SOLVENCY AND FINANCIAL CONDITION REPORT 2018

Standard Life International dac, part of The Phoenix Group

For the year ended 31 December 2018

PHOENIX GROUP

CONTENTS

SUMMARY

INTRODUCTION AND BACKGROUND

This document sets out a Solvency and Financial Condition Report ('SFCR') for Standard Life International dac ('SLIDAC' or 'the Company') for the year ended 31 December 2018. The SFCR and the accompanying Quantitative Reporting Templates ('QRTs') provide detailed information of the Company's business and performance, governance, risk profile and capital position.

The Company is a private company limited by shares, incorporated, registered and domiciled in Ireland. The Company's main activities consist of the provision of long-term savings and investment products in the UK.

The Company is authorised and regulated by the Central Bank of Ireland ('CBI').

On 31 August 2018, following shareholder, regulatory and other necessary approvals, Phoenix Group Holdings plc ('PGH' or 'the Group') acquired Standard Life Assurance Limited ('SLAL') the Company's parent from Standard Life Aberdeen plc ('SLA plc').

From this date, the Company's immediate parent was SLAL, and ultimate parent company is Phoenix Group Holdings plc, a company incorporated and resident in the United Kingdom. A simplified Phoenix structure chart is presented in section A.1.1.

SECTION A – BUSINESS AND PERFORMANCE

The performance of the Company, as set out in section A, is described using results as presented in the IFRS financial statements. The operating profit measure is stated after adjustments to exclude the impact of short-term economic variances and items considered to occur outside the normal course of business.

The Company has generated an operating profit of £3,634k (2017: £3,431k) for the year ended 31 December 2018. The increase compared to the prior year is primarily driven by a reduction in the remediation expense, offset by an increase in the IFRS reserves. Further details on the components and the key drivers of the operating profit result are included in section A.2.

Profit before tax has decreased from £2,522k in 2017 to a loss before tax of £1,445k in 2018. The main driver was the impact of a reduction in investment fee rebates on wrap business for the Company from September 2018, following the acquisition of SLAL by PGH. This reduction in future revenue led to a one-off increase in the Company's IFRS reserves. In terms of cash flow, the reduction in future rebate is offset by a reduction in acquisition expenses, however as acquisition expenses are deferred this has an adverse impact on IFRS profits in the short term.

SECTION B – SYSTEM OF GOVERNANCE

Following the sale of the Company's parent SLAL to PGH, work has commenced on the harmonisation of the Company's and PGH's risk management frameworks. A harmonised framework will be implemented across the business throughout 2019.

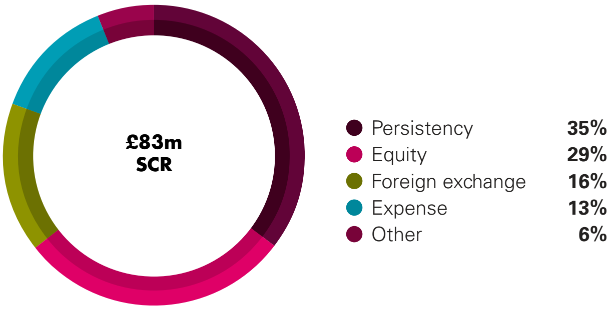
The System of Governance was reviewed in 2018. A number of changes were made as detailed in section B.1.4 to ensure the continuing effectiveness of the System of Governance and Enterprise Risk Management ('ERM') framework.

This, along with the review by the Group Chief Internal Auditor of the overall effectiveness of our System of Governance and risk and control framework, leads to the conclusion that the System of Governance is adequate given the nature, scale and complexity of the risks inherent in the Company.

SECTION C – RISK PROFILE

The Company operates a standardised Risk Management Framework ('RMF') which includes the ERM framework for the identification and assessment of the risks it may be exposed to, and the amount of capital that should be held in relation to those exposures.

There have been no material changes in the risk profile of the Company during the year. The chart below shows the composition of the Company's undiversified SCR as at 31 December 2018. The largest component of the undiversified SCR is persistency risk, which is the risk that policies lapse at a different rate than assumed.



The definitions of the risk categories are provided in section C with further details on the SCR set out in section E.2.1.

SECTION D – VALUATION FOR SOLVENCY PURPOSES

For the purposes of Solvency II reporting, the Company applies the Solvency II valuation rules to value its assets, technical provisions and other liabilities. The principle that underlies the valuation methodology for Solvency II purposes is to recognise assets and liabilities at an amount for which they could be exchanged, transferred or settled by knowledgeable and willing third parties in an arm's length transaction.

The excess of assets over liabilities measured on a Solvency II basis for the Company is £115,398k.

There have been no material changes in the methodology used by the Company to value the assets or liabilities over the period.

Section D provides further information on the description of the bases, methods and main assumptions used in the valuation of assets, technical provisions and other liabilities, including explanations of the material differences between IFRS and Solvency II.

SECTION E – CAPITAL MANAGEMENT

As outlined in section C above, no significant changes were made to the Company's capital position in advance of, and as part of, the sale of SLAL to the Phoenix Group.

The capital position for the Company at 31 December 2018 is presented in the table below:

Solvency II capital position	2018 £'000
Own Funds	**115,398**
Solvency Capital Requirement ('SCR')	**(82,977)**
Solvency II capital surplus	**32,421**
Solvency cover	**139%**

The Company held Own Funds in excess of both the SCR and Minimum Capital Requirement ('MCR') throughout the reporting period and therefore, fully complied with the capital requirements.

Quality of Own Funds

Eligible Own Funds represent the capital available to support the SCR.

As at 31 December 2018, the Company's Solvency II surplus over the SCR is £32,421k, with a ratio of Eligible Own Funds to SCR of 139%.

100% of the Company's Eligible Own Funds are unrestricted Tier 1, and are principally comprised of ordinary share capital, share premium account related to ordinary share capital, surplus funds and the reconciliation reserve.

Further details regarding the Company's capital position are set out in section E.1.

FUTURE DEVELOPMENTS

Through SLAL and SLIDAC, the Company has long benefited from EU cross-border passporting rules, in order to provide life assurance business into or from the EU. The UK's decision to exit the EU, and the uncertainty around the terms of the UK's withdrawal from the EU, has impacted the current operations.

In order to provide continuity of service for existing customers, and to continue to write new business in Germany, Austria and Ireland, the Company has received regulatory approval to act as a base from which to serve Standard Life's European customers and the Company's existing UK customers.

