are non-derivative financial assets with fixed or determinable payments that originate from contracts and are not quoted in an active market. The value per the financial statements is assessed to be equivalent to the value required under Solvency II.

#### **Insurance and intermediaries receivables**

Insurance and intermediaries receivables are non-derivative financial assets that are initially measured at fair value and subsequently measured at amortised cost using the effective interest rate method where applicable and less any impairment. This is the valuation method used for the financial statements reporting and the result is assessed to be materially equivalent to the value required under Solvency II.

#### **Cash and cash equivalent**

This comprises bank deposits.

#### **Other disclosures**

MPFL's Solvency II Balance Sheet does not include these classes of assets:

- Intangible assets
- Net Deferred tax assets
- Financial or operating lease assets

#### **Explanation of any material differences in valuation bases**

There are no material differences between the bases, methods and assumptions used for valuation of these assets for solvency purposes compared to those used in the valuation for the year end Financial Statements.

## D.2 Technical provisions

### Value of technical provisions

The technical provisions in respect of this business are summarised in the table below:

	2019 £'000	2018 £'000
Direct Business	24,175,396	22,260,105
Reinsurance Accepted	9,029,888	7,716,400
VIF	(59)	(56)
Best Estimate Liabilities	33,205,225	29,976,449
Risk Margin	262	336
Technical Provisions	33,205,487	29,976,785

For the type of unit-linked contracts written by MPFL the best estimate liabilities are calculated as:

- The value of the units allocated to the policies; less
- On a best-estimate basis, the present value of future projected charges less future administrative expenses, up to the end of the Projection Period (the "Value In-Force"). The decrease in the Value In Force ("VIF") amount year on year is a result of a decrease in the retention fee.

#### Contract boundary

As policyholders cannot be compelled to pay future premiums, the contract boundary is assumed to be immediate and, as a consequence, no account is taken of any future premiums that may be paid after the valuation date in determining the VIF.

#### Projection period

In accordance with Article 56 of the Commission Delegated Regulation (EU 2015/35) MPFL uses a simplified approach with a 4 month projection period to calculate its technical provisions that is proportionate to the nature, scale and complexity of the risk underlying its obligations. This reflects the nature of its expense agreements, which mean that changes in the length of the projection term have equal and offsetting effects on the VIF and risk margin such that technical provisions don't change.

#### Risk Margin

The risk margin is calculated as a 6% cost of capital charge on the non-market risk components of the SCR. The 6% cost of capital assumption is prescribed by the regulations. The non-market risk components are, for MPFL, the life underwriting, counterparty and operational risk components of the SCR. Consistent with the proportionality assessment applied to the Technical Provisions, a short projection period is used for the calculation of the risk margin. It is assumed there is no change in the non-market risk components over this period.

#### VIF

The assumptions used in determining the cash-flows in the calculation of VIF are:

- Retained fee income;
- Expense assumptions; and
- Expense inflation assumption.

The terms of the investment mandate agreements (and short four-month projection) mean that a surrender assumption is not required when calculating the best estimate liabilities as it would not affect the level of the Technical Provisions.

The fixed expenses are determined using 2020 budget amounts. The budgeted costs allow for expected inflation at a rate of 2.0% during 2020.

As required by the regulations, the risk-free curves used to discount the cash-flows are the risk-free curves as at 31 December 2019 published by European Insurance and Occupational Pensions Authority (EIOPA), without the volatility adjustment.

### Level of uncertainty associated with the value of technical provisions

For the reasons described above, the simplified approach used does not introduce any uncertainty and therefore no material approximations are used in the calculations.

### Explanation of any material differences between valuation bases

The technical provisions are calculated for solvency purposes as:

- The value of the units allocated to the policies; less
- On a best-estimate basis, the present value of future projected charges less future administrative expenses; plus
- The risk margin, calculated as a 6% cost of capital charge on the non-market risk components of the SCR. The non-market risk components are the insurance, counterparty and operational risk components of the SCR.

The latter two elements are excluded from the value of the technical provisions used in the financial statements. Assets values are the same in both. A reconciliation of the financial statements and Solvency II technical provisions is shown in the table below:

	2019 £'000	2018 £'000
Financial Statements' technical provisions	33,205,284	29,976,505
VIF	(59)	(56)
Risk Margin	262	336
Solvency II technical provisions	33,205,487	29,976,785

### Use of matching adjustment

No matching adjustment has been applied.

