Souter FT Limited (SFT)

Group Solvency and Financial Condition Report (SFCR) 2018

Summary
With effect from 1 January 2016, a new, harmonised EU-wide regulatory regime for insurance companies came into force ("Solvency II"). The new regulations require insurance companies, under the scope of these regulations, to calculate capital requirements under a new methodology and provide new reporting and public disclosures, some of which is required to be published on the Group's public website.

As prescribed by Chapter XII of the Commission Delegated Regulation (EU) 2015/35 (the "Delegated Acts"), Souter FT Limited ("SFT") is required to prepare a group Solvency and Financial Condition Report ("SFCR") that discloses the following information about the Group in a prescribed format:

1) Business and Performance
2) System of Governance
3) Risk Profile
4) Valuation for Solvency purposes
5) Capital Management

SFT is a single purpose entity holding company that owns a majority stake in the "Mobius Group". The Mobius Group comprises Mobius Life Holdings Limited ("MLH") and Mobius Life Group Limited ("MLG"), and has two operating entities, Mobius Life Limited ("MLL") and Mobius Life Administration Services Limited ("MLAS"). The SFT Group ("Group") comprises SFT and the Mobius Group.

<u>Business and Performance</u>

MLL writes solely unit linked insurance business within two lines of business:

1) The institutional pensions platform is, in substance, an asset administration business operating within the legal structure of a life insurance company. The platform provides pension fund trustees with an opportunity to manage their funds flexibly and efficiently.
2) A bundled Group Personal Pension and Stakeholder business (referred to as the "Defined Contribution business") representing under 5% of assets under administration.

Both lines of business are located in the United Kingdom.

The financial year runs to 31 March each year and the reporting currency is pound sterling ("GBP").

Progress continues to be encouraging. Funds under administration rose to £11,598m (FY 2017 £9,383m), an increase of 24% during the year. Net new inflows during the year were £2,006m (FY 2017 £1,046m) which were supported by positive market returns on underlying funds of £209m.

Growth in funds under administration reflected continuing high levels of interest from advisors and trustees. At 31 March 2018, MLL had 484 corporate clients (FY 2017 395), an increase of 23% during the year.

MLH Group reported a loss before tax of £(422)k (FY 2017 £(778)k) showing a decrease of 46%. The decrease has predominantly been driven by reduced interest costs on loan notes and increasing net revenue from fees on assets under administration, offset by one off costs relating to the implementation of Solvency II and costs relating to the sale of the Defined Contribution business under a Part VII transfer.

On 18 December 2017, MLL signed an agreement to sell the Defined Contribution business to Scottish Friendly Assurance Society Limited under a Part VII transfer. Subject to formal approval from the regulators and court, the transfer is scheduled to complete on 31 October 2018. The transfer will enable MLL to develop its services for the corporate pension schemes market. Post transfer, MLL will provide services to Scottish Friendly Assurance Society Limited under a reinsurance agreement, which mitigates the loss in revenue from the sale of the Defined Contribution business and maintains the balance sheet position of MLL and the Group.

A solo SFCR for MLL was published on 21st July 2018 and can be obtained from the Mobius Life website or from its registered office.

MLAS provides investment administration services to trustees of pension schemes and acts as a service company for the Mobius Group.

System of Governance

The Group is committed to a strong control environment. The Board of Directors is supported by a formal committee structure, which includes committees that cover Audit, Risk and Compliance ("ARC"), Remuneration and Investments, with clearly defined roles and responsibilities apportioned across the directors and senior management team.

The Board of Directors comprises executive and non-executive directors who have the necessary skills and experience to lead and control the company. The Board is responsible for setting the business strategy and ensuring there is a structured approach to the governance and control of the company's business activities. The Board is also responsible for the management of risk in the business, risk framework and oversight of risk policies and process.

There have been no material changes in the system of governance over the reporting period.

Risk Profile

The ARC identifies the business risks which are recorded in the Risk Register maintained by the business. The business is predominantly exposed to four main risks: market risk; lapse risk; operational risk and credit risk. Risks are assessed on an ongoing basis by the senior management team and the CRO and reported to the Board and the ARC on a regular basis.

Valuation for Solvency purposes

Assets and non-insurance liabilities are valued at fair value.

The only difference between the valuation of assets shown in MLH's financial statements and the valuation for Group solvency purposes is tangible assets totalling £414k in the financial statements are given no value for Group solvency purposes.

Technical provisions have been determined as the sum of the unit liabilities, the value of the in-force business ("VIF") and the risk margin.

- The unit liabilities are the value of units allocated to in-force contracts at the valuation date, as disclosed in the financial statements.
- The VIF is a best estimate calculation of the present value of the excess of policy charges over expenses and other outgoings.
- The risk margin is calculated in accordance with methodology set out in the Delegated Acts.

The technical provisions for solvency purposes differ to the technical provisions shown in the financial statements as the technical provisions shown in the financial statements are equal to the unit liabilities.

The only difference between the value of non-insurance liabilities shown in MLH's financial statements and the valuation for Group solvency purposes is a deferred tax liability of £646k included in the valuation for solvency purposes reflecting notional tax on the difference between the technical provisions shown in the financial statements and the technical provisions for solvency purposes.

Capital Management

The Group is required to hold sufficient assets to match its policyholder liabilities at all times and meet its capital and reporting obligations under Solvency II. The Board of Directors of SFT has primary responsibility for SFT and, for Group purposes, is supported by a Board of Directors and formal committee structure within MLG, with clearly defined roles and responsibilities apportioned across the directors and senior management team.

The Group does not use a matching adjustment, volatility adjustment, or transitional adjustment in respect of the risk-free interest rate term structure or transitional deduction in respect of technical provisions.

The Group's ordinary share capital and reconciliation reserve are both Tier 1 unrestricted own funds as per Article 69(a)(i) of the Delegated Acts and are available to cover the Group solvency capital requirement ("Group SCR") and the minimum consolidated Group SCR (the "Group minimum capital requirement" or "Group MCR"). The company does not have any restricted Tier 1 own funds (per Article 80 of the Delegated Acts) and no Tier 3 (per Article 76 of the Delegated Acts) own funds. The minority interests in MLH comprise both Tier 1 and Tier 2 capital. The Tier 2 capital is the minority interest in both the nominal value and the share premium account of the Class D preference shares issued on 26 September 2017 which are classified as MLH Tier 2 own funds (per Article 72 of the Delegated Acts).

The Group SCR as at 31 March 2018 was £6,907k (FY 2017 £9,817k) and the Group MCR was £3,251k (FY 2017 £4,380k). Own funds covering the Group SCR totalled £8,607 k (FY 2017 £9,776k). Own funds covering the Group MCR are restricted (as per Article 82 of the Delegated Acts) to £7,904k (FY 2017 £9,776k with no restriction). The movements in own funds, the Group SCR and Group MCR are explained in Section E. The aforementioned Part VII transfer has been anticipated and factored into the 2018 amounts.

The Group SCR coverage during the financial year ending 31 March 2018 was at times below the target set by the MLG Board. Through the issuance of new ordinary and preference shares by Mobius Life Holdings Limited, the improved credit risk in relation to reinsured assets and shorter projection period applied to the Defined Contribution business, as noted in the MLL SFCR, the Group SCR coverage improved significantly during the year.

A. Business and Performance

A.1 Business

SFT is a private company limited by shares. SFT is classified as an insurance holding company for the purposes of Solvency II group regulation. The company's registered address is:

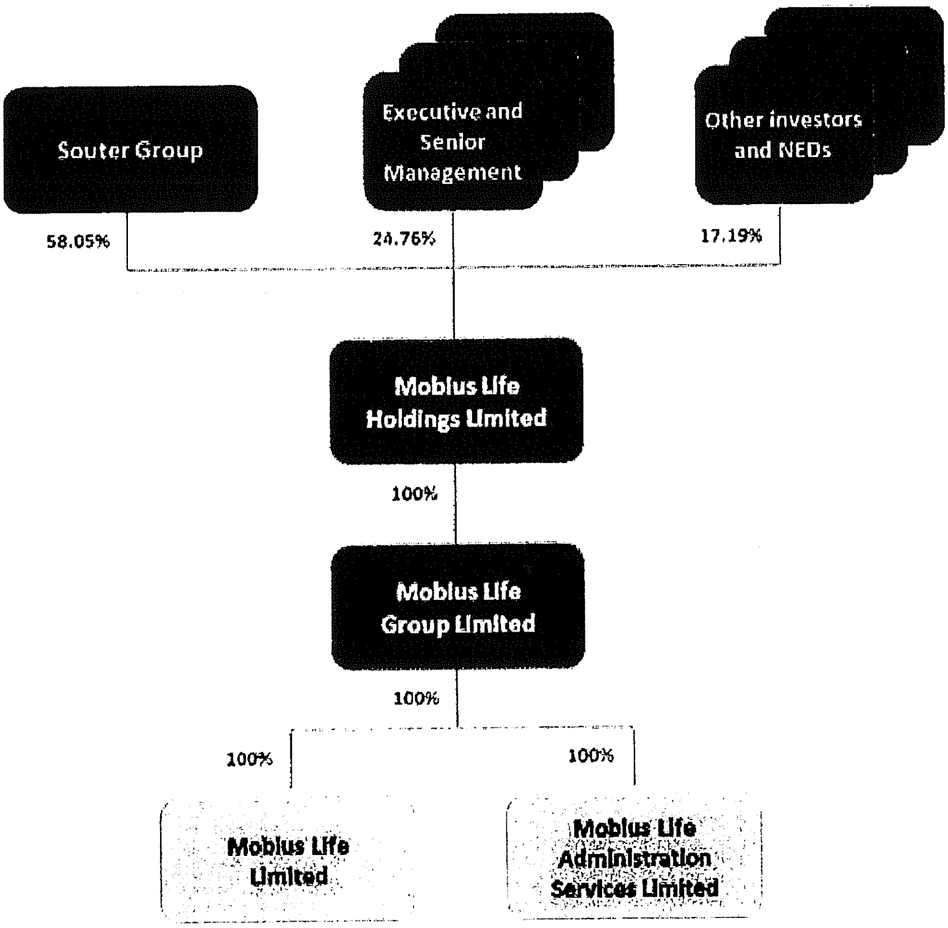
16 Charlotte Square
Edinburgh
EH2 4DF

The operating address of SFT is:

4th Floor
68-70 George Street
Edinburgh
EH2 2LR

The auditors of SFT are Johnston Carmichael LLP whose offices are located at 7-11 Melville Street, Edinburgh, EH3 7PE.

MLL is the principal operating subsidiary of the Group. MLL is authorised and regulated by the Prudential Regulatory Authority ("PRA") (whose offices are located at 20 Moorgate, London, EC2R 6DA, United Kingdom) and regulated by the Financial Conduct Authority ("FCA") (whose offices are located at 25 North Colonnade, London, E14 5HS). The ultimate controlling party of the Group as at 31 March 2017 was the Trustees of the Souter 2011 Family Trust.