On 29 March 2019 the Irish, German and Austrian policies of SLAL were transferred to the Company by way of a number of Part VII transfers. Following these transfers, all associated assets and liabilities are now recognised on the Company's balance sheet. This has increased the Company's Assets Under Administration ('AUA') by €13billion in respect of the German and Austrian business and €8.9billion in respect of the Irish domestic business.

As part of these transfers, the transferring Irish, German and Austrian With Profits business have been reinsured back to SLAL, in order to maintain the pre-Part VII transfers policyholder benefits and expectations.

DIRECTORS' RESPONSIBILITY STATEMENT

DIRECTORS' RESPONSIBILITY STATEMENT

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

Financial period ended 31 December 2018.

We acknowledge our responsibility for preparing the Solvency and Financial Condition Report in all material respects in accordance with the CBI rules and the Solvency II regulations.

The Directors are satisfied that:

a) throughout the financial year to 31 December 2018, the Company has complied in all material respects with the requirements of the CBI rules, including Solvency II regulations as applicable to the Company; and

b) it is reasonable to believe that in respect of the period from 31 December 2018 to the date of publication of the Solvency and Financial Condition Report, the Company has continued to comply, and will continue so to comply in future.

For and on behalf of the Board of Directors

NAVAL KAPOOR
FINANCE DIRECTOR

16 April 2019

SECTION A

BUSINESS AND PERFORMANCE

IN THIS SECTION

SECTION A

BUSINESS AND PERFORMANCE

A.1 BUSINESS

Standard Life International DAC ('SLIDAC' or 'the Company') was established in Ireland in 2006. As at 31 December 2018, the Company was a wholly-owned subsidiary of Standard Life Assurance Limited ('SLAL'), which in turn is a wholly-owned subsidiary of Phoenix Group Holdings ('PGH' or 'the Group'). The Company is registered in Ireland and therefore regulated by Irish legislation. The Company sells international unit-linked investment bonds to customers in the United Kingdom. As a provider of financial services, the regulation of the Company is through the Central Bank of Ireland ('CBI') and also the Financial Conduct Authority ('FCA') in the United Kingdom for Conduct of Business rules.

The Company's supervisor is the CBI, North Wall Quay, Spencer Dock, Dublin, Ireland.

The Group's supervisor is the Prudential Regulation Authority ('PRA'), 20 Moorgate, London EC2R 6DA.

The Company's external auditor is Ernst & Young Ireland, Harcourt Centre, 2 Harcourt Street, Saint Kevin's, Dublin 2.

A.1.1 Business units for internal reporting

The Company is an insurance undertaking and a wholly-owned subsidiary of PGH. The Company's main activities consist of the provision of savings and investment products in the UK.

Within Phoenix Group, risk management is overseen by the group Chief Risk Officer. For SLIDAC, risk is overseen by the SLIDAC Chief Risk Officer. The business units operate as separate functional areas and are supported by the corporate centre which sets strategy, policy and governance for the whole organisation.

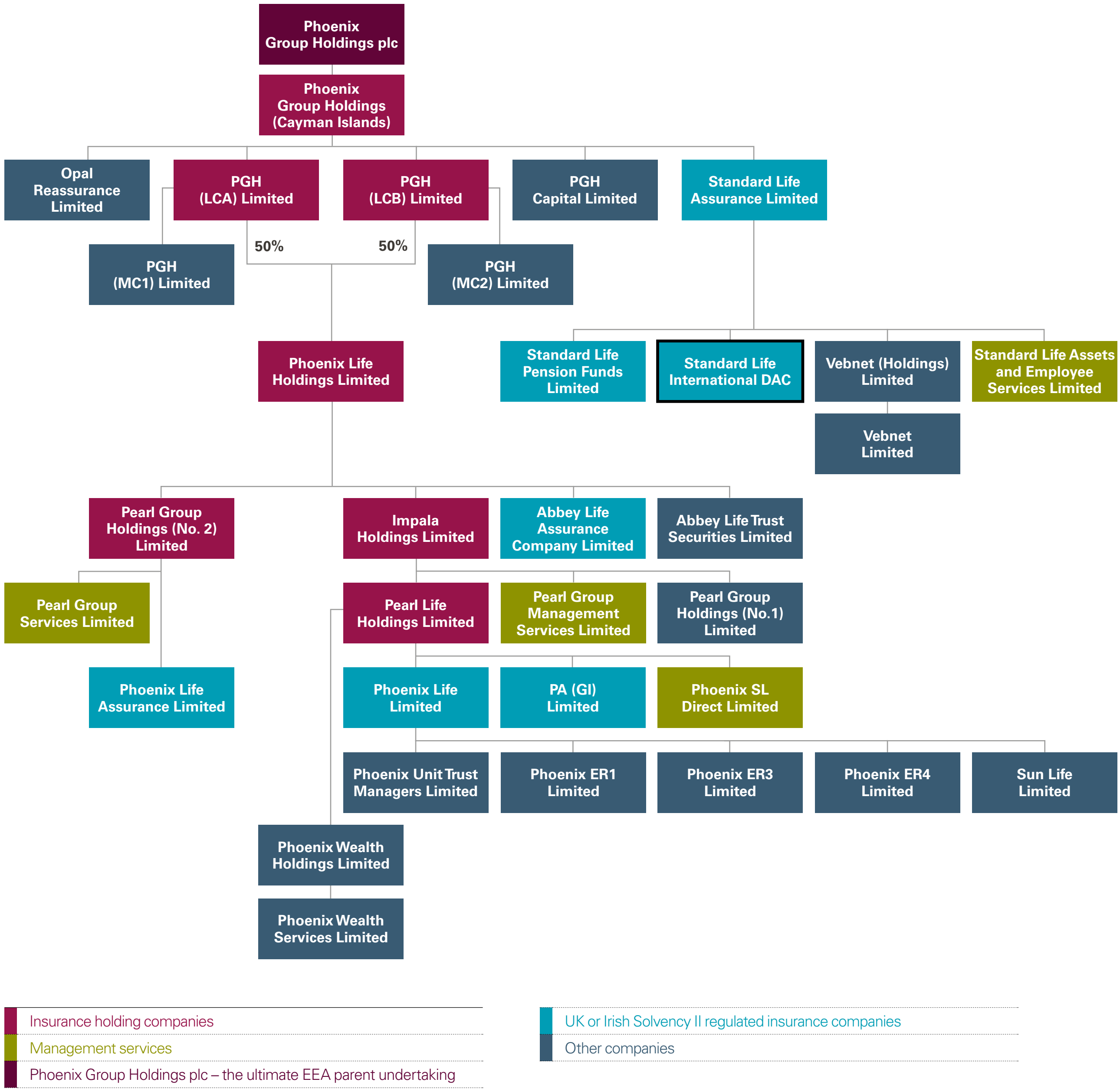
The Company has its own Board and executive and operational structures. The SLIDAC Board is responsible for governing SLIDAC. The executive team of SLAL includes the appropriate representation from SLIDAC so that the SLIDAC Board is kept appropriately informed.