### Use of volatility adjustment

The volatility adjustment is not used by MPFL.

### Application of the transitional risk-free interest rate-term structure

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

### Application of transitional deduction

The transitional deduction has not been applied.

### Description of recoverables from reinsurance contracts and special purpose vehicles; and any material changes in the relevant assumptions made in the calculation of technical provisions compared to the previous reporting period

MPFL has no outward reinsurance arrangements and no recoverables from Special Purpose Vehicles.

## Post balance sheet events

Covid-19 related market volatility in financial markets has resulted in a significant fall in unitholder AUMs and corresponding fall in financial statement technical provisions. VIF and risk margin have not been materially impacted by this volatility in the period to end of March 2020.

## D.3 Other liabilities

### Valuation, methodology and assumptions

In line with Article 296(3) of the Delegated Acts and Guideline 10 (Content by material classes of liabilities other than technical provisions), relevant disclosures in relation to other liabilities as per MPFL's Solvency II Balance Sheet are as follows:

#### Insurance & intermediaries payables

Liabilities falling into this class are initially measured at fair value net of transaction costs. These are subsequently measured at amortised cost using the effective interest rate method where applicable. Therefore, the financial statements are prepared as per above valuation method and, as required in Article 9 of the delegated act, other (non-policyholder) liabilities are valued in accordance with international accounting standards (UKGAAP in the case of MPFL) and the valuation method adapted is consistent with the approach set out in the in article 75 of Directive 2009/138/EC (Solvency II Directive).

#### Deferred tax liabilities

Deferred tax liabilities are generally recognised for all taxable temporary differences. They are measured at the tax rates that are expected to apply to the period when the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognised only to the extent that there are appropriate deferred tax liabilities against which the asset can be offset against or it is considered probable that future taxable profits will be available against which the asset can be utilised.

Changes to the regime for taxing UK life insurance companies were made with effect from 1 January 2013. The transitional adjustment calculated in 2012 is being released over the 10 years from 2013 to 2022. This adjustment was as a result of the change from reference to its regulatory surplus/deficit to its profit/loss reported in its statutory financial statements. The amount outstanding as of the reporting date as taxable timing difference is £0.29m (2018: £0.39m). A tax rate of 17% (2018:17%) has been applied in the measurement of the deferred tax liability.

The deferred tax asset relates to differences between the value of assets and liabilities on the Solvency II balance sheet and their value on the statutory account balance sheet. The deferred tax asset has been capped at the level of statutory account deferred tax liabilities available to offset.

#### Payables (trade, not insurance)

Similar to Insurance & intermediaries payables, this is initially measured at fair value net of transaction costs. These are subsequently measured at amortised cost using the effective interest rate method where applicable. Again, the result of this measure is assessed to be materially equivalent to the value required under Solvency II.

#### Other disclosures

There are no additional liabilities to be disclosed on the MPFL's Solvency II Balance Sheet.

#### Reconciliation to financial statements

The bases, methods and assumptions used for valuation of these liabilities for the Financial Statements are assessed to produce results that are materially equivalent to the values required under Solvency II.

## D.4 Alternative methods for valuation

Assets categorised as Level 3 in "D.1 Assets" above were fair valued using inputs that are not observable, reflecting assumptions that the market participants may use in pricing such assets.

**D.5 Any other information**

There is no other material information regarding the valuation of MPFL's assets and liabilities to add.

## Section E: Capital Management

### E.1 Own funds

#### MPFL objectives with regard to managing own funds

It is the policy of MPFL to maintain capital in excess of the level required by its SCR, and to ensure capital adequacy according to its ORSA. Adequate capital should be held against all key material risks, and should remain adequate not just at a point in time, but over the business planning period to account for changes in MPFL's strategic direction, evolving economic conditions, and financial and market volatility, and their effect on the Company's risk profile and capital needs.

The Company's planning period is five years and based on the current Plan, there is no anticipated changes to the Company's business model, its product offering or market. Therefore the risk profile of the Company is not expected to change materially over the planning period.