The 58.05% ownership of the Souter Group comprises 52.79% held by Souter FT Limited and 5.26% held by related parties.

The sole purpose of SFT is to hold an investment in the Mobius Group. The core business of the Mobius Group is the operation of an institutional pensions platform. In substance, it is an asset administration business operating within the legal structure of a life insurance company. The platform provides pension fund trustees with an opportunity to manage their funds flexibly and efficiently within Trustee Investment Plan polices.

The Mobius Group also has a bundled Individual Personal Pension, Group Personal Pension and Stakeholder business (referred to as the Defined Contribution portfolio), representing under 5% of assets under administration. Again, this portfolio is unit linked.

Both lines of business are carried out within MLL and located in the United Kingdom.

Progress continues to be encouraging. Funds under administration rose to £11,598m (FY 2017 £9,383m), an increase of 24% during the year. Net new inflows during the year were £2,006m (FY 2017 £1,046m) which were supported by positive market returns on underlying funds of £209m.

Growth in funds under administration reflected continuing high levels of interest from advisors and trustees. At 31 March 2018, MLL had 484 corporate clients (FY 2017 395), an increase of 23% during the year.

MLH Group reported a loss before tax of £(422)k (FY 2017 £(778)k) showing a decrease of 46%. The decrease has predominantly been driven by reduced interest costs on loan notes and increasing net revenue from fees on assets under administration, offset by one off costs relating to the implementation of Solvency II and costs relating to the sale of the Defined Contribution business under a Part VII transfer.

MLAS provides investment administration services to trustees of pension schemes and continues to act as a service company for the Mobius Group, of which MLL is the principal operating entity.

MLAS's revenue is generated by the recharge of costs it incurs on behalf of other Mobius group companies and fees earned for undertaking administration activities. The directors of MLAS continue to develop the administration business.

MLAS earned revenue providing administration services which resulted in it making a profit in the current year. The Directors are satisfied with the performance of the MLAS and are encouraged by the opportunities open to it.

The financial year runs to 31 March each year and the reporting currency is pound sterling ("GBP").

On 26 September 2017, MLH completed a capital restructure of the business. Loan notes comprised of £6,272,000 of unsecured loan notes were redeemed in full at their fair value, which included accrued and unpaid loan note interest and the company issued 60,000 T1 ordinary shares of £0.01 each and 3,263,089 D preference shares of £1 each at a total share premium of £4,976,012. The preference shares are only redeemable at the discretion of MLH and are classified as Tier 2 regulatory capital under Solvency II. For financial reporting the preference shares are classified as debt, but have the legal form of shares.

On 18 December 2017, MLL signed an agreement to sell the Defined Contribution business to Scottish Friendly Assurance Society Limited under a Part VII transfer. Subject to formal approval from the regulators and court, the transfer is scheduled to complete on 9 November 2018. The transfer will enable the Group to develop its services for the corporate pension schemes market. Post transfer, MLL will provide services to Scottish Friendly Assurance Society Limited under a reinsurance agreement, which mitigates the loss in revenue from the sale of the Defined Contribution business and maintains the balance sheet position of the Group and MLL.

Solvency II group solvency is determined on a consolidated basis at the level of SFT. SFT is not required to prepare consolidated financial statements for financial reporting purposes (see Section A.5). Consolidated financial statements are prepared by MLH.

A.2 Underwriting Performance

All policies of the Group are classified as investment contracts for accounting purposes. The underwriting performance is limited to consideration of the excess of fee income over expenses and is shown in the table below.

Underwriting performance	2018	2017
	£000	£000
Gross fees deducted from investment managed funds	34,282	37,655
Fees paid to fund managers or advisors or reinvested in funds	(27,519)	(32,174)
Technical income	6,763	5,481
Net operating expenses	(6,011)	(4,645)
	752	836

The increase in net operating expenses has been driven increased headcount and infrastructure development to support the business growth alongside one off costs relating to the implementation of Solvency II and costs relating to the sale of the Defined Contribution business under a Part VII transfer.

A.3 Investment Performance

The Group has bought units on its own account in collective investment schemes which invest in money market instruments and corporate bonds. The amount of income from investments totals £33k.

Collective Investment Schemes invested in:	2018 Income £000	2018 Non Linked Assets £000	2017 Income £000	2017 Non Linked Assets £000
Money market funds	22	4,702	27	4,688
Debt securities	11	929	15	870
Total	**33**	**5,631**	**42**	**5,558**

Expenses relating to investments are negligible.

A.4 Performance of other activities

The Group increased its revenues from the administration of pension schemes investment instructions. Revenue rose to £396k (FY 2017: £219k). Operating profit for the MLAS business, after the recharge of costs to other Mobius Group companies, was £140k (FY 2017: £15k).

A.5 Any other information

The Group has applied the exemption from preparing consolidated accounts under s.400 of the Companies Act 2006. MLH has prepared consolidated financial statements in accordance with applicable UK accounting standards, including Financial Reporting Standard 102 – "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and with the Companies Act 2006.

B. System of Governance

B.1 General information on the system of governance

The Group is committed to a strong control environment. The Board of Directors at SFT provides oversight of the Group and has representation on the Board of each group company. The Board of Directors of SFT has primary responsibility for SFT and, for Group purposes, is supported by a Board of Directors and formal committee structure within MLG, with clearly defined roles and responsibilities apportioned across the directors and senior management team.

The Board of Directors of SFT comprises executive directors who have the necessary skills and experience to lead and control the company.

Board of Directors – SFT

A Macfie
M Shamash (appointed 29 November 2017)
JD Berthinussen

Company Secretary

DM Company Services Limited

The Board of Directors of SFT is supported by a Board of Directors at MLH and MLG which comprises executive and non-executive directors who have the necessary skills and experience to lead and control the Group. The MLH Board is responsible for setting the business strategy. The MLG Board is responsible for ensuring there is a structured approach to the governance and control of the Group's business activities. The MLG Board is also responsible for the management of risk in the business, risk framework and oversight of risk policies and process.

Board of Directors - MLH

J D Berthinussen (Non-executive) (alternate to A J Macfie)
M Christophers (Chairman)
J E Derry-Evans (Non-executive)
M A Griffiths (Non-executive)
A J Macfie (Non-executive)
S S Pereira
A J Smit (Non-executive)
A P Swales
C B Trebilcock

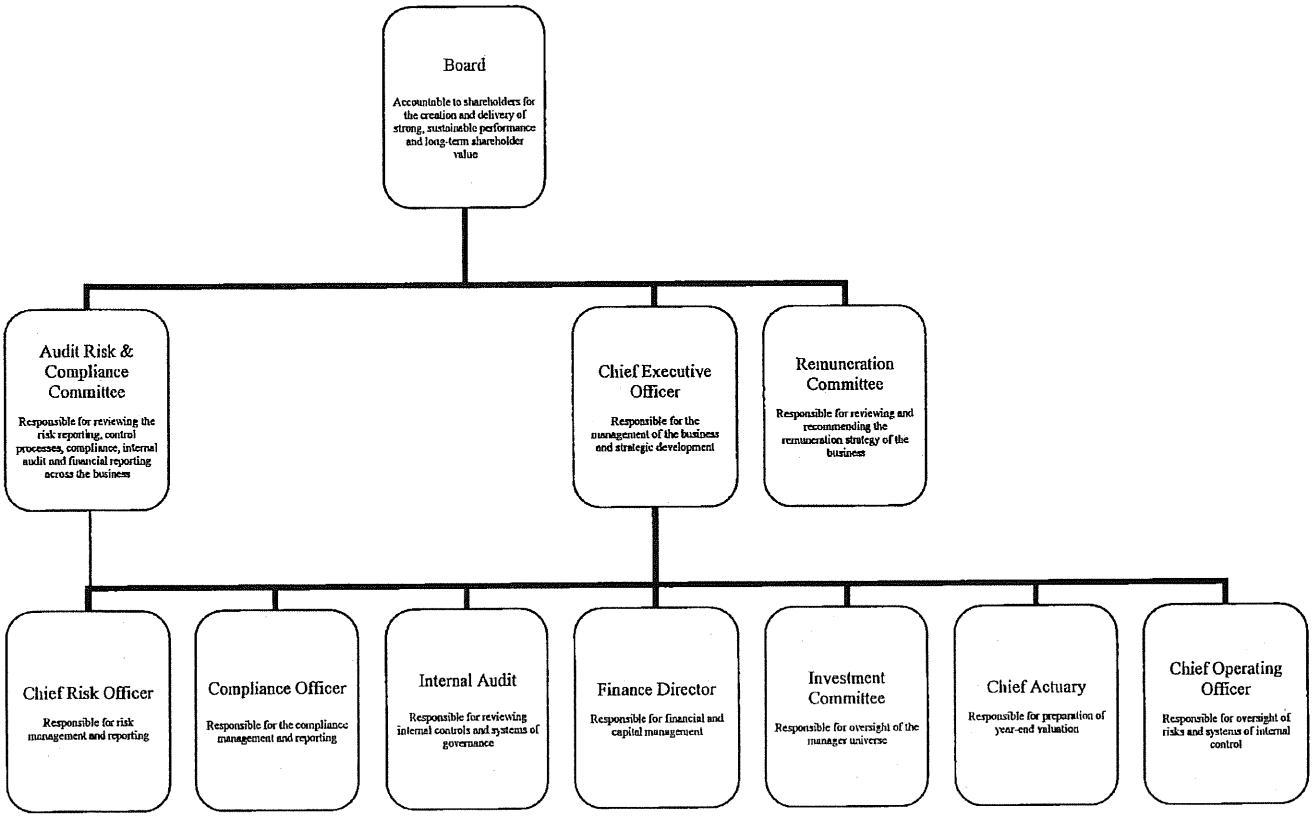
Board of Directors - MLG

M Christophers (Chairman)
L I Catterick
M Goodale (Non-executive) (appointed 1 June 2017)
A J Macfie (Non-executive)
S S Pereira
A P Swales
C B Trebilcock

Mobius Group Company Secretary

L Voss

A number of board sub-committees are in place within the Mobius Group to oversee the control environment. Each committee is made up of directors and relevant senior managers from across the business. These bodies and key functions are:



<u>Audit, Risk and Compliance Committee</u>

The ARC monitors and supervises the effective functioning of the business, providing an objective overview of the operational effectiveness of the Mobius Group's internal systems and reporting, including:

a) ensuring systems are in place to maintain proper and adequate accounting records;

b) ensuring systems are in place to safeguard the Mobius Group's assets against unauthorised use or disposal;

c) reviewing significant cases of employee conflicts of interest, misconduct or fraud, or any other unethical activity by employees or the Mobius Group;

d) reviewing and monitoring the Mobius Group's policies for preventing or detecting fraud;

e) reviewing the Mobius Group's policies for ensuring that the Mobius Group complies with relevant regulatory and legal requirements; and

f) directing and supervising investigations into matters within its scope.