BUSINESS AND PERFORMANCE CONTINUED

A.1 BUSINESS CONTINUED

A.1.1 Business units for internal reporting continued

A simplified Group structure chart is included below, showing Standard Life Assurance entities which fall under Phoenix Group Holdings:



The chart above shows the structure of the Group as at 31 December 2018.

The results of the Company are reported within SLAL's Annual Report and Accounts. Subsequent analysis of financial information in this report relates to SLIDAC only.

BUSINESS AND PERFORMANCE CONTINUED

A.1 BUSINESS CONTINUED

A.1.2 Material lines of business

The Company operates on a cross-border basis from Ireland under the "single passport" provisions of the EU's life assurance directives. The Company currently sells unit-linked products into the UK, Channel Islands and the Isle of Man. It has a range of single premium unit-linked portfolio bond products in these markets, which it currently distributes through independent financial advisors. This business carries a very small element of life cover and accidental death benefit cover, and so is predominantly investment-focused in nature.

The contract sold by the Company is a lump-sum, whole of life investment bond. The customer has the option to invest in unit-linked funds offered by the Company and mutual funds and deposit accounts offered by other providers.

All of the Company's business links to the Solvency II line of business "Index-linked and unit-linked insurance" as set out in the Solvency II rules. This is made up of products where the Company generates revenue primarily from asset management charges ('AMCs'), premium-based charges and transactional charges. AMCs are calculated as a percentage fee based on the assets held. Investment risk on these products rests principally with the customer, with the shareholder's major indirect exposure to rising or falling markets coming from higher or lower AMCs. None of the Company's business provides guarantees to our policyholders.

A.1.3 Material geographical areas

The Company is headquartered in Ireland and sells international unit-linked investment bonds to customers in the United Kingdom.

A.1.4 Significant business and other events over the reporting period

In February 2018, SLIDAC's parent SLAL announced its intention to form an enhanced strategic partnership with Phoenix Group Holdings ('PGH'). As part of the proposed partnership, SLAL was acquired by PHG. As part of this transaction, SLAL's previous parent, Standard life Aberdeen plc ('SLA') became a 19.99% shareholder in the Phoenix Group and has two representatives on the Phoenix Board.

Throughout the transaction process, the Board of the Company worked with all relevant stakeholders including regulators and policyholder representatives to ensure that all interests were appropriately managed and protected as the transaction was completed. The change in ownership had no material consequences for the Company.

A.1.5 Significant events after the reporting period

On 29 March 2019 the Irish, German and Austrian policies of SLAL were transferred to the Company by way of a number of Part VII transfers. Following these transfers, all associated assets and liabilities are now recognised on the Company's balance sheet. This has increased the Company's Assets Under Administration ('AUA') by around €13billion in respect of the German and Austrian business and around €8.9billion in respect of the Irish domestic business.

As part of these transfers, the transferring Irish, German and Austrian With Profits business have been reinsured back to SLAL in order to maintain the pre-Part VII transfers policyholder benefits and expectations.

In advance of the planned Part VII transfers, the Company received a capital injection of £250m from PGH on 22 February 2019 to ensure that the Company is appropriately capitalised.

BUSINESS AND PERFORMANCE CONTINUED

A.2 UNDERWRITING PERFORMANCE

Operating profit is used as a performance measure of the underwriting activities of the Company, as well as a key metric to manage the business. Operating profit is considered an appropriate measure of the underlying performance of the Company as it excludes the impact of short-term economic volatility and other one-off items which, due to their size or nature, are not indicative of long-term operating performance.

Operating profit includes the effects of variances in experience for non-economic items, such as mortality and expenses, and the effect of changes in non-economic assumptions. It also incorporates the impacts of significant management actions where such actions are consistent with the Company's core operating activities (for example, actuarial modelling enhancements and data reviews). Operating profit excludes investment return variances and economic assumption changes, non-operating items considered to fall outside of the course of the Company's normal operations and shareholder tax.

The following table shows operating profit reconciled to total performance (IFRS profit before tax) and profit after tax for the year:

	2018 £'000	2017 £'000
Operating profit before tax	**3,634**	3,431
Adjusted for the following items:		
Short-term fluctuations in investment return and economic assumption changes	**(4,083)**	(619)
Restructuring and corporate transaction expenses	**(997)**	(290)
Total other income and expenses	**(5,080)**	(909)
IFRS (loss)/profit before tax attributable to equity holders' profits	**(1,445)**	2,522
Total tax expense/credit attributable to equity holders' profits	**(2,712)**	(141)
IFRS (loss)/profit for the year	**(4,157)**	2,381

The Company commenced writing life assurance business in 2006. Total net earned premiums on insurance contracts for the year ended 31 December 2018 were £595,703k (2017: £749,001k). The Company reported a loss after tax for the year of £4,157k (2017: Profit £2,381k). Net assets at 31 December 2018 were £79,187k (2017: £83,344k).

The key performance indicators for the Company are:

- **Net earned premiums** have decreased by 20% from £749,001k in 2017 to £595,703k in 2018. Uncertainty in the marketplace created a challenging external environment which had an adverse effect on the premiums received during the year. Additionally premiums were adversely impacted by a slow-down in support from wealth managers during the year, and a general shift in customer preferences towards capital redemption bonds.
- **Assets under administration** decreased from £6,300,184k in 2017 to £6,150,222k in 2018, as a result of negative market returns during the year, which led to a reduction in asset values, partially offset by positive net flows of £177,187k. Net flows were a result of premiums of £595,703k offset against claims of £418,846k.
- **Net Investment return** in the year was a loss of £326,101k, compared to a gain in investment returns of £413,218k in 2017. This is reflective of a challenging market, where the FTSE 100 fell by 12.5% year on year, with the last quarter of 2018 in particular being extremely challenging.
- **Profit before tax** has decreased from £2,522k in 2017 to a loss after tax of £1,445k in 2018. The main driver was the impact of a reduction in investment fee rebates on wrap business for the Company from September 2018 following the acquisition of SLAL by PGH. This reduction in future revenue led to a one off increase in the company's IFRS reserves. In terms of cash flows, the reduction in future rebate is offset by a reduction in acquisition expenses, however as acquisition expenses are deferred this has an adverse impact on IFRS profits in the short term.