As at 31 December 2019, 96% (2018: 97%) of assets held to cover basic own funds were investments in Standard and Poor's' AAA rated SSGA Liquidity fund. Over the planning period of the Company it is anticipated that a significant portion of the assets held to cover basic own funds will be held in this highly rated liquidity fund.

MPFL plans to maintain a solvency ratio equal to or above 210% and the strategy to achieve this is by maintaining reserves from profits.

#### Structure, amount and quality of own funds

MPFL currently holds unrestricted Tier 1 Own Funds only as per the below table. Any proposal to change the capital management policy to permit other types of capital instrument would be subject to approval by the Board.

	2019 £'000	Restated 2018 £'000
Ordinary share capital (gross of own shares)	5,000	5,000
Reconciliation Reserve	10,536	9,897
Total basic own funds after deductions	15,536	14,897

In 2019, £7.6million was reclassified from Members' contributions to Reconciliation Reserve in accordance with EIOPA Q&A guidelines published in relation to classification of Own Funds. MPFL received £7.6million contribution in 2015 which carried no obligation to repay or service and therefore for Solvency II purposes this balance increased the total assets of the Company without creating any corresponding liability. The contribution resulted in an increase in excess of assets over liabilities and thus reconciliation reserve.

The eligible amount of Own Funds to meet the SCR and MCR is £15.536m (2018: £14.897m).

#### Explanation of any material differences

The table below presents a reconciliation between equity in the financial statements and basic own funds under Solvency II.

	2019 £'000	2018 £'000
Financial Statement Capital & Reserve	15,710	15,139
VIF	59	56
Risk Margin	(262)	(336)
Valuation of other liabilities	29	38
Solvency II Excess of assets over liabilities	15,536	14,897

**Items subject to transitional arrangements**

There are no items subject to transitional arrangements.

**Ancillary own funds items**

There are no ancillary own funds items.

**Items deducted from own funds**

There are no items deducted from own funds.

**Reconciliation Reserve**

Reconciliation Reserve at the end of the reporting period was £10.53m. This is made up of the following:

- Profit and loss account per statutory accounts for year-end 2019 at £3.10m;
- Capital contribution per statutory accounts for year-end 2019 at £7.60m
- Valuation of other liabilities £0.03m
- VIF £0.06m; and
- Risk Margin (£0.26m).

**E.2 Solvency Capital Requirement and Minimum Capital Requirement****Amounts of SCR and MCR**

MPFL's SCR is £4.406m at the end of the reporting period, and the MCR is £3.187m.

**SCR split by risk modules**

The following Standard Formula risk modules apply to MPFL based on its current operations and investments:

- Operational Risk;
- Market Risk (including Interest Rate, Equity, Spread, Concentration risk and Currency risk);
- Counterparty default; and
- Life Expense risk.

MPFL is not exposed to risks covered by other risk modules or sub-modules of the Standard Formula.

The breakdown of the SCR is shown in the following table:

	2019 £'000	2018 £'000
SCR (Operational Risk)	4,141	5,584
SCR (Market Risk)	302	409
SCR (Counterparty Default Risk)	160	72
SCR (Life Underwriting Risk)	19	20
Undiversified SCR	4,622	6,085
Diversification Benefit	(99)	(62)
LACDT	(117)	(32)
SCR	4,406	5,991

**Use of simplified calculations**

The SCR has been calculated in accordance with the methodology specified under the Standard Formula, which involves applying a series of prescribed stress tests. MPFL does not use any material simplifications in calculating the SCR.

### **Use of undertaking-specific parameters**

MPFL does not use undertaking-specific parameters.

### **Inputs used to calculate MCR**

The MCR is £3.187m. The calculation of the MCR is purely formula based as prescribed in the CDR and is defined as follows:

- i. The linear MCR is calculated as 0.7% of the technical provisions without a risk margin;
- ii. The combined MCR is the linear MCR in (i) above with a floor of 25% of the SCR and a cap of 45% of the SCR applied; and
- iii. The overall MCR is the combined MCR in (ii) above with an absolute floor of €3.7m GBP equivalent applied.

For calendar year commencing 31 December 2019, the prescribed EUR-GBP exchange rate is 0.86133 £ / €.

For MPFL the applicable requirement from this formula at 31 December 2019 is the GBP equivalent of €3.7m (2018: €3.7m).