The ARC is responsible for reviewing the risk register in order to monitor financial, regulatory, operational and brand risks of the Mobius Group. It will consider the adequacy of risk management applied to the Mobius Group and adequacy of management's response to key risks, to ensure that a comprehensive system of control is established to ensure that risks are mitigated and that the Mobius Group's objectives are met.

The ARC is responsible for ensuring that the risk management process is aligned to Solvency II requirements, ensuring that a risk management framework is in place:

a) to ensure key risks will be understood, documented and mitigated against;

b) to ensure key risks will have clearly defined owners;

c) to ensure not only are controls in place, but there is positive confirmation that they operate and exceptions are reported to the ARC where material;

d) to ensure the risk management framework will be the process which supports the timely reviews of an Own Risk and Solvency Assessment;

e) to ensure risk reporting takes into account the amount of capital held against each risk under Solvency II principles and the business is managed taking this into account;

f) to ensure the business is on track to meet Solvency II reporting deadlines, including quarterly reporting, and the appropriate stress tests are in place to support this; and

g) to ensure risk appetites shall be defined, agreed and monitored for all key risks impacting capital, earnings, liquidity, customer conduct, regulatory and reputational risks.

The ARC is responsible for:

a) reviewing any statements on ethical standards or requirements for the Mobius Group and assisting in developing such standards and requirements; and

b) giving recommendations on any potential conflict of interest or questionable situations of a material nature.

The ARC ensures the Mobius Group has governance practices in line with the FCA/PRA supervisory approach:

a) consumers can be confident that they are dealing with firms where the fair treatment of customers is central to the corporate culture and that Treating Customers Fairly ("TCF") Principles are applied throughout the group;

b) ensuring the Mobius Group acts in the right spirit by considering the impact of their actions on consumers and markets;

c) governance is forward-looking and pre-emptive, identifying potential risks and taking action before they have a serious impact;

d) is focused on the big issues facing the group and the causes of problems;

e) taking a judgement-based approach focused on achieving the right outcomes;

f) examining the group's business model and culture and the impact its actions have on consumer and market outcomes;

g) an emphasis on individual accountability, ensuring senior management understand they have personal accountability for their actions; and

h) being robust when things go wrong, making sure problems are fixed, consumers are protected and compensated and poor behaviour is rectified along with its root causes.

Investment Committee

The Investment Committee is established by the MLL Board to assist in discharging its duties relating to the safeguarding of assets, the operation of adequate systems, control processes and review of investment strategy. The Committee oversees the range of products and services managed or advised by the Investment Research team. Additionally the committee has investment oversight of all external unit links offered on the MLL platform and its own internal unit linked funds.

The Committee meets quarterly to discuss investment processes, to assess existing managers and consider new managers. Additional meetings are called as and when required. All manager appointments and asset weighting changes are approved by the Committee before any change is undertaken.

Remuneration Committee

The Remuneration Committee is established by the MLL Board to assist in discharging its duties relating to determining, agreeing and developing the general policy on executive and senior management remuneration for approval by the board of MLG in respect of its subsidiary MLL. The committee determines and monitors executive and senior management remuneration, including but not limited to basic salary, benefits in kind, any annual bonuses, performance-based incentives, long term incentives, pensions and other benefits. The committee determines any criteria necessary to measure the performance of executive directors in discharging their functions and responsibilities.

The committee will review (at least annually) the terms of executive directors' employment conditions, taking into account information from comparable companies where relevant and pay due regard to the FCA's Remuneration Code to ensure that:

a) remuneration policies are consistent with effective risk management;
b) decisions are consistent with the firm's financial situation and future prospects;
c) procedures for setting compensation are clearly documented (including measures to avoid conflicts of interest);
d) an assessment of financial performance has been undertaken and documented to calculate the bonus pools;
e) remuneration is not assessed solely on the results of the financial year for which remuneration is being determined;
f) non-financial performance metrics, including adherence to effective risk management and compliance with regulations, forms a significant part of the performance assessment process;
g) the measurement of performance for long term incentive plans takes account of effective risk management and the firm's financial situation and future prospects; and
h) the fixed component of remuneration for all staff is a sufficiently high proportion of total remuneration to allow the regulated companies to operate a fully flexible bonus policy.

All salary increases and bonuses are proposed to and agreed by the Remuneration Committee. Any appointment with a salary above a certain threshold is approved by the MLH Board.

All new staff appointments and related contracts, together with any salary adjustments, are approved by the Chief Executive Officer and the Chief Operating Officer.

The Mobius Group provides a range of benefits to employees, including contractual salary, life cover, private medical insurance and paid holiday. In addition, the Mobius Group pays contributions based on a percentage of salary into a company pension scheme on behalf of its employees (defined contribution scheme).

The Mobius Group operates an annual discretionary award scheme for employees based on the group and individual performance. The relative weighting of fixed and variable compensation will be based partly on the seniority of the position and performance of the individual and business.

On 22 December 2017, MLH issued 12,000 O2 ordinary shares of £0.01 each to three members of staff, two of whom are Executive Directors. The Ordinary O2 shares carry no voting rights.

B.2 Fit and Proper Requirements

The Group is committed to recruiting and developing a deep pool of talent across the business and ensuring that members of staff are competent in the work they do and that their training and development is regularly reviewed as part of a competency based appraisal process.

As part of the recruitment process the Group evaluates the potential employee's existing qualifications, skills, knowledge and expertise for the position the candidate is applying for. This process is also conducted when deciding to promote an existing employee. If there are any gaps identified a training plan is put in place and the employee is supervised whilst they become fully competent in the role.

As part of the ongoing competency assurance all employees are required to complete training modules and pass tests on various topics including Anti-Money Laundering upon joining the Mobius Group, and thereafter participate in refresher training as and when required.

To ensure the fitness and proprietary of new employees we also conduct background checks. The background checks include previous employment referencing and Disclosure and Barring Service ("DBS") checks and credit checks.

The board members of Mobius Group entities and any employees who hold a PRA Senior Insurance Management Function and/or a FCA Controlled Function undergo an annual fitness and proprietary check, which involves attestations in respect of any criminal convictions, legal proceedings, personal solvency, behaviour of both themselves and the companies they currently and previously worked for, and confirmation they continue to abide by the regulations of the PRA and FCA.

An employee handbook incorporating the Mobius Group's code of conduct, business policies and procedures is in place to ensure that all employees follow the highest standard of ethical conduct. The Group promotes an open and honest culture and has defined whistle-blowing procedures in place to enable all employees to raise matters of concern in confidence.

B.3 Risk Management System including the Own Risk and Solvency Assessment

The Board of MLG sets the risk appetite for the firm at business segment level for key risks. The Group has established a risk management framework to identify, measure, manage, mitigate and report the risks of the business and support preparation of the Own Risk and Solvency Assessment. Policies and procedures are reviewed regularly to ensure that risk management is effective and appropriate. Departments within the Mobius Group apply the applicable policies and procedures for each task ensuring that the risk management framework and associated policies and procedures are applied consistently across the organisation.

The Mobius Group's Boards meets quarterly, with management updates in intervening months.

The MLG Board receives the same risk report as the ARC, together with an update from the independent Chairperson of the ARC on the discussion at its meeting. This includes the Risk Register which is maintained by senior management and reviewed quarterly by the CRO. The Risk Register details the business risks identified by the ARC. Against each risk type, a specific risk and description is recorded. The overall gross risk assessment is calculated based on the impact/probability as agreed by the Committee. The mitigating controls and business owner are documented, alongside any actions in place to address the risk.

The CRO monitors the risks of the business by reviewing the Risk Register and reports activity to the ARC and the MLG Board. Senior managers of the business are responsible and accountable for management of the risks associated with their teams' activities.

The ARC assesses the results and challenges management on the control procedures in place to mitigate these risks. All risks are assigned by the CRO to an owner who is then responsible for ensuring the efficiency of the controls over the risk. The responsibilities of the ARC are set out in Section B1 above.

Own Risk and Solvency Assessment ("ORSA")

In line with Solvency II legislation, the Group prepares an ORSA report at least annually, to be submitted to the regulator after due consideration by the MLL and MLG Boards. The Mobius Group has an ORSA policy setting out the ORSA process.

The ORSA process brings together the risk management and business and capital planning processes. One output is the Group's own assessment of the capital required to manage the business (Pillar 2 capital) while meeting its regulatory capital requirement, the Solvency Capital Requirement (Pillar 1 capital).

The capital plan is an output from the planning process, normally carried out in January-March, for approval at the March Board meeting. The planning process takes into account the effects on the ORSA, and will include a forward looking assessment of own risks.

The planning time frame is 3 years: year 1 by month, year 2 at a detailed level but on a full year basis, and top down targets for year 3.

- Revenue is modelled at distribution channel level, with estimates of new money, lost business, and market growth.
- Expenses are modelled at line item level, with a detailed bottom up budget of salaries and IT cost.
- The resulting impact on capital and cash projections are then modelled.
- The key risks, and developing risk trends, are assessed.
- Stresses are assessed and sensitivity analysis performed, with their consequent effect on capital.

The process to produce the annual ORSA report takes place after the bulk of the financial year end work is completed, normally during July-September, by which time full Solvency II capital data is available. Post year end events may then lead to an update of the forward looking assessment of own risks used in the business planning process and the ARC and the MLG Board will consider the impact on business strategy.

The ORSA report reflects the four segments of the business:

- Platform business, seen as a growth area;
- Investment administration services, a new and growing business segment;
- Defined contribution portfolio, being sold under a Part VII transfer with an expected completion date of 31 October 2018; and
- Shareholders' funds.

The risk profile section of the ORSA is structured accordingly.

ORSA Updates

The Group recognises that, in addition to the business as usual process of ORSA preparation, events may trigger the requirement for a review and update of the ORSA. Such events may include, but are not restricted to:

- acquisition;
- loss or disposal of a material part of the business;
- introduction of a new line of business;
- change in senior management;
- failure of a major counterparty; and
- an event, or combination of events, that has or may have resulted in the Group failing to meet one of its capital targets.

The ORSA policy is reviewed annually.

Ownership and responsibility

The production of the ORSA is the responsibility of the MLG Board. To support this, they have:

- defined the risk appetite, considering the three discrete segments mentioned above;
- developed a risk management framework;
- implemented a process to constantly review the Risk Register; and
- ensured that ownership of the management of each risk is clear.

Ownership of the processes and procedures in place to conduct the ORSA lies with the Mobius Group's Finance Director who also owns the maintenance of the detailed ORSA Policy and Record documents.

As part of the ORSA, the MLG Board also reviews whether the methodology used to calculate its Solvency Capital Requirement ("SCR") in its Solvency II Pillar 1 computations is appropriate for the Group.