The Company will continue to strive for profitable growth by offering products in the UK designed to meet customer needs in line with market developments. As a result of the Part VII transfers this will now extend to the Irish and German markets. The objective is to generate satisfactory returns for the shareholders whilst meeting the reasonable expectations of policyholders in accordance with statutory, financial and regulatory obligations.

A.2.1 Fee based revenue

Fee based revenue on the UK business decreased by 15% to £13,184k, mainly driven by a reduction in investment fee rebates on wrap business for the Company from September 2018 following the acquisition of SLAL by PGH.

A.2.2 Operating expenses

Appendix 1 sets out QRT S.05.01.01 Premiums, Claims and Expenses which give details of premiums and claims in the Company's business.

Further information on the results can be found in the 'Report by the Directors' section of the Company's Annual Financial Statements for the year ended 31 December 2018.

BUSINESS AND PERFORMANCE CONTINUED

A.3 INVESTMENT PERFORMANCE

The Company uses investment return as a measure of investment performance. The following table shows the Company's investment return, for the year ended 31 December 2018:

	2018 £'000	2017 £'000
Interest and similar income		
Cash and cash equivalents and available-for-sale debt securities	**1,951**	2,090
Other	**529**	522
	2,480	2,612
Dividend income	**22,275**	19,551
Gains/(losses) on financial instruments held at Fair Value Through Profit or Loss ('FVTPL')		
Equity securities and interests in pooled investment funds	**(350,678)**	390,740
Debt securities	**(135)**	590
	(326,058)	413,493
Foreign exchange gains on instruments other than those at fair value through profit or loss	**(43)**	(275)
Investment return	**(326,101)**	413,218

The following table shows the Company's investment expense for the year ended 31 December 2018. The fees are charged for managing policyholder funds and are not directly based on asset class:

	2018 £'000	2017 £'000
Fees payable to Aberdeen Standard Investments Limited	**228**	330
Fees payable to Standard Life Savings Limited	**4,954**	6,852
External investment administration fees	**2,661**	23
Total investment management expense from continuing operations	**7,843**	7,205

The fees payable to Standard Life Savings Limited reflect the unbundling of the charges on our wrap business.

As discussed in section A.2, following the acquisition of SLAL by PGH, there was a reduction in investment fee rebates on wrap business for the company from September 2018.

BUSINESS AND PERFORMANCE CONTINUED

A.4 PERFORMANCE OF OTHER ACTIVITIES

Other activities which are not underwriting or investment performance are non-operating items. In 2018 the Company had £5,080k in non-operating items relating to one-off project costs and the one-off increase in the Company's IFRS reserves as a result of the Phoenix transaction.

The Company does not have any financial or operating leasing arrangements.

A.5 ANY OTHER INFORMATION

There is no further material information to be disclosed regarding business and performance.

SECTION B

SYSTEM OF GOVERNANCE

IN THIS SECTION

SECTION B

SYSTEM OF GOVERNANCE

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE

This section provides information on the System of Governance in place for the Company. Any material changes that have taken place over the reporting period are also included. Details on the structure of the Board and committees are provided, with a description of their main roles and responsibilities as well as a description of the main accountabilities and responsibilities of all key functions.

B.1.1 Overview

The Company has an established System of Governance, which includes the Enterprise Risk Management ('ERM') framework of policies, controls and practices by which it meets all the requirements of sound, risk-based management. The Company has continued to operate under the existing ERM framework throughout 2018 and this document reflects that position.

Following the sale of the Company's parent company, Standard Life Assurance Limited ('SLAL'), to Phoenix Group Holdings ('PGH'), work has commenced to harmonise the Company's and PGH's risk management frameworks. A harmonised framework will be implemented across the business throughout 2019.

The System of Governance comprises:

- **Governance framework** – how we manage our business, including the role of the Board and its committees.
- **Organisational and operational structure** – how we structure our business and define roles, responsibilities and reporting lines to ensure that appropriate spans of control operate throughout the organisation.
- **Risk management system** – a risk-based approach to managing our business. It includes the methods and processes we use to manage risks consistently. We refer to our risk management system as the ERM framework.
- **Internal control system** – contains a range of processes which are captured under our 'Conduct and Operational Risk framework' and includes policies to manage risks at the highest level, how we assess impact and likelihood of risks and how we determine the effectiveness of our key controls.

The effectiveness of the System of Governance and ERM framework is reviewed each year. In light of the planned changes to the business model in 2019 with the Company's plans to integrate SLAL Ireland and Germany branch activities into its operations post-Brexit, this review recognised that there will be a significant change in risk profile, and so the System of Governance was significantly updated, and approved by the SLIDAC Board in November 2018.

Some changes to the System of Governance and ERM Framework have already been integrated as at 31 December 2018. A new Board Committee, the Nomination Committee, has already been established. Further changes made effective from the transfer date are, in summary:

a) The creation of the European Senior Leadership Team;

b) The creation of an Enterprise Risk Management Committee ('ERMC') to oversee entity-wide operations; (The existing Ireland ERMC was effective up to the transfer date. The new ERMC has been effective from the transfer date);

c) The integration of the German and Austrian Leadership Team to SLIDAC;

d) The creation of local Operational and Conduct Risk Committees in Ireland and Germany; and

e) The creation of a Reinsurance Business Committee.

All of the above are key steps in order to fulfil the Company's new role as European hub for Standard Life's life assurance business.