### **Explanation of any material changes to the SCR and MCR**

There were no material changes to the SCR or the MCR over the reporting period.

### **Post balance sheet events**

Covid-19 related market volatility resulted in minimal impact on SCR due to MPFL's expense agreement and relatively low exposure of shareholder assets to market risk. The basis for calculating operational risk being 25% over the previous 12 months means that short-term changes in AUMs have little immediate effect. However, if global market levels stay at current levels then the total expenses over the previous 12 months will trend down as less management fees are collected such that after 12 months (other things being equal) the operational risk capital, and therefore the SCR, will have reduced by a similar extent to the reduction in AUMs resulting in a significantly greater SCR coverage ratio.

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

Not applicable to MPFL.

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

MPFL does not use an internal model.

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

MPFL has complied with the MCR and SCR throughout the period covered by this Report.

The Working Group continues to monitor capital on a monthly basis to be able to demonstrate continuous compliance with the regulatory capital requirements and technical provisions as per Article 45(1) (b) of the Level I Framework Directive.

### **E.6 Any other information**

There is no other material information regarding the capital management of MPFL.

## Annexure

### Directors' confirmation

The Directors are responsible for preparing the SFCR in accordance with the Prudential Regulatory Authority (PRA) rules and SII Regulations.

The PRA Rulebook for SII firms in Rule 6.1(2) and Rule 6.2(1) of the Reporting Part requires that the Company must have in place a written policy ensuring the ongoing appropriateness of any information disclosed and that the Company must ensure that its SFCR is subject to approval by the Directors.

Each of the Directors, whose names and functions are listed in Directors' Report of the UK GAAP financial statements, confirms that, to the best of their knowledge:

Throughout the financial year in question, the Company has complied in all material respects with the requirements of the PRA rules and SII Regulations as applicable; and

It is reasonable to believe that, at the date of the publication of the SFCR, the Company continues to comply, and will continue to comply in future.

On behalf of the Board



Director

8 April 2020

## Appendix 1 – Reporting templates

### Contents

The table below outlines the QRTs (quantitative reporting templates) that are to be reported under the SFCR and those that are in scope for MPFL:

QRT	QRT Name	Reported / Not reported
S.02.01.02	Balance sheet	Reported
S.05.01.02	Premiums, claims and expenses by line of business	Reported
S.05.02.01	Premiums, claims and expenses by country	Reported
S.12.01.02	Life and Health SLT Technical Provisions	Reported
S.17.01.02	Non-Life Technical Provisions	Not reported
S.19.01.21	Non-Life insurance claims	Not reported
S.22.01.21	Impact of long term guarantees and transitional measures (MCR)	Not reported
S.22.01.22	Impact of long term guarantees and transitional measures (SCR)	Not reported
S.23.01.01	Own funds	Reported
S.25.01.21	Solvency Capital Requirement – for undertaking on Standard Formula	Reported
S.25.02.21	Solvency Capital Requirement – for undertaking using the standard formula and partial internal model	Not reported
S.25.03.21	Solvency Capital Requirement – for undertakings on Full Internal Models	Not reported
S.28.01.01	Minimum Capital Requirement – Only life or only non-life insurance or reinsurance activity	Reported
S.28.02.01	Minimum Capital Requirement – Both life and non-life insurance activity	Not reported

All the templates are reported in thousands in GBP.

## S.02.01.02

## Balance sheet

		Solvency II value
		C0010
<b>Assets</b>		
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	15,047
R0080	<i>Property (other than for own use)</i>	
R0090	<i>Holdings in related undertakings, including participations</i>	
R0100	<b>Equities</b>	0
R0110	<i>Equities - listed</i>	
R0120	<i>Equities - unlisted</i>	
R0130	<b>Bonds</b>	0
R0140	<i>Government Bonds</i>	
R0150	<i>Corporate Bonds</i>	
R0160	<i>Structured notes</i>	
R0170	<i>Collateralised securities</i>	
R0180	<i>Collective Investments Undertakings</i>	15,047
R0190	<i>Derivatives</i>	
R0200	<i>Deposits other than cash equivalents</i>	
R0210	<i>Other investments</i>	
R0220	Assets held for index-linked and unit-linked contracts	33,205,284
R0230	Loans and mortgages	0
R0240	<i>Loans on policies</i>	
R0250	<i>Loans and mortgages to individuals</i>	
R0260	<i>Other loans and mortgages</i>	
R0270	Reinsurance recoverables from:	0
R0280	<i>Non-life and health similar to non-life</i>	0
R0290	<i>Non-life excluding health</i>	
R0300	<i>Health similar to non-life</i>	
R0310	<i>Life and health similar to life, excluding index-linked and unit-linked</i>	0
R0320	<i>Health similar to life</i>	0
R0330	<i>Life excluding health and index-linked and unit-linked</i>	0
R0340	<i>Life index-linked and unit-linked</i>	0
R0350	Deposits to cedants	
R0360	Insurance and intermediaries receivables	8,288
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	20
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	1,660
R0420	Any other assets, not elsewhere shown	
R0500	<b>Total assets</b>	<b>33,230,299</b>