Own solvency needs

The Group has determined its own solvency needs by using a combination of stress and scenario tests including forward-looking projections that consider the projected solvency position in a central 'best estimate' scenario and a number of adverse scenarios.

The stresses and scenarios considered take into account the nature and specific risks of the business.

The Group has determined the capital required for it to withstand adverse experience equivalent to that which might be encountered once every 200 years over a one-year period.

B.4 Internal Control System

The internal control system operates at several levels within the Group:

a) Board Level – strategic controls through quarterly meetings to assess both the performance, risk and compliance of the business by both executive and non-executive directors
b) Sub-committees – ARC, Investment and Remuneration committee provide the MLG and MLL Boards with support to identify risks and to monitor and develop the internal control environment
c) Business areas – provide day-to-day controls of the business through:
    - appropriate training of staff and segregation of duties;
    - identification of risks;
    - implementation of appropriate controls; and

- ongoing monitoring, review and updating of controls.

Internal controls are applied consistently across departments and legal entities, ensuring that the levels of control are consistent throughout the organisation. Effectiveness of the internal control system is assessed by Internal Audit (see B.5. below).

B.4.1 Compliance Function

Compliance is responsible for providing assurance to the MLG Board in its management of regulatory risk and ensuring that the business' Anti-Money Laundering and Treating Customers Fairly policies and procedures are adhered to. The Compliance Monitoring Programme is designed to review the effective operation of the control processes and ensures members of staff are kept informed of regulatory and legislative changes through a combination of technical updates and internal training courses. The Compliance Officer reports monthly to the Management Committee and quarterly to the ARC and MLG Board. The Compliance Officer operates a breach register to deal with any breach information.

B.5 Internal Audit Function

BDO LLP ("BDO") was appointed in October 2016 to provide internal audit services on an outsourced basis. The Mobius Group is audited throughout the year by BDO following the guidance contained in the Institute of Chartered Accountants technical release AAF01/06, assurance on internal controls of service organisations. BDO completes an AAF01/06 Internal Control Report on an annual basis.

The Internal Audit function reports directly to the Chairperson of the ARC and is independent of Finance and other departments within the Group.

B.6 Actuarial Function

Barnett Waddingham LLP ("Barnett Waddingham") was appointed in January 2017 to provide the Actuarial Function role on an outsourced basis.

The responsibilities of the Actuarial Function are set out in Section 6 of the PRA's Conditions Governing Business Rulebook. The main tasks carried out by this function include coordination of the calculation of technical provisions, ensuring the appropriateness of the technical provisions, reviewing the Group SCR modelling approach, providing input into the ORSA process and reporting to the Board on all of the above. These tasks are set out in the engagement letter between MLL and Barnett Waddingham.

MLL's Chief Executive is responsible for the oversight of the Actuarial Function which is a Solvency II key function.

B.7 Outsourcing

MLAS incurs costs and expenses on behalf of other Mobius Group entities. MLAS generates a revenue by recharging these costs to those entities.

The Mobius Group outsources certain functions after a due diligence process is undertaken to assess the effectiveness of outsourcing vs. carrying out functions internally. The due diligence process will consider, amongst other things, the ability, skillset and resources required, costs and ability to effectively manage the outsourced function and associated risks.

Key relationships include:

1) Barnett Waddingham – Actuarial Function (including Chief Actuary) and CRO roles;
2) BDO – Internal Audit Function

3) AEGON – member administration
4) FRS – IT systems and support
5) ITLabs – IT support

B.8 Any other information

The Group assesses its corporate governance system on a regular basis to ensure it continues to provide an effective framework for the sound and prudent management of the business, taking into account the nature, scale and complexity of the Group and its future growth plans.

C. Risk Profile

All insurance policies written by the Group are investment-only unit linked contracts without guarantees. The investment administration services business in MLAS continues to grow and is considered to be a low risk part of the business.

The ARC identifies the business risks which are recorded in the Risk Register maintained by the business. The business is predominantly exposed to four main risks: market risk; lapse risk; operational risk and credit risk. Risks are assessed on an ongoing basis by the senior management team and the CRO and reported to the MLG Board and the ARC on a regular basis.

As noted in section B.3. the ORSA is prepared at least annually after due consideration by the MLG Board.

The Pillar 1 risk capital is:

£000's	**FY 2018**	**FY 2017**
Market risk	1,903	3,961
Credit risk	4,794	6,113
Underwriting risk	2,248	4,182
Diversification	(2,331)	(4,072)
Sub total	**6,615**	**10,184**
Operational risk	1,284	942
Deferred Tax	(992)	(1,309)
Total capital requirement	**6,907**	**9,817**

The Group does not suffer any direct losses should markets fall as the unit linked structure flows gains and losses directly through to the policyholder. However, fees are charged on a percentage basis of assets under administration and so falling markets generally reduces assets under administration and in turn revenues.

Similarly, lapses result in a loss of assets under management and therefore revenue.

The material components of operational risk are: Financial Reporting and Controls; Investment Operations; New Business Strain; Reputation; Outsourcing; Regulation; IT & Data Security; Project Risk; Succession Planning and Staff Retention. These risks are mitigated through the corporate governance and system of internal controls, which are overseen by the ARC committee and MLG Board.

The Group is exposed to credit risk with respect to bank counterparties and a proportion of the unit linked liabilities where the counterparty is a reinsurance company. The credit risk predominantly arises in respect of the risk of default from the reinsurer. The Group monitors the creditworthiness of reinsurers by reviewing their financial strength and credit ratings from recognised industry sources, where these are available. The reinsurers funds into which the Group invests are unitised investments and carry no typical insurance risk. The reinsurance is structured in such a way that the Group will be treated equally to the reinsurance companies' direct policyholders upon the event of a reinsurer insolvency. The Group is not locked into a reinsurance arrangement for any specified timescale.

The MLG Board monitors the overall risk profile and capital requirements on a Pillar 1 and Pillar 2 basis. The capital management policy sets out solvency targets. The MLG Board and senior management have set internal monitoring thresholds on the key risks of the business. Such thresholds are monitored on an ongoing basis and more formally at monthly management meetings and quarterly meetings of the MLG Board and ARC.

C.1 Underwriting risk

Underwriting risk can be defined as the risk of a change in value due to a deviation of the actual claim payments from the expected amounts of claims payments (including expenses).

MLL is a pure unit linked life insurer and does not bear any insurance risk through its unit linked policies. There is no exposure to claims, mortality or longevity risk. There are no policies with guarantees, and no with-profits policies. Accordingly, underwriting risk is limited to lapse and expense risk. Similarly, the investment administration services business in MLAS does not bear any insurance risk.

Lapse risk is driven by failure to onboard new distribution lines resulting in financial dependency on a limited number of distributors and product offerings, leading to a concentration and dependency on a few large revenue sources.

A senior manager is responsible for appropriate relationship management and accordingly the Group normally has reasonable notice of possible losses of business. A monthly review is conducted for major clients and continued growth of the platform and onboarding of new distributors diversifies the exposure to this risk.

The Group is exposed to the risk that lower than planned business increases, or reductions in business revenues, leads to expense overrun, reducing profitability and impacting capital levels.

To mitigate expense risk, senior management of the Group monitors the actual performance vs. budget plan on a monthly basis to monitor the business activity and expense levels, taking corrective action if necessary by reducing variable costs and discretionary expenditure.

The underwriting risk SCR is not particularly sensitive to changes in the best estimate lapse and expense assumptions. This reflects the short-term projection period over which the value of the in-force business is projected (see Section D). Sensitivity results are shown below.

	Change in Group SCR £000's	**Change in Group SCR cover***
10% increase in best estimate expenses	32	(2)%
2% addition to best estimate lapse rate	88	(2)%

* Group SCR cover is own funds divided by the Group SCR, expressed as a percentage. The change in Group SCR cover is the Group SCR cover under the sensitivity less the Group SCR cover reported at the valuation date.

There have been no material changes over the reporting period to the underwriting risks to which the Group is exposed.

C.2 Market risk

Market risk can be defined as the risk that movements in market factors (such as the valuation of equities or bonds), interest rates, and currency rates impact adversely the value of, or income from, financial assets.

Market risk is measured and monitored through the monthly review of key published indexes and the impact of such market movements on the assets under management of the business is documented in the monthly finance pack. The underlying funds are invested in a diversified range of global asset classes and therefore the MLL Board does not consider the Group to have concentrated exposure to a particular asset class.

Market movements, including those due to currency movements, flow directly to policyholders through the unit linked structure. As such, the impact of unit linked market risk and investment administration services market risk on the Group is limited to falling revenues, which are a percentage of assets under administration. Market movements are monitored on an ongoing basis and the Group can adjust its cost base to mitigate against the impact of falling markets and revenues.

Sensitivity of the Group SCR to changes in the value of linked assets is shown below.

	Change in Group SCR £000's	**Change in Group SCR cover**
10% increase in market value	508	(3)%
10% decrease in market value	(501)	3%

The Group invests £5.6m of its own assets in a small number of collective investment schemes which invest in cash, money-market debt securities and bonds. There is no material exposure to overseas assets. The purpose of this investment is to gain an enhanced investment return for shareholders and to reduce credit risk exposure to banking institutions.

These investments do not have material price sensitivity. Income from these investments and from cash held on deposit with credit institutions is sensitive to interest rates but the amount received is currently small (£44k per annum). The expected impact of changes in interest rates on the fair value of future cash flows of the Group's holdings in these collective investment schemes.

	2018	2017
	£000	£000
Increase of 100bps in interest yields	47	46
Decrease of 50bps in interest yields	(24)	(23)

There have been no material changes over the reporting period to the market risks to which the Group is exposed.

C.3 Credit risk

Credit risk can be defined as the risk of capital or income loss resulting from counterparty default or issuer credit downgrades affecting financial assets. The potential impact of issuer credit downgrades is assessed under the Pillar 1 calculation for market risk.

Counterparty default risk is measured by analysing the maximum counterparty exposure against the probability of default. External ratings, letters of support and other factors are used to determine the appropriate probability of default and hence credit risk of a particular counterparty.

The Group's exposure to assets bearing credit risk at the end of the financial period is:

	2018	2017
Unit linked business	£000	£000
Reinsured investments	269,375	268,353
Deposits with credit institutions	9,329	8,673
	278,704	277,026
Non linked		
Investments in collective investment schemes	5,631	5,558
Debtors (giving rise to credit risk)	837	794
Deposits with credit institutions	3,235	3,101
	9,703	9,453
	288,407	286,479

The Group's unit linked funds are predominantly invested in third-party collective investment schemes or the internal funds of other UK insurers by way of unit linked investment only reinsurance.

Policyholders bear the direct risk of default from assets held within the third-party collective investment schemes and the reinsured funds although any loss of value would result in lower income to the Group.

Policyholders also bear the risk of default by a third party collective investment scheme although the risk of such a default is considered negligible given the legal structure of such funds which require assets to be ring-fenced and held by a depositary independent from the scheme manager.