SYSTEM OF GOVERNANCE CONTINUED

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED

B.1.2 Governance framework

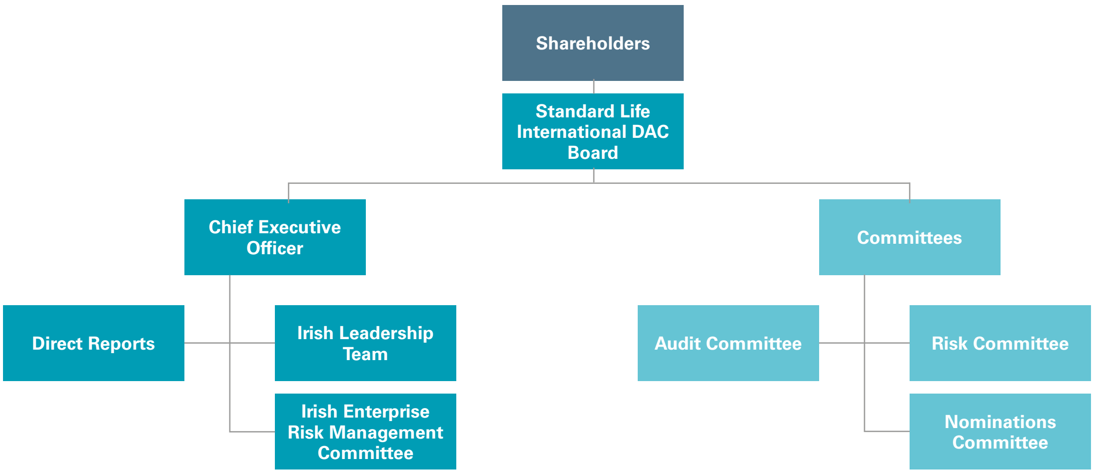
The governance framework provides a structure to support compliance with the Company's regulatory and Corporate Governance Code obligations. The Company's governance framework is approved by the Board, kept under regular review and documented in the Board Charter. The Company Secretary reviews the Board Charter regularly, taking into account developments in regulatory guidance and corporate governance best practice, and recommends any changes to the Board.

The framework consists of the following key elements which are discussed further below:

- Decision making structure;
- The function of the SLIDAC Board;
- The role of Non-Executive and Executive Directors;
- Board committees;
- Executive committees;
- Scheme of Delegation;
- Code of Business conduct;
- Prudent Person Principle;
- Approved Persons Regime;
- Fit and proper requirements; and
- Remuneration.

Decision making structure

The diagram below provides an illustration of the Company's decision making structure as at 31 December 2018. This does not include the new committees set up following the transfer of SLAL Ireland and Germany branch activities.



SYSTEM OF GOVERNANCE CONTINUED
B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED
B.1.2 Governance framework continued
The Function of the Company Board

SLIDAC is an insurance company and is operated in accordance with its Board Charter.

The Board's role is to organise and direct the business of the Company in a manner designed to further the best interests of the Company, having regard to the interests of its shareholders, while complying with its legal, regulatory and fiduciary duties and corporate governance requirements.

The Board Charter identifies matters that are specifically reserved for decision by the Board. In order to achieve Board approval, a majority of Directors must concur.

The Company's Board must refer certain matters to the SLAL Board and the PGH Board, including certain matters relating to corporate structure, capital, transactions, communications, and governance and these are also outlined in the Company's Board Charter.

The Board of Directors has overall responsibility for the ERM framework, Own Risk and Solvency Assessment ('ORSA') process and system of internal control, as well as the ongoing review of their effectiveness. The framework is designed to manage, rather than eliminate, risk and can only provide reasonable, not absolute, assurance against material misstatement or loss.

The Board consists of the following roles:

- Three independent Non-Executive Directors;
- One SLAL Non-Executive Director; and
- Three Executive Directors.

The Chairperson of SLIDAC is currently one of the independent Non-Executive Directors. Board composition and the skills and competencies of the Board are kept under regular review and assessed at least annually as part of the Board effectiveness review.

The Board is collectively responsible for:

- determining, within the constraints imposed by the Group Holding Company, the Company's objectives and strategy;
- ensuring, within the constraints imposed by the Group Holding Company, that the necessary financial and human resources, including succession plans at Board and executive level, are in place to allow the Company to achieve its objectives;
- ensuring the Company has a remuneration framework that is in line with the risk strategies of the Company;
- ensuring the Company has an adequate and effective Internal Control Framework, that includes well-functioning risk management, compliance, actuarial and internal audit functions as well as appropriate financial reporting and accounting frameworks;
- determining the amounts, types and distribution of capital adequate to cover the Company's risks;
- ensuring that robust and transparent corporate and management structures with effective communication and reporting channels are in place to allow the Company to achieve its objectives;
- determining policies applicable to the Company, including approving Company policies and adopting Group policies;
- determining and overseeing the strategy for the on-going management of material risks, and establishing and maintaining a framework of internal controls that enables the financial and operational risks of the Company to be assessed and managed;
- monitoring progress by the Company towards the achievement of its objectives and compliance by the Company with approved plans and policies;
- reporting to relevant stakeholders on the Company's activities;
- appointing Board committees to meet the Company's requirements and relevant corporate governance standards;
- delegating clearly defined authorities to the Chairperson, the Chief Executive, Board committees and otherwise as the Board will determine from time to time; and
- formally reviewing its own effectiveness as well as the effectiveness of its Committees.

The role of Non-Executive and Executive Directors

The role of the Non-Executive Directors is to participate fully in the work of the Board including advising, supporting and challenging management as appropriate. Their roles and responsibilities are set out in the Board Charter.

Executive Directors' duties are to manage the day-to-day business of the Company with the other members of the Executive team, within the parameters set out by the Board and in the Board Charter. They also have separate responsibilities as members of the Board. Their roles and responsibilities are set out in the Board Charter.

Executive and Non-Executive Directors have the same statutory responsibilities.

SYSTEM OF GOVERNANCE CONTINUED
B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED
B.1.2 Governance framework continued
Board Committees

The Board is supported in the oversight of the System of Governance – including the ERM Framework, the ORSA process and the system of internal controls – by the Audit Committee, the Risk Committee and the Nomination Committee.

Audit Committee

The role of the Audit Committee is to consider and to make appropriate recommendations to the Board on:

- any matter relating to the financial affairs and the financial statements of the Company;
- the Company's regulatory reporting submissions, including all Solvency II regulatory capital reporting and related messaging, the triennial solo Regulatory Supervisory Report ('RSR'), annual Solvency and Financial Condition Report ('SFCR') and quarterly and annual solo Quantitative Reporting Template ('QRTs');
- the Company's internal and external audit arrangements, including the independence of the external audit firm; and
- the Company's internal controls over financial and regulatory reporting, money laundering and financial crime.

The Audit Committee meets at least four times a year to coincide with the Company's financial reporting cycle.

Members of the Committee are appointed by the Board. The Committee shall be made up of at least three members and all members of the Committee shall be Non-Executive Directors with the majority being independent Non-Executive Directors.