## S.02.01.02

## Balance sheet

		Solvency II value
		C0010
<b>Liabilities</b>		
R0510	Technical provisions - non-life	0
R0520	<i>Technical provisions - non-life (excluding health)</i>	0
R0530	<i>TP calculated as a whole</i>	
R0540	<i>Best Estimate</i>	
R0550	<i>Risk margin</i>	
R0560	<i>Technical provisions - health (similar to non-life)</i>	0
R0570	<i>TP calculated as a whole</i>	
R0580	<i>Best Estimate</i>	
R0590	<i>Risk margin</i>	
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	<i>Technical provisions - health (similar to life)</i>	0
R0620	<i>TP calculated as a whole</i>	0
R0630	<i>Best Estimate</i>	0
R0640	<i>Risk margin</i>	0
R0650	<i>Technical provisions - life (excluding health and index-linked and unit-linked)</i>	0
R0660	<i>TP calculated as a whole</i>	0
R0670	<i>Best Estimate</i>	0
R0680	<i>Risk margin</i>	0
R0690	Technical provisions - index-linked and unit-linked	33,205,487
R0700	<i>TP calculated as a whole</i>	33,205,284
R0710	<i>Best Estimate</i>	-59
R0720	<i>Risk margin</i>	262
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	8,824
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	452
R0850	Subordinated liabilities	0
R0860	<i>Subordinated liabilities not in BOF</i>	
R0870	<i>Subordinated liabilities in BOF</i>	0
R0880	Any other liabilities, not elsewhere shown	
R0900	<b>Total liabilities</b>	33,214,763
R1000	<b>Excess of assets over liabilities</b>	15,536

S.05.01.02

**Premiums, claims and expenses by line of business****Life**

		Line of Business for: life insurance obligations					Life reinsurance obligations		Total	
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance		Life reinsurance
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
<b>Premiums written</b>										
R1410	Gross			3,464,755					644,598	4,109,353
R1420	Reinsurers' share									0
R1500	Net			3,464,755	0	0	0	0	644,598	4,109,353
<b>Premiums earned</b>										
R1510	Gross			3,464,755					644,598	4,109,353
R1520	Reinsurers' share									0
R1600	Net			3,464,755	0	0	0	0	644,598	4,109,353
<b>Claims incurred</b>										
R1610	Gross			5,422,845					446,273	5,869,118
R1620	Reinsurers' share									0
R1700	Net			5,422,845	0	0	0	0	446,273	5,869,118
<b>Changes in other technical provisions</b>										
R1710	Gross			-1,915,291					-1,313,488	-3,228,780
R1720	Reinsurers' share									0
R1800	Net			-1,915,291	0	0	0	0	-1,313,488	-3,228,780
R1900	Expenses incurred			14,800	0	0	0	0	5,528	20,328
R2500	Other expenses									26,112
R2600	Total expenses									46,441