The Group is exposed to the risk of a reinsurer failing to meet its obligations in respect of reinsured funds held against Defined Contribution policies issued broadly before May 2010. The risk of reinsurance counterparty default on other business falls on the policyholder.

The reinsurance in place is unit linked investment only reinsurance. There is no traditional insurance risk transfer and balances with reinsurers are in substance of the same nature as those with asset managers.

All reinsurance arrangements are with UK insurance companies authorised and regulated by the PRA that are either specialist unit linked companies writing business similar to MLL or companies with a high credit rating who operate unit linked funds.

Following the issue of the Winding Up Regulations April 2003 (updated 2004), MLL has entered into charge agreements with reinsurers whereby a floating charge is made on the reinsurer which crystallises in the event of the reinsurer winding up. This places the reinsurance policy on the same footing as the reinsurer's own direct policyholders, so providing added protection to MLL and its policyholders. This approach is market practice for long-term insurers who enter into investment linked reinsurance arrangements.

MLL monitors the credit ratings and solvency of all reinsurance counterparties to ensure that it or its policyholders are not exposed to undue credit risk.

For there to be any significant impact on the Group, there would have to be an unprecedented failure of a major insurer in the regulated UK market.

Given this, the credit checks and the floating charge, management believe that the reinsurance arrangements only give rise to extremely insignificant levels of credit risk and that the Pillar 1 capital requirement determined using the Solvency II standard formula overstates the true level of risk.

The impact of credit risk on the unit linked business would most likely relate mainly to legal costs arising in the event of a reinsurer or asset manager failing and a potential delay in gaining access to funds.

The Group manages its exposure to credit institutions by monitoring the credit ratings of its counterparties and gaining diversification by investing non linked assets in collective investment schemes.

The credit exposures given as debtors are amounts owed to the Group by third party fund managers and the clients of MLAS.

The sensitivity of the Group SCR to changes in the credit standing of MLL's counterparties is given below.

	Change in Group SCR £000's	**Change in Group SCR cover**
All bank counterparties downgraded by one credit quality step	222	(4)%
Largest reinsurance counterparty reduction in SCR cover equivalent to one credit quality step downgrade	3,232	(41)%

There have been no material changes over the reporting period to the credit risks to which the Group is exposed.

C.4 Liquidity risk

Liquidity risk is defined as the inability of the Group to realise investments and other assets to pay its obligations as they come due. Liquidity risk is measured by considering the amount shareholders' funds held in cash or short term deposits available to cover overheads.

Operational cash flow is strong, and the balance sheet position is reported in the management pack each month. Shareholders' funds held in cash or readily realisable investments are £8.9m; equal to around 18 months of overheads.

However, the Group's shareholder funds held within MLL act as banker to the MLL policyholder funds. From time to time, clients wish to switch or rebalance their portfolios, leading to cash strain depending on the settlement terms of the funds concerned. In such cases, transactions are planned and monitored on a daily basis. Only switches under £1m are supported by shareholder funds.

All policyholder assets are in highly liquid investments: the only exceptions are investments in direct property, where the risk is disclosed to policyholders prior to investment: this is less than 3% of policyholder funds.

To mitigate liquidity risk on unit linked assets, withdrawals deemed significant can be delayed under the terms of the policy wording until the underlying fund managers have settled. In the event of being notified of liquidity issues with an underlying manager, MLL is able to suspend withdrawals from that particular fund. The policy wording additionally allows for the cost of any delay in settlement from a fund manager to be passed onto the underlying policyholder.

There have been no material changes over the reporting period to the liquidity risks to which the Group is exposed.

The Group is required to disclose the 'expected profit included in future premiums' which is essentially the reduction in technical provisions as a result of making allowance for future premiums on existing business. The expected profit included in future premiums as at 31 March 2018 is £2k (2017: £366k). The fall in the expected profit included in future premiums reflects the intended sale of the Defined Contribution portfolio which limits the time period over which future profits are projected.

C.5 Operational risk

The Group's primary risk is operational and it operates a stringent control framework to mitigate this risk.

Operational risk is defined as risk of loss arising from inadequate or failed internal processes, personnel or systems, or external events.

The main risks to the Group are: incorrect client dealing; manager trading; unit pricing or cash settlement leading to financial loss; client complaints and /or reputational damage. Events may include, but are not limited to:

- a client instruction that is processed incorrectly, or
- an underlying trade that doesn't reflect the client intention. For example, this may be a deal that missed the underlying fund dealing cut-off.

The material components of operational risk are set out below and are measured on an expected value basis i.e. probability of the event occurring and loss upon event occurring:

1. Financial Reporting and Controls	Inadequate financial controls or inaccurate financial reporting lead to financial loss, reputational damage, FCA / PRA breaches and / or fines.
2. Investment Operations	Incorrect client dealing, manager trading, unit pricing or cash settlement leading to financial loss, client complaints and/or reputational damage.
3. New Business Strain	An increase in the number of clients and product offerings leads to strain on resource leading to poor client service and operational errors. Risk that transitions team will struggle and operational errors will increase if over stretched.
4. Reputation	Reputational risk arising from failure to manage other risks.
5. Outsourcing	Operational error by outsource providers leads to financial loss, loss of clients and reputational damage e.g. Northern Trust, Managers, Aegon, FRS, Five.
6. Regulation	<u>Regulatory Breach</u> Risks are: 1) legislation is not implemented accurately or timely and FCA rules are breached; 2) legislation is not interpreted correctly; 3) staff do not comply with / understand FCA & PRA rules; 4) material change in regulation or legislation imposed by government has a significant impact on business; and 5) sanctions resulting from financial crime breach of process. <u>Conflicts of Interest</u> Shareholders' interests are considered ahead of policyholders interests. <u>Financial impact of failure of counterparty</u> Change in regulations impacts profitability of business due to reduced revenues, greater costs or increased capital requirements.
7. IT & Data Security	IT fraud leading to financial loss or loss of client data. Reputational and financial damage if Business Continuity Plan fails.
8. Project Risk	Risk that a particular project fails and the Company is unable to meet commitments.
9. Succession planning and staff retention	Risk that business is reliant on individuals, in particular senior management. Turnover increases as staff are not incentivised. Impact on consultants / clients if key staff leave the business.

Mitigating actions to control dealing and investment operational errors include:

- a control procedure detailing all steps is followed on a daily basis. This is completed by the administrators and signed-off by a senior member of the operations team;
- deals placed with the fund managers are monitored and confirmation of receipt is obtained;
- Defined Contribution portfolio dealing is as 'automatic' as possible through the use of STP systems. These systems enforce the dealing cut-offs and reject 'unrecognised' deals;
- a daily review and sign-off of processed and unprocessed deals by a senior member of the operations team to ensure that deals are processed on the correct day;
- new client and fund setup is reviewed by a senior member of the operations team to ensure that system information matches client intentions;
- large switch transactions are reviewed by a member of the asset transfer team; and
- ongoing operational due-diligence to ensure that the funds we use are compatible with our dealing cycle/process

The key controls are:

Maintaining financial records and other records

- Cash positions are completely and accurately recorded and reconciled to third party data
- Unit positions are completely and accurately recorded and reconciled to third party data
- Fund management fees are accurately calculated and recorded
- Clients fees are accurately calculated and recorded
- Pooled funds are priced and administered accurately and in a timely manner

Authorising and processing transactions

- Client new monies, switches and disinvestments are authorised, processed and recorded completely and accurately
- Investment fund transactions are properly authorised, executed and allocated in a timely and accurate manner

Accepting clients

- Client agreements/application forms are completed and authorised prior to initiating investment activity
- Accounts are set up and administered in accordance with client agreements and applicable regulations

Setting fund investment strategy, appointment and monitoring of external fund managers

- Investment strategy is set and implemented in a timely manner
- Selection and appointment of external fund managers is subject to research and is properly authorised
- Performance of fund managers is monitored frequently and against appropriate benchmarks

Client reporting

- Client reporting in respect of fund transactions, holdings and performance is complete and accurate and provided within required timescales

Monitoring compliance

- Funds are managed in accordance with investment objectives and monitored for compliance with investment guidelines and restrictions
- Transaction errors are rectified promptly and clients treated fairly

IT & Data Security

- Logical access to computer systems, programs, master data, transaction data and parameters, including access by administrators to applications, databases, systems and networks, is restricted to authorised individuals via information security tools and techniques
- Segregation of incompatible duties is defined, implemented and enforced by logical security controls in accordance with job roles
- IT processing is authorised and scheduled appropriately and exceptions are identified and resolved in a timely manner
- Data transmissions between the service organisation and its counterparties are complete, accurate, timely and secure
- Appropriate measures are implemented to counter the threat from malicious electronic attack (e.g. firewalls, antivirus etc.)
- The physical IT equipment is maintained in a controlled environment
- Data and systems are backed up regularly, retained off-site and regularly tested for recoverability
- IT hardware and software issues are monitored and resolved in a timely manner
- Business and information systems recovery plans are documented, approved, tested and maintained.

The AAF 01/06 audit review has concluded that all these controls are operating effectively, and this minimises operational risk. Nonetheless operational risk does exist. This type of risk varies with the number and value of the transactions. Management consider that the main risk is not the loss of capital amounts, but trading into incorrect funds or missing a trade, and the need to make good any consequent monetary loss to the client.

A business continuity and disaster recovery plan is in place, with a Business Continuity team and cascade process, and a disaster recovery site is maintained separately from the main business premises. This is tested annually.

The SCR for operational risk is defined, for the insurance business written by the Group, as 25% of the non-acquisition expenses incurred in the year to the valuation date. The same approach is taken for other Group activities subject to operational risk. A 10% increase/fall in such expenses would lead to an increase/fall in the Group SCR of £128k, or a 3% fall/2% rise in solvency coverage.

There have been no material changes over the reporting period to the operational risks to which the Group is exposed.

C.6 Other material risks

All material risks have been reported in the sections above. There are no other material risks to which the Group is exposed.

C.7 Any other information

The Group performs sensitivity, scenario and stress tests to determine the MLG Board's risk appetite for each material risk faced by the business.

Tests are performed annually as part of the ORSA process and assists management with the understanding of the business model and its risks.

A variety of stresses are applied to the balance sheet, with capital being set such that the Group can withstand what are considered to be 1 in 200 year stresses over a one year timeframe. The stresses include forward looking projections and reverse stresses to capture severe events, market shocks and other circumstances that could have a material impact on the business and ultimately may cause part or all of the business to fail.

In addition to setting a target buffer above the Pillar 2 capital requirement, the MLG Board targets a Pillar 1 solvency margin of 100% at the SFT Group level (i.e. own funds equal to the Group SCR).

The Prudent Person Principle set out in Article 132 of Directive 2009/138/EC requires insurers to only invest in assets whose risks can be properly identified, measured, monitored, managed, controlled and reported.