Risk Committee

The role of the Risk Committee is to provide oversight and challenge of, and advice to, the Board on:

- The Company's material risk exposures, current risk strategy and future risk strategy and their impact on capital;
- The structure and implementation of the Company's ERM Framework and its suitability to react to forward-looking issues and the changing nature of risks;
- The Company's Risk Function, Risk Appetite Framework ('RAF'), and changes to both the RAF and the quantitative risk limits;
- The risk aspects of major investments, major product developments and other corporate transactions;
- Regulatory Compliance and Regulatory Reporting matters;
- Material actuarial matters affecting the Company;
- The annual review of Group policies and review of any proposed new or amended Group policies to determine whether they should be recommended to the Board for adoption by the Company; and
- The Company's ORSA, including steering how the assessment is to be performed and challenging the results.

The Committee meets at least four times a year to coincide with the Company's reporting cycle and otherwise as required by the Board or Committee.

Members of the Committee are appointed by the SLIDAC Board. The Committee shall be composed of at least three Non-Executive Directors with the majority being independent Non-Executive Directors. Appointments of Directors to the Committee shall be for a period of up to three years, which may be extended for two additional three year periods.

Nomination Committee

The role of the Nomination Committee is to:

- Review/consider and/or make recommendations to the Board with regard to:
  - The structure, size and composition of the Board;
  - The short, medium and long-term contingency and succession planning for the Board, in particular the Board Chairperson, and approve the succession plans for Pre-Approval Controlled Function ('PCF') holders;
  - The appointment and removal of the Board Chairperson, the Deputy Board Chairperson (if appointed), the Non-Executive Directors, the Executive Directors and the CEO;
  - The appointment and removal of members and chairpersons to Committees of the Board;
  - The appointment and removal of PCF holders; and
  - The continued appointment of any Non-Executive Director at the conclusion of his or her specified term of office on the Board, having given due regard to their performance and ability to continue to contribute to the Board in light of the knowledge, skills and experience required;
- In considering appointments prepare a comprehensive job description, taking into account for Board appointments the existing skills and expertise of the Board and the anticipated time commitment required;
- Ensure that on appointment to the Board, Non-Executive Directors receive a formal letter of appointment setting out clearly what is expected of them in terms of time commitment, service on committees of the Board and involvement outside Board meetings; and
- Approve and review the implementation of: processes for evaluating the effectiveness of the Board, the Board Chairperson, individual Directors and Board Committees; processes for identifying the training needs of Directors; and processes for selecting, inducting and training Directors.

SYSTEM OF GOVERNANCE CONTINUED

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED

B.1.2 Governance framework continued

- Approve outside appointments of the Board Chairperson and make recommendations to the Board with regard to the authorisation of any actual or potential conflict of interest of any Director, and review regularly the authorised conflicts;
- Review and make recommendations to the Board with regard to material changes to the Board Charter of the Company or Terms of Reference of Committees of the Board and approve non-material changes to the Charter;
- Keep under review the Corporate Governance of the Company and make recommendations to the Board regarding proposals for changes; and
- Review the Company's overall compliance with the Corporate Governance Requirements 2015 and the related corporate governance disclosures made by Directors in the Company's Annual Report and Accounts.

Executive and Executive Committees

Chief Executive Officer

The role of the Chief Executive Officer ('CEO') is to implement the Board's strategies and manage the day-to-day business of the company within the parameters laid down by the Board. The CEO assists the Board in carrying out its role by providing advice and recommendations consistent with the agreed strategic direction and operational, financial and regulatory best practice.

Irish Leadership Team

The CEO, within authorities delegated by the Board by means of the Board Charter and the SLIDAC Scheme of Delegation, leads the other Executive Directors and the Irish Leadership Team (ILT) in the day-to-day running of the Company and specifically:

- Develops appropriate capital, corporate, management and succession structures to ensure the Group's objectives can be met;
- Makes and implements operational decisions;
- Develops strategic plans and structures for presentation to the Board;
- Reports to the Board with appropriate, timely and high-quality information; and
- In conjunction with the Chairman, represents the Company to customers, suppliers, government and regulators, the shareholder and the community.

Executive Committees

The Ireland Enterprise Risk Management Committee derives its authority from and ultimately reports to the ILT. Its objectives in respect of the Company are as follows:

- To support the CEO of the Company to fully understand and consider the risks arising from all current and proposed activities of the SLIDAC business (financial, operational, strategic, regulatory); make decisions and challenge actions in relation to the management of risks in line with risk appetites;
- To oversee the Company's business' compliance with SLIDAC's Enterprise Risk Management Framework; and
- To ensure all aspects of the company's approach to Conduct Risk are considered, including the identification and remediation of any issues identified as having Conduct as its source.

SYSTEM OF GOVERNANCE CONTINUED
B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED
B.1.2 Governance framework continued
Scheme of Delegation
The Company Scheme of Delegation sets out the flow and principles of delegation from the SLIDAC Board to its Committees, Executive Directors and members of senior management. The Company's Board can delegate, where appropriate, all or part of its authority to an individual Director or to a Board Committee or other individuals competent to carry out that task.

The Delegated Authorities document outlines the delegated authorities that have been assigned to appropriate senior representatives to apply to settlement transactions carried out on behalf of the Company that are processed within Finance in Ireland or Business Finance Services ('BFS') in the UK.

The policies play two roles: they provide the mechanism to monitor compliance with all documented delegated authorities, and they set out additional authorities that are not covered by the Articles of Association or Board Charter. Delegated authority is an important control that allows the business to operate in a controlled but efficient and effective manner by giving individuals clear accountability for specific activities.

Code of Business Conduct
Good governance within the Company is predicated on the ethical behaviour of the organisation's staff. In recognition of this the Board has developed, adopted and communicated a Code of Business Conduct which sets standards for employee behaviour in relation to operational excellence, compliance responsibilities, customer service, the Company's people and other stakeholders. The code has been reviewed for appropriateness to the Company and has been adopted by the Board. The code will be aligned to PGH's values and refreshed in 2019.

Prudent Person Principle
The Prudent Person Principle is a set of qualitative requirements used to govern investment decisions and asset allocations. In particular, it sets out the expectation that insurers will exercise prudence in relation to the acquisition and holding of assets and places responsibility on the insurer to decide whether the nature of any investment is appropriate and to be able to show that it has systems and controls to hold and manage any such investments.