## Premiums, claims and expenses by country

## Life

	C0150	C0160	C0170	C0180	C0190	C0200	C0210
	Home Country	Top 5 countries (by amount of gross premiums written) - life obligations			Top 5 countries (by amount of gross premiums written) - life obligations		Total Top 5 and home country
R1400	C0220	C0230	C0240	C0250	C0260	C0270	C0280
<b>Premiums written</b>							
R1410 Gross	4,107,450						4,107,450
R1420 Reinsurers' share							0
R1500 Net	4,107,450						4,107,450
<b>Premiums earned</b>							
R1510 Gross	4,107,450						4,107,450
R1520 Reinsurers' share							0
R1600 Net	4,107,450						4,107,450
<b>Claims incurred</b>							
R1610 Gross	5,255,924						5,255,924
R1620 Reinsurers' share							0
R1700 Net	5,255,924						5,255,924
<b>Changes in other technical provisions</b>							
R1710 Gross	-3,174,280						-3,174,280
R1720 Reinsurers' share							0
R1800 Net	-3,174,280						-3,174,280
R1900 Expenses incurred	19,985						19,985
R2500 Other expenses							25,672
R2600 Total expenses							45,657

5.12.01.02

Life and Health SLT Technical Provisions

	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)	
	Insurance with profit participation	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	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		24,175,396			9,029,888		9,029,888			33,205,284						
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default																
R0020 associated to TP calculated as a whole									0	0						
Technical provisions calculated as a sum of BE and RM																
Best estimate																
R0030 Gross Best Estimate			-43		-16		-16			-59						
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default										0	0					
R0090 Best estimate minus recoverables from reinsurance/SPV and Finite Re			-43	0	-16					-59						
R0100 Risk margin		191			71		71			262						
Amount of the transitional on Technical Provisions																
R0110 Technical Provisions calculated as a whole										0						
R0120 Best estimate										0						
R0130 Risk margin		0							0	0						
R0200 Technical provisions - total		24,175,544			9,029,943					33,205,487						

Solvency and Financial Condition Report

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

R0010	Ordinary share capital (gross of own shares)
R0030	Share premium account related to ordinary share capital
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings
R0050	Subordinated mutual member accounts
R0070	Surplus funds
R0090	Preference shares
R0110	Share premium account related to preference shares
R0130	Reconciliation reserve
R0140	Subordinated liabilities
R0160	An amount equal to the value of net deferred tax assets
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above
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
R0230	Deductions for participations in financial and credit institutions
R0290	<b>Total basic own funds after deductions</b>
Ancillary own funds	
R0300	Unpaid and uncalled ordinary share capital callable on demand
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand
R0320	Unpaid and uncalled preference shares callable on demand
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC
R0390	Other ancillary own funds
R0400	<b>Total ancillary own funds</b>
Available and eligible own funds	
R0500	Total available own funds to meet the SCR
R0510	Total available own funds to meet the MCR
R0540	Total eligible own funds to meet the SCR
R0550	Total eligible own funds to meet the MCR
R0580	SCR
R0600	MCR
R0620	Ratio of Eligible own funds to SCR
R0640	Ratio of Eligible own funds to MCR
Reconciliation reserve	
R0700	Excess of assets over liabilities
R0710	Own shares (held directly and indirectly)
R0720	Foreseeable dividends, distributions and charges
R0730	Other basic own fund items
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds
R0760	Reconciliation reserve
Expected profits:	
R0770	Expected profits included in future premiums (EPIFP) - Life business
R0780	Expected profits included in future premiums (EPIFP) - Non- life business
R0790	<b>Total Expected profits included in future premiums (EPIFP)</b>

Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
C0010	C0020	C0030	C0040	C0050
5,000	5,000		0	
0	0		0	
			0	
0		0	0	0
0	0			
0		0	0	0
0		0	0	0
10,536	10,536			
0		0	0	0
0				0
0	0	0	0	0
0				
0				
15,536	15,536	0	0	0
0				
0				
0				
0				
0				
0				
0			0	0
15,536	15,536	0	0	0
15,536	15,536	0	0	
15,536	15,536	0	0	0
15,536	15,536	0	0	
4,406				
3,187				
352.63%				
487.50%				
C0060				
15,536				
0				
5,000				
0				
10,536				
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 <sub>NL</sub> 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 <sub>L</sub> Result	232,437	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		33,205,225	
R0240	Other life (re)insurance and health (re)insurance obligations			
R0250	Total capital at risk for all life (re)insurance obligations			
Overall MCR calculation		C0070		
R0300	Linear MCR	232,437		
R0310	SCR	4,406		
R0320	MCR cap	1,983		
R0330	MCR floor	1,101		
R0340	Combined MCR	1,983		
R0350	Absolute floor of the MCR	3,187		
R0400	Minimum Capital Requirement	3,187		