All assets held for its own account or relating to policyholder funds have quoted prices in an active market. Assets can be identified, measured, monitored, managed, controlled and reported on a daily basis.

Policyholder liabilities are closely matched by holding the assets upon which the policyholder liabilities are determined.

D. Valuation for Solvency Purposes

D.1 Assets

As at 31 March 2018, the following assets are held to cover the linked liabilities (31 March 2017 amounts are also shown).

	2018 £000	2017 £000
Units in collective investment schemes	11,596,988	9,372,252
Bank balances	9,329	8,673
Debtors and outstanding settlements	(7,525)	2,313
Total assets held to cover linked liabilities	**11,598,792**	**9,383,238**

The Group has bought units on its own account in collective investment schemes which invest in money market instruments and corporate bonds.

Collective Investment Schemes invested in:	2018 £000	2017 £000
Money market funds	4,702	4,688
Debt securities	929	870
Total assets held on own account	**5,631**	**5,558**

The Group uses the following hierarchy for the determining and disclosing the fair value of financial instruments:

- Level (a) – quoted prices for an identical asset in an active market;
- Level (b) – the price of a recent transaction for an identical asset, provided there has been no material change in economic circumstances or a significant lapse of time; and
- Level (c) – valuation techniques which attempt to estimate what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

All assets in which the Group invests its own or policyholders' funds fall into level (a).

The valuation used to determine the fair value of the collective investment scheme in the financial statements is the quoted price from the fund manager's administrator i.e. the quoted net asset value. This could be based on either the bid, offer or mid-market price depending on the particular manager.

For financial reporting and Solvency II purposes, units are marked to the bid price.

Intangible and tangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation is charged so as to allocate the cost of intangibles and tangibles less their residual values over their estimated useful lives, using the straight line method.

If there is an indication that there has been a significant change in amortisation rate or residual value of an asset, the amortisation of that asset is revised prospectively to reflect the new expectations.

Debtors, including prepayments and accrued income, are initially recognised at the transaction price, including any transaction costs, and are subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

Amounts that are receivable within one year are measured at the undiscounted amount expected to be receivable, net of any impairment.

Where a financial asset constitutes a financing transaction it is initially and subsequently measured at the present value of the future payments, discounted at a market rate of interest.

At each reporting date, the Group assesses whether there is objective evidence that any financial asset may be impaired. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the financial asset. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows. The amount of the provision is recognised immediately in profit or loss.

The only difference between the valuation of assets shown in the Group's financial statements and the valuation for solvency purposes is that certain tangible and intangible assets totalling £414k in the financial statements are given no value for solvency purposes.

MLL provides policyholders access to investment funds managed by other insurance companies. This is facilitated by means of reinsurance contracts between MLL and the third party insurers. Reinsurance contracts are the legal mechanism for accessing the third party insurance funds but the sole purpose of the contracts is to provide an investment vehicle. There is no transfer or reinsurance of any typical insurance risks. As such, the Group reports the value of assets held under reinsurance contracts within the value of assets held to cover linked liabilities rather than as reinsurance recoverables. In the main, the risk of a reinsurer being unable to meet its obligations to MLL is borne by the policyholder although the reinsurer counterparty default risk is borne by MLL on Defined Contribution policies incepted before April 2010. No adjustment is made to the value of assets on a best-estimate basis as the Group considers the risk of default negligible.

There have been no material changes to the recognition and valuation bases over the reporting period. No material assumptions or judgements have been used in the valuation of the assets.

D.2 Technical Provisions

The Group writes unit linked pensions business (within MLL) and provides investment administration services to trustees of pension schemes (within MLAS). Technical provisions are relevant for the unit linked pensions business only.

Technical provisions have been determined as the sum of the unit liabilities, VIF and the risk margin.

The unit liabilities are the value of units allocated to in-force contracts at the valuation date, as disclosed in the financial statements. Following guidance issued by the PRA in November 2017, the unit liabilities are reported as "technical provisions calculated as a whole" on form S.02.01.02 appended to this report. At 31 March 2017 the unit liabilities were included as part of the best estimate liabilities.

The VIF is a best estimate calculation of the present value of the excess of policy charges over expenses and other outgo, where a positive VIF is shown as a negative liability. Following the PRA guidance mentioned above, the VIF is reported as the "best estimate" on form S.02.01.02 in Appendix 1.

The risk margin is determined in accordance with methodology set out in the Delegated Acts.

The technical provisions at 31 March 2018 (and at the previous valuation date) are:

	2018 £000	2017 £000
Unit liabilities	11,598,792	9,383,238
VIF	(3,762)	(8,000)
Risk margin	360	2,067

Total technical provisions	**11,595,391**	**9,377,305**

The change in technical provisions over the reporting period is dominated by the increase in unit liabilities, reflecting net new investments and net positive investment returns on the linked assets.

The reduction in both the VIF and the risk margin are primarily due to a change in the approach to valuing the Defined Contribution business reflecting MLL's intended sale of that business. This is discussed further below.

Methodology and assumptions

The VIF is calculated using a deterministic cash-flow projection method. Material changes in the projection assumptions are discussed below.

The period of the projection differs between Trustee Investment Plan business and the Defined Contribution business, reflecting differences in policy terms and conditions and the intended sale of the Defined Contribution business.

The VIF on the Defined Contribution business at 31 March 2018 has been determined over the period to 31 October 2018. This reflected, at the date of calculation, the expected transfer of that business, subject to Court approval, on 31 October 2018 under the terms of a sale agreement entered into by MLL in December 2017. At the time of writing, the transfer is expected to happen on 9 November 2018. This slight delay has no material impact on the value of the technical provisions. At 31 March 2017 a forty-year projection period was used as, at that time, no sale agreement had been reached.

A short-term projection period is used on the Trustee Investment Plan policies. Although MLL manages its business on a long-term basis, this short-term projection reflects the fact that MLL is able to terminate all such policies by giving policyholders three-months notice and consequently close out long-term risk. The MLL Board consider this to be a proportionate approach in line with Article 56 of the Delegated Acts. The technical provisions determined using a short-term projection are higher than they would be under a long-term projection. The projection period is determined to satisfy the Article 56 requirement that the proportionate methodology should not underestimate the risk associated with the business. At 31 March 2018, a four month projection period has been used (FY 2017: three months). The projection involves estimating the policy charges and expenses cash-flows that MLL expects to receive and incur respectively in each monthly time step of the projection period, based on the business in force at the valuation date and using best estimate projection assumptions. The net cash-flow in each month is then discounted to the valuation date to give a present value.

The policy charge cash-flows are annual management charges ("fee income") which are either deducted directly from unit linked funds, or otherwise invoiced directly to policyholders.

The expense cash-flows fall into three categories:

- investment management fees;
- per-member expenses on the Defined Contribution portfolio; and
- other expenses such as salary, overhead and supplier costs.

Other outgo (a value sharing arrangement in relation to the Defined Contribution portfolio) is also allowed for in the VIF projection.

Where expenses and other outgo are contractually defined, the contractual amounts are taken as the best estimate assumptions.

The assumptions for other expenses are based on MLL's expectations taking into account experience over the twelve months to the valuation date and any anticipated changes. The assumption for other expenses at 31 March 2018 is approximately 30% higher than that used at 31 March 2017. This is primarily due to increases in staff, overhead, and supplier costs, reflecting recent and future growth plans.

Economic assumptions are based on market data at the valuation date.

There is no obligation for policyholders to pay additional premiums on the Trustee Investment Plans and therefore no allowance for future premiums is made in the VIF for such business. The Defined Contribution portfolio has some Auto Enrolment schemes that include compulsory contributions. The VIF has been determined on the basis that members of Auto Enrolment schemes that are currently contributing at or above the compulsory contribution level will continue to contribute the minimum compulsory rate in future (subject to assumptions on the transition of such policies to a non premium paying or transfer-out status).

Withdrawal (transfer-out) assumptions and assumptions for the transition between premium paying and non premium paying statuses are based on actual experience over the four year period to the valuation date, adjusted as necessary to make appropriate allowance for extraordinary events. The transfer-out assumption makes implicit allowance for mortality and death claims are not modelled separately. The immediate transfer out and transfer to non-premium paying status rates at 31 March 2018 are approximately 40% lower and 30% lower respectively compared to the rates used at 31 March 2017. These reductions reflect the averaging period used to determine the assumptions and that recent experience has been lower compared to some prior years.

It is assumed that the average rate of fee income on in-force business at the valuation date is maintained throughout the projection period.

The Defined Contribution business projection includes an adjustment at the end of the projection period representing the net of expenses sale consideration expected to be received by MLL on the disposal of that business. This is calculated using the agreed transaction basis applied to the in-force Defined Contribution business projected to 31 October 2018 under the valuation assumptions. No allowance has been made for the income MLL expects to receive from the reinsurance agreement that will be put in place post-transfer (see Section A.1). The reinsurance, once in place, would be treated in a similar way to the Trustee Investment Plan business, with a short projection period being used to assess the VIF. Any allowance for income over the short projection period would not be material to the overall technical provisions and its exclusion is prudent.

The risk margin has been assessed in accordance with the methodology set out in the Delegated Acts as the cost of holding an adjusted Group SCR over the projected run-off of the business. As all business is projected over a period of less than one year, the run-off for the risk margin calculation is one year.

The adjusted Group SCR at the valuation date is calculated using the result of the Group SCR at the valuation date but with the bank counterparty default and market risk module SCR set equal to zero on the assumption that these risks could be hedged if required.

Uncertainty

The methodology employed is proportionate to the nature, scale and complexity of the risks accepted by the company.

There are no material deficiencies in the data used for the technical provisions.

The technical provisions are dominated by the value of unit liabilities and, therefore, will fluctuate in line with investment market movements.

Given the short projection periods used, the technical provisions are relatively insensitive to changes in the projection assumptions.

The VIF on the Defined Contribution portfolio has been calculated using policy data that is aggregated at scheme level. Given the way in which transfer-out assumptions are determined, this approach implicitly assumes that:

- There is no material variation in the rate of net of expenses annual management charge paid by members within a scheme
- All Defined Contribution schemes have similar age and benefit profiles.

Given the short-term projection used, the use of aggregate data is unlikely to lead to materially different results compared to a more granular calculation.

The Defined Contribution VIF has been determined on the assumption that the Defined Contribution business will be sold via a Part VII transfer on 31 October 2018. There has been a short delay, with the transfer now expected to happen on 9 November 2018. Although a transfer on that date is not certain, MLL management considers the likelihood that the transfer will not go ahead within a short period of that date very remote.

A further short delay in the transfer process will not have a material impact on the technical provisions.

If the transfer does not happen, MLL would need to determine the technical provisions over a long-term projection period. The technical provisions are intended to correspond to the amount that MLL would have to pay another insurance company for that other insurance company to take over MLL's insurance obligations. The terms of the current transfer agreement would therefore be considered in the long-term assessment. The potential impact on MLL's solvency position if the transfer does not happen is shown in Section E.6.