The Company's policies state the standards that business units must comply with in managing the key risks that threaten the achievement of our strategy and business objectives. A range of these standards are directly relevant to the requirements of the Prudent Person Principle and are primarily contained in the following policies:

- Market Risk Management policy
- Credit Risk Management policy
- Demographic and Expense Risk Management policy
- Liquidity and Capital Management policy

Policy compliance reporting on our internal risk management system, called Own Risk and Control ('ORAC'), demonstrates whether the Company has been compliant with the relevant policy standards and, as a consequence, with the requirements of the Prudent Person Principle.

Further details on Prudent Person Principle compliance can be found in section C, Risk Profile.

Approved Persons Regime
Under the CBI's Approved Persons regime, only individuals who are deemed to be fit and proper and who have been authorised by the CBI can carry out specified activities, known as controlled functions.

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SYSTEM OF GOVERNANCE CONTINUED

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED

B.1.2 Governance framework continued

Remuneration

The Group's People Policy, which includes remuneration, is fully aligned to the strategic aims of the Company. Its aim is to attract and retain leaders who are focused and capable of delivering business objectives whilst considering the interests of shareholders and other stakeholders, and the ability of the organisation to make these payments.

The SLIDAC Board is responsible for ensuring that these group principles are applied and that individuals are not rewarded for taking on undue risks. One of the components of the Group system of governance effectiveness review is the Group Remuneration Committee.

The independent Non-Executive Directors on the SLIDAC Board have consulted with the Head of People (Ireland) and the Group Remuneration Committee and are satisfied that the bonus structure for the Executive Directors of SLIDAC is not excessive and that it does not drive inappropriate risk taking.

Fixed and variable elements of remuneration: employee remuneration is composed principally of fixed and variable elements of reward as follows:

- (a) Fixed reward:
  - Fixed remuneration: salary (and cash allowances, if appropriate)
  - Benefits (including pension)
- (b) Variable reward:
  - Bonus
  - Senior employees may also be awarded a long-term incentive award

Appropriate ratios of fixed to variable remuneration will be set so as to ensure that fixed and variable components of total remuneration are appropriately balanced; and the fixed component is a sufficiently high proportion of total remuneration to allow the Company to operate a fully flexible policy on variable remuneration components, including paying no variable remuneration component.

Bonus awards are contingent upon the company meeting various business targets set at the start of each year. The targets include measures on customer and broker satisfaction, and employee engagement and enablement, as well as financial performance.

Executive Directors and non-independent Non-Executive Directors are members of the Standard Life parts of either the Phoenix Ireland or Phoenix UK pension schemes. The schemes are both defined contribution and operated through Standard Life Asset and Employment Services Limited.

In addition, they were all in situ at the time of the transfer of Standard Life Assurance to Phoenix and so are each deferred members of either the Standard Life Ireland or Standard Life UK pension schemes. The schemes are either defined benefit (career average revalued earnings) or defined contribution, depending on the member's date of entry. The schemes are operated through Standard Life Employment Services Limited.

Independent Non-Executive Directors have no supplementary pension or early retirement scheme with Standard Life.

There were no material transactions during the reporting period with shareholders, persons exercising significant influence, or members of the Board.

All employee share plans: employee share ownership was promoted through two initiatives:

- The Standard Life (Employee) Share Plan
- Standard Life Aberdeen Sharesave Plan

Participation was voluntary and governed by the rules of the relevant plan. Following the acquisition of Standard Life by Phoenix in September 2018, these plans were closed. They are planned to be replaced with initiatives for ownership in shares of Phoenix Group Holdings plc in 2019.

SYSTEM OF GOVERNANCE CONTINUED

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED

B.1.3 Overview of organisational and operational Structure

The Company has an established and well-defined organisational and operational structure with clearly defined roles, responsibilities and reporting lines to ensure that appropriate spans of control operate throughout the organisation in relation to its business activities and risk management.

Each business within Phoenix, including SLIDAC, maintains a list of all of its decision-making committees. Each committee operates under its own terms of reference, which sets out its authority, purpose, scope and quorum details. The purpose of a quorum rule is to give decisions made by a committee enough authority to allow binding action to be conducted.

The Company's governance functions include Risk and Compliance, Internal Audit and Actuarial who have responsibility for monitoring, reviewing, challenging and reporting on the status of the Company's risks on an ongoing basis. Fit and proper checks are carried out on applicable staff from key functions to ensure that they possess the competency, expertise and integrity necessary for the performance of their duties.

Three Lines of Defence

The Company operates a "three lines of defence" model of risk management, with clearly defined roles and responsibilities for individuals and committees:

- **First line:** Day-to-day risk management is delegated from the Board to the Chief Executive Officer and, through a system of delegated authorities and limits, to business managers.
- **Second line:** Risk oversight is provided by the Chief Risk Officer and supported by specialist Risk Management and Compliance functions, as well as through established risk committees such as the ERMC and with reporting to the Risk Committee. The majority of members of the ERMC are senior first line representatives. Independent oversight is provided by Non-Executive Directors at the Risk Committee.
- **Third line**: Independent verification of the adequacy and effectiveness of the internal risk and control management systems is provided by PGH's internal audit function. This is independent from all other operational functions. It operates subject to supervision and challenge by the Audit Committee.

B.1.4 Changes to the System of Governance and ERM Framework during 2018

Key changes to the System of Governance and ERM framework during 2018 have been:

- Creation of the new Board Committee, the Nomination Committee.
- Design and preparations for implementation of the new management committees needed following the planned transfer of SLAL Ireland and German branch business to the Company in 2019 via Part VII transfers.
- Sale of the Company's parent company, SLAL, to PGH on 31 August 2018.
- Resignation of Colm Fagan (Chairperson of the Board) on 28 March 2018.
- Appointment of Aidan Brady as Chairperson of the Board for SLIDAC on 28 March 2018.

SYSTEM OF GOVERNANCE CONTINUED

B.2 FIT AND PROPER REQUIREMENTS

The Company carries out initial 'fit and proper' checks before appointing new Directors (including Non-Executive Directors), executives, heads of function or other CBI required Approved Persons roles. In addition it is a requirement of the CBI that all Directors be pre-approved by them before appointment. The checks are fully documented and include the assessment of whether the person is 'fit' based on professional and formal qualifications, knowledge and relevant experience and takes account of the responsibilities of the role; and 'proper' based on honesty, financial soundness, character and criminal record.