Reconciliation with financial statements

The Group's technical provisions for solvency purposes are calculated differently to those reported in the financial statements. The technical provisions for solvency purposes are £3,401k lower (FY 2017: £5,933k lower) than the technical provisions reported in the financial statements, reflecting the VIF and the risk margin held for solvency purposes.

Adjustments, transitional arrangements and reinsurance

The Group does not use a matching adjustment, volatility adjustment, transitional adjustment in respect of the risk-free interest rate term structure or transitional deduction in respect of technical provisions.

The only outgoing reinsurance contracts in place are unit linked investment only reinsurance contracts (see section D.1).

No risks have been transferred to special purpose vehicles.

D.3 Other liabilities

Other liabilities comprise creditors falling due within one year of £5,974k (FY 2017: £6,004k), preference shares of £100k (FY 2017: £100k), accruals of £3,502k (FY 2017: £2,312k) and a deferred tax liability of £646k (FY 2017: £1,127k).

Creditors is broken down into investment management fees due to external fund managers and amounts owed to distributors and other suppliers.

Accruals relate to fund manager fees and other business expenses.

The deferred tax liability relates to notional tax on the sum of the VIF less risk margin. The reduction in the deferred tax liability at 31 March 2018 reflects the fall in the excess of the VIF over the risk margin compared to the previous period.

Other liabilities have been valued in the same manner for both solvency purposes and for the financial statements with the exception of deferred tax liabilities which is only present on the balance sheet for solvency purposes. There have been no changes to the recognition and valuation bases over the reporting period. No material assumptions or judgements have been used in the valuation of the liabilities.

D.4 Alternative methods for valuation

The valuation used to determine the fair value of the collective investment scheme in the financial statements is the quoted price from the fund manager's administrator i.e. the quoted NAV. This could be based on either the bid, offer or mid-market price depending on the particular manager.

For financial reporting and Solvency II purposes, units are marked to the bid price.

D.5 Any other information

There is no other material information to disclose in relation to valuation for solvency purposes.

E. Capital Management

E.1 Own funds

The Group's objectives in managing its own funds are:

a) to match the profile of its assets and liabilities, taking account of the risks inherent in the business;

b) to maintain financial strength to support new business growth;

c) to satisfy the requirements of its policyholders and regulators; and

d) to manage exposures to credit risk.

It remains the intention of the MLG Board to ensure that there is adequate capital to exceed the Group's regulatory requirements. The MLG Board has a capital management policy in place and deems it reasonable to adopt the following approach with regards to capital planning.

- Capital plan is a forward looking assessment of the capital position against capital requirements.
- Capital is assessed on a Pillar 1 (valuation for solvency purposes) and Pillar 2 (own assessment) basis. For Pillar 2 the MLG Board considers it appropriate to demonstrate capital adequacy over a one year timeframe to a 99.5% confidence level using stresses that reflect the nature and extent of risks accepted by the Group.
- The MLG Board targets a Pillar 1 solvency margin of 100% for the SFT Group. It also has a target for Pillar 2 solvency margin.
- The MLG Board and senior management have set internal monitoring thresholds on the key risks of the business. Such thresholds are monitored on an ongoing basis and more formally at monthly management meetings and quarterly meetings of the MLG Board and ARC.

The Group reviews its capital position on an ongoing basis in light of current and future growth requirements. The ORSA, which forms part of the capital assessment process, uses a three year forecast to assess the solvency needs of the business.

Dividends are declared following an update to the capital plan and consideration of the ability of the Group and MLL to maintain their respective target solvency cover. There have been no changes in the capital management objectives, policy and processes over the reporting period.

The Group uses method 1, the accounting consolidation-based method, as referred to in Article 230 of Directive 2009/138/EC to calculate group solvency. Intra-group transactions have been netted and consolidated at the level of SFT.

	2018 £000	2017 £000
Ordinary Share Capital	**70**	**70**
Share Premium Account	**6,938**	**6,938**
Reconciliation Reserve	**(190)**	**1,069**
Consolidated Retained Profits/(Losses)	*(1,230)*	*(1,099)*
Disallowed Assets (tangible and intangible assets)	*(414)*	*(296)*
VIF	*1,986*	*4,100*
Risk Margin	*(190)*	*(1,059)*
Deferred Tax Liability	*(341)*	*(577)*
Minority Interests	**1,788**	**1,699**
Eligible Own Funds	**8,607**	**9,776**

The Group does not produce financial statements on a consolidated basis. If it did, the only expected differences between capital and reserves in the financial statements and the excess of assets over liabilities used for solvency purposes would arise from:

- disallowed assets (see Section D1); and
- the combined impact of the VIF, the risk margin and the resultant Solvency II deferred tax liability that are not recognised in the financial statements but is reflected in the reconciliation reserve and within the minority interests.

As at 31 March 2018, these would be expected to result in capital and reserves at a consolidated Group level £2,341k lower than the excess of assets over liabilities used for Group solvency purposes.

The movement in own funds primarily reflects the change in the VIF, the risk margin and the associated deferred tax liability following changes to the calculation of the technical provisions, in particular, incorporating the intended sale of the Defined Contribution business (see Section D2).

The Group's ordinary share capital, share premium account and reconciliation reserve are all Tier 1 unrestricted own funds as per Article 69(a)(i) of the Delegated Acts and are available to cover the Group SCR and Group MCR. The Group does not have any restricted Tier 1 own funds (per Article 80 of the Delegated Acts) and no Tier 3 (per Article 76 of the Delegated Acts) own funds.

Of the Group's minority interests, those relating to the VIF, risk margin and resultant Solvency II deferred tax liability, the retained profits and ordinary share capital of MLH are Tier 1 own funds (£435k) and those relating to the preference share nominal value and preference share premium account investment in MLH are Tier 2 own funds (£1,353k) (per Article 72 of the Delegated Acts). The Tier 1 elements are available in full to cover the Group SCR and Group MCR. At 31 March 2018 no restriction is placed on the Tier 2 elements eligible to cover the Group SCR but the Tier 2 capital eligible to cover the Group MCR is restricted to £650k (20% of the Group MCR).

E.2 Solvency Capital Requirement and Minimum Capital Requirement

The Group is using the standard formula to calculate the SCR.

	2018 £000	2017 £000
Market Risk	1,903	3,961
Counterparty Default Risk	4,794	6,113
Underwriting Risk	2,248	4,182
Undiversified Basic SCR	8,946	14,256
Diversification	(2,331)	(4,072)
Basic SCR	6,615	10,184
Operational Risk	1,284	942
Loss absorbing capacity of deferred tax	(992)	(1,309)
Total Solvency Capital Requirement ("Group SCR")	6,907	9,817
Total Minimum Consolidated Group SCR ("Group MCR")	3,251	4,380

At 31 March 2018 compared to the previous valuation:

- the reductions in market risk and underwriting risk primarily reflect the reduction in the VIF (and consequently lower loss of VIF under the SCR stresses)
- the reduction in counterparty default risk primarily reflects an improvement in the reported SCR cover for one of MLL reinsurance counterparties
- the increase in operational risk reflects an increase in non-acquisition expenses incurred in the twelve months to the valuation date
- the reduction in the loss absorbing capacity of deferred taxes primarily reflects the reduction in the deferred tax liability on the solvency balance sheet.

The Group SCR mirrors the SCR for MLL to a large extent. Differences between the MLL and Group SCR calculation are limited to:

- counterparty default risk on cash held by Group entities other than MLL;
- non-material diversification impacts arising from the revised counterparty default risk capital requirement; and
- a contribution to operational risk in respect of activities undertaken by Group entities other than MLL.

Overall, the Group SCR is £115k higher than MLL's SCR. There are no significant restrictions to the fungibility and transferability of own funds eligible for covering the Group SCR other than the requirement for MLL to remain sufficiently capitalised on a stand-alone basis.

A split of the Group SCR between amounts referred to in Article 336 of the Delegated Acts is not necessary as all Group companies fall within the definition of Article 336 (a).

There are no significant group diversification effects.

No simplified calculations are used for any of the risk or sub-risk modules in the standard formula and the Group has not applied to use any undertaking specific parameters.

No capital add on has been applied to the Group SCR and no undertaking specific parameters have been imposed by the PRA.

The Group MCR calculation is set out in the Delegated Acts. Given the nature of the Group's business, the required inputs to the calculation that are not defined under the regulations are limited to:

- the technical provisions excluding the risk margin for unit linked life insurance and reinsurance obligations of £11,595,030k; and
- the amount of capital at risk, which is £2,938k.

At 31 March 2018, the Group's MCR is the monetary minimum prescribed in the regulations, i.e. the sterling equivalent of €3.7m.

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

The Group has not made use of the duration-based equity risk sub-module in the calculation of the SCR.

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

The Group uses the standard model. No internal model has been used by the Group.

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

The Group SCR coverage during the financial year ending 31 March 2018 was at times below the target set by the MLG Board. Through the issuance of new ordinary and preference shares by Mobius Life Holdings Limited, the improved credit risk in relation to reinsured assets and shorter projection period applied to the Defined Contribution business, as noted in the MLL SFCR, the Group SCR coverage improved significantly during the year.

E.6 Any other information

MLL has entered into a legally binding agreement to sell the Defined Contribution business subject to necessary approvals. Given the progress made towards gaining those approvals, the Group places a very high probability on the sale taking place and has determined its reported solvency position on this basis. The Group recognises that there is a small possibility that the sale will not happen and has therefore estimated the potential impact on the Group's solvency position should the sale not take place.

	Allowing for sale of Defined Contribution business £000	Ignoring sale of Defined Contribution business £000
Own funds	8,607	9,276
SCR	6,907	8,069
Solvency cover (Own funds / SCR)	125%	115%

Own funds increase if the sale is ignored. This is because longer-term commercial aspects of the sale in the form of a post-transfer reinsurance arrangement, which provide additional revenue to MLL, are not reflected in the reported basis (see Section D.2 "Methodology and assumptions"). The Group SCR also increases, primarily reflecting the potential loss of income over the longer time frame. The net effect is a reduction in solvency cover from 125% to 115%. The calculations assume that, if the sale does not take place, MLL will execute a management action to eliminate its reinsurance counterparty default risk on the Defined Contribution business by 31 March 2019.

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

Financial period ended 31 March 2018

We certify that:

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

2) we are satisfied that:

   a. except for as outlined in section E.5. throughout the financial year, the Group has complied in all material respects with the requirements of the PRA rules and Solvency II Regulations as applicable to the Group; and

   b. it is reasonable to believe that, at the end of the publication of the SFCR, the Group has continued to comply, and will continue to comply in future.

This report was approved by the Board on 30 August 2018 and signed on its behalf by

JD Berthinussen

Director

Souter FT Limited

Solvency and Financial Condition Report

Disclosures

31 March

2018

(Monetary amounts in GBP thousands)

General information

Undertaking name	Souter FT Limited
Undertaking identification code	213800PX5Z6KOQRQGQ51
Type of code of undertaking	LEI
Type of undertaking	Life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 March 2018
Currency used for reporting	GBP
Accounting standards	The undertaking is using local GAAP (other than IFRS)
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

S.02.01.02

Balance sheet

		Solvency II value
		C0010
	Assets	
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	34
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	5,631
R0080	*Property (other than for own use)*	
R0090	*Holdings in related undertakings, including participations*	
R0100	*Equities*	
R0110	*Equities - listed*	
R0120	*Equities - unlisted*	
R0130	*Bonds*	
R0140	*Government Bonds*	
R0150	*Corporate Bonds*	
R0160	*Structured notes*	
R0170	*Collateralised securities*	
R0180	*Collective Investments Undertakings*	5,631
R0190	*Derivatives*	
R0200	*Deposits other than cash equivalents*	
R0210	*Other investments*	
R0220	Assets held for index-linked and unit-linked contracts	11,598,792
R0230	Loans and mortgages	
R0240	*Loans on policies*	
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	
R0270	Reinsurance recoverables from:	
R0280	*Non-life and health similar to non-life*	
R0290	*Non-life excluding health*	
R0300	*Health similar to non-life*	
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	
R0320	*Health similar to life*	
R0330	*Life excluding health and index-linked and unit-linked*	
R0340	*Life index-linked and unit-linked*	
R0350	Deposits to cedants	
R0360	Insurance and intermediaries receivables	
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	6,529
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	
R0410	Cash and cash equivalents	3,235
R0420	Any other assets, not elsewhere shown	
R0500	**Total assets**	11,614,221

S.02.01.02

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	
R0520	*Technical provisions - non-life (excluding health)*	
R0530	*TP calculated as a whole*	
R0540	*Best Estimate*	
R0550	*Risk margin*	
R0560	*Technical provisions - health (similar to non-life)*	
R0570	*TP calculated as a whole*	
R0580	*Best Estimate*	
R0590	*Risk margin*	
R0600	Technical provisions - life (excluding index-linked and unit-linked)	
R0610	*Technical provisions - health (similar to life)*	
R0620	*TP calculated as a whole*	
R0630	*Best Estimate*	
R0640	*Risk margin*	
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	
R0660	*TP calculated as a whole*	
R0670	*Best Estimate*	
R0680	*Risk margin*	
R0690	Technical provisions - index-linked and unit-linked	11,595,391
R0700	*TP calculated as a whole*	11,598,792
R0710	*Best Estimate*	-3,762
R0720	*Risk margin*	360
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	646
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	9,577
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	
R0850	Subordinated liabilities	
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	
R0880	Any other liabilities, not elsewhere shown	
R0900	**Total liabilities**	11,605,613
R1000	**Excess of assets over liabilities**	8,607

S.05.01.02

Premiums, claims and expenses by line of business

Life

		Line of Business for: life insurance obligations						Life reinsurance obligations		
		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	Total
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
	Premiums written									
R1410	Gross			2,899,697						2,899,697
R1420	Reinsurers' share									
R1500	Net									
	Premiums earned									
R1510	Gross			2,899,697						2,899,697
R1520	Reinsurers' share									
R1600	Net									
	Claims incurred									
R1610	Gross			894,158						894,158
R1620	Reinsurers' share									
R1700	Net									
	Changes in other technical provisions									
R1710	Gross									
R1720	Reinsurers' share									
R1800	Net									
R1900	**Expenses incurred**			6,011						6,011
R2500	**Other expenses**									
R2600	**Total expenses**									6,011

S.23.01.22

Own Funds

		Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
	Basic own funds before deduction for participations in other financial sector					
R0010	Ordinary share capital (gross of own shares)	70	70			
R0020	*Non-available called but not paid in ordinary share capital at group level*					
R0030	Share premium account related to ordinary share capital	6,938	6,938			
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings					
R0050	Subordinated mutual member accounts					
R0060	*Non-available subordinated mutual member accounts at group level*					
R0070	Surplus funds					
R0080	*Non-available surplus funds at group level*					
R0090	Preference shares					
R0100	*Non-available preference shares at group level*					
R0110	Share premium account related to preference shares					
R0120	*Non-available share premium account related to preference shares at group level*					
R0130	Reconciliation reserve	-190	-190			
R0140	Subordinated liabilities					
R0150	*Non-available subordinated liabilities at group level*					
R0160	An amount equal to the value of net deferred tax assets					
R0170	*The amount equal to the value of net deferred tax assets not available at the group level*					
R0180	Other items approved by supervisory authority as basic own funds not specified above					
R0190	*Non available own funds related to other own funds items approved by supervisory authority*					
R0200	Minority interests (if not reported as part of a specific own fund item)	1,788	435		1,353	
R0210	*Non-available minority interests at group level*					
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 other financial undertakings, including non-regulated undertakings carrying out financial activities**					
R0240	*whereof deducted according to art 228 of the Directive 2009/138/EC*					
R0250	Deductions for participations where there is non-availability of information (Article 229)					
R0260	Deduction for participations included by using D&A when a combination of methods is used					
R0270	**Total of non-available own fund items**					
R0280	**Total deductions**					
R0290	**Total basic own funds after deductions**	8,607	7,254		1,353	
	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					
R0380	Non available ancillary own funds at group level					
R0390	Other ancillary own funds					
R0400	**Total ancillary own funds**					
	Own funds of other financial sectors					
R0410	Credit Institutions, investment firms, financial institutions, alternative investment fund managers, UCITS management companies					
R0420	Institutions for occupational retirement provision					
R0430	Non regulated entities carrying out financial activities					
R0440	**Total own funds of other financial sectors**					

S.23.01.22
Own Funds

		Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
	Basic own funds before deduction for participations in other financial sector					
	Own funds when using the D&A, exclusively or in combination of method 1					
R0450	Own funds aggregated when using the D&A and combination of method					
R0460	Own funds aggregated when using the D&A and combination of method net of IGT					
R0520	Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	8,607	7,254		1,353	
R0530	Total available own funds to meet the minimum consolidated group SCR	8,607	7,254		1,353	
R0560	Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	8,607	7,254		1,353	
R0570	Total eligible own funds to meet the minimum consolidated group SCR (group)	7,904	7,254		650	
R0610	**Minimum consolidated Group SCR**	3,251				
R0650	**Ratio of Eligible own funds to Minimum Consolidated Group SCR**	243.17%				
R0660	**Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&A)**	8,607	7,254		1,353	
R0680	**Group SCR**	6,907				
R0690	**Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A**	124.62%				

		C0060
	Reconcilliation reserve	
R0700	Excess of assets over liabilities	8,607
R0710	Own shares (held directly and indirectly)	
R0720	Forseeable dividends, distributions and charges	
R0730	Other basic own fund items	8,797
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	
R0750	Other non available own funds	
R0760	**Reconciliation reserve**	-190
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	2
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	
R0790	**Total Expected profits included in future premiums (EPIFP)**	2

S.25.01.22

Solvency Capital Requirement - for groups on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	1,903		
R0020	Counterparty default risk	4,794		
R0030	Life underwriting risk	2,248		
R0040	Health underwriting risk			
R0050	Non-life underwriting risk			
R0060	Diversification	-2,331		
R0070	Intangible asset risk			
R0100	**Basic Solvency Capital Requirement**	6,615		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	1,284
R0140	Loss-absorbing capacity of technical provisions	
R0150	Loss-absorbing capacity of deferred taxes	-992
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
R0200	**Solvency Capital Requirement excluding capital add-on**	6,907
R0210	Capital add-ons already set	
R0220	**Solvency capital requirement for undertakings under consolidated method**	6,907
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	
R0440	Diversification effects due to RFF nSCR aggregation for article 304	
R0470	Minimum consolidated group solvency capital requirement	3,251
	Information on other entities	
R0500	Capital requirement for other financial sectors (Non-insurance capital requirements)	
R0510	*Credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies*	
R0520	*Institutions for occupational retirement provisions*	
R0530	*Capital requirement for non- regulated entities carrying out financial activities*	
R0540	Capital requirement for non-controlled participation requirements	
R0550	Capital requirement for residual undertakings	
	Overall SCR	
R0560	SCR for undertakings included via D&A	
R0570	**Solvency capital requirement**	6,907

S.32.01.22

Undertakings in the scope of the group

	Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory Authority
Row	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080
1	GB	213800PX5Z6KOQR	LEI	Souter FT Limited	Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC	Limited by Shares	Non-mutual	
2	GB	213800PX5Z6KOQR	Specific code	Mobius Life Holdings Limited	Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC	Limited by Shares	Non-mutual	

S.32.01.22

Undertakings in the scope of the grou

				Criteria of influence						Inclusion in the scope of Group supervision		Group solvency calculation
	Country	Identification code of the undertaking	Type of code of the ID of the undertaking	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	YES/NO	Date of decision if art. 214 is applied	Method used and under method 1, treatment of the undertaking
Row	C0010	C0020	C0030	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
1	GB	213800PX5Z6KOQR	LEI							Included in the scope		Method 1: Full consolidation
2	GB	213800PX5Z6KOQR	Specific code	52.79%	100.00%	49.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation

Report of the external independent auditor to the Directors of Souter FT Limited ('the Group') pursuant to Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook applicable to Solvency II firms

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

Opinion

We have audited the following documents prepared by the Group as at 31 March 2018:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Group Solvency and Financial Condition Report of the Group as at 31 March 2018 ('**the Narrative Disclosures subject to audit**'); and

- Group templates S02.01.02, S23.01.22, S25.01.22, S32.01.22, ('the **Templates subject to audit**').

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

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

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

- Group template S05.01.02; and

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

In our opinion, the information subject to audit in the relevant elements of the Group Solvency and Financial Condition Report as at 31 March 2018 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for Opinion

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

Emphasis of Matter - Basis of Accounting

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' sections of the Group Solvency and Financial Condition Report, which describe the basis of accounting. The Group Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations as modified, and therefore in accordance with a special purpose financial reporting framework. Those Rules and regulations allow a degree of latitude in terms of approach. In particular, the Group has chosen in its basis of accounting to reflect the pending sale of its Defined Contribution business, a transaction that it expects to complete at 31 October 2018. The reason for taking this approach and its impact are discussed in section E.6. The Group Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the PRA. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Other Information

The Directors are responsible for the Other Information.

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

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

Responsibilities of Directors for the Solvency and Financial Condition Report

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements.

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

Use of the audit report

This report, including the opinion, has been prepared for the Directors of the Company to enable them to comply with their obligations under External Audit rule 2.1 of the Solvency II Firms Sector of the PRA Rulebook and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Directors for our audit work, for this report, or for the opinions we have formed.

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30 August 2018