The annual review of each individual's 'fit and proper' check reviews the information previously provided and asks individuals to confirm role profiles are up-to-date and that they understand their responsibilities. This review is a component of the annual review of the effectiveness of the internal control system by the Board. Where any weaknesses in knowledge or skills are identified, action plans are put in place to address them.

B.3 RISK MANAGEMENT SYSTEM

The Company's risk management system is part of the wider System of Governance and includes the ERM framework and the ORSA.

B.3.1 Enterprise Risk Management framework

A key part of the Company's System of Governance is the ERM framework. The ERM framework includes the methods and processes used to manage risks, and identify and seize commercial opportunities related to the achievement of our objectives, protecting and enhancing value. It enables a risk based approach to managing the business and incorporates the five elements listed below, and integrates concepts of strategic planning, operational management and internal control. The framework has been developed and embedded in the business over a number of years.

All of the ERM components (listed below) are interconnected and work together to provide the Company with a holistic framework encouraging proactive and pre-emptive risk management across the business.

- **Risk culture:** the way we think and act as individuals and as a business. It encompasses our attitudes, capabilities and behaviours towards risk. Our culture drives how we identify, understand, openly discuss and act on current and future risks.
- **Risk control processes:** the practices by which we manage financial and non-financial risks within the Company. They are used to identify, assess, control and monitor risk.
- **Strategic risk management:** this forms an integral part of the strategic planning process and is directly linked to our corporate objectives. It supports the development of long-term value by ensuring well informed risk-reward decisions are taken in pursuit of our business plan, and that capital is distributed to the areas where most value can be created from the risks taken.
- **Risk and capital models:** the models that we use to measure our risk exposures and capital position and the work that we do to test and understand the sensitivity of these positions.
- **Emerging risks:** the aim of emerging risk management is to identify risks before they materialise to help us anticipate future threats. This gives us time to engage with the risk, understand it and respond accordingly. Our screening process informs stress testing and capital adequacy requirements across SLAL.

Following the sale of the Company's parent company, SLAL to PGH, work has commenced to harmonise the Standard Life and PGH risk management frameworks. A harmonised framework will be implemented across the business throughout 2019.

B.3.2 Own Risk and Solvency Assessment

The ORSA is a set of processes that underpin our ERM framework. These processes identify, assess, control and monitor the risks which inform our capital requirements. The core principle of the Company's ORSA is that it is not a single annual exercise but the combination of inter-linked risk management processes happening continuously throughout the year.

The purpose of the ORSA is to inform and develop:

- Our understanding of the current and potential risks to the business over the product lifecycles. This includes both financial and non-financial risks including environmental, social and governance risks and their potential to affect both the long and short-term value of the business.
- Our appetite for these risks and how we manage them.
- Our own assessment of current solvency and capital requirements with respect to the risks.
- A forward-looking assessment of the risk and solvency needs of the business over a multi-year time horizon in light of the business plans.

The Company's ORSA processes play a key role in supporting decision making and strategy developments at Boards and risk committees. These processes run concurrently, operate continuously throughout the year and underlie the identification, assessment, control and monitoring of risks.

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SYSTEM OF GOVERNANCE CONTINUED

B.3 RISK MANAGEMENT SYSTEM CONTINUED

B.3.2 Own Risk and Solvency Assessment continued

The ORSA is reviewed and approved by the Board at least annually or in the event that the ORSA triggers are met, for example when there has been a material change in risk appetites or a material change to risk exposures.

The Company's solvency needs are assessed using the Standard Formula at each reporting period and projected into the future as part of the business planning cycle. The appropriateness of the Standard Formula is reviewed at least annually to ensure that the risk profile is properly captured. Operational risk is assessed separately.

The risk management system interacts with our capital management activities by ensuring that well-informed risk-reward decisions are taken in pursuit of our business plan objectives, allowing capital to be delivered to areas where most value can be created from the risks taken. Our consistent application of effective and pre-emptive risk management across our business protects our short-term value, while encouraging the development of long-term value. Oversight of risk within the business is delivered through the ORSA processes.

SYSTEM OF GOVERNANCE CONTINUED

B.4 INTERNAL CONTROL SYSTEM

Our internal control system contains a range of processes which are captured under our Conduct and Operational Risk framework as part of the risk control process element of the ERM framework.

B.4.1 Conduct and Operational Risk framework

The Conduct and Operational Risk framework comprises the following processes outlined below:

- Management awareness of risks;
- Risk policy framework;
- Risk assessment including risk registers;
- Control self-assessment;
- Risk event management;
- Action plan management; and
- Key risk indicators.

Management Awareness of Risks ('MARs')

The objective of MARs is to increase accountability and ownership of risk management. MARs dashboards are created, using the underlying data from our Own Risk and Control ('ORAC') system and the underlying processes and framework mentioned below to provide senior management with a holistic picture of their conduct and operational risk control environment. The risk teams have discussions with managers on the Executive Committee and challenge the MARs information. MARs is a forward-looking proactive risk management process and is used at senior risk committees such as the ERMC.

Policy Framework

The policy framework helps the Company to achieve the high level business objectives by providing a structure to help articulate how the code of conduct, governing principles and all of the policies and procedures fit together to make sure that the business and employees operate within approved limits and standards, as defined by the Board.

The fair treatment of customers is integral to all of our business activities and of fundamental importance. As such, policies are implemented with their specific impact on the customer in mind.

This framework provides a structured process for developing and implementing policies consistently across the business.

Risk Assessment including Risk Registers

Risk assessment is the process whereby operational risks, which might adversely affect the Company's ability to meet its stated business objectives are identified, assessed and managed in order to minimise any adverse impact. Conducting the risk assessment process increases the likelihood of meeting our business objectives and plans because we have identified up-front what can go wrong, and have taken action to prevent this.

It is mandatory for all business units to establish, own and operate risk assessment processes. The recording, ongoing monitoring and management of the risks identified through these processes is enabled through the use of 'risk registers' which are held on the ORAC system.

The registers detail a range of information captured through the risk assessment process including: a description of the risk; details of the likely causes and impacts; an assessment of the risk in impact and likelihood terms; details of the responses to the risk; and, details of the 'owner' for each risk. Responsibility for implementing a risk assessment process, including appropriate responses, and the creation and ongoing management of a risk register rests with business unit leaders and managers. They will be supported in this by their business unit risk team.

Control Self-Assessment ('CSA')

CSA is a self-assessment tool, its purpose being to ensure that the primary controls within key processes (that help manage key risks) are documented and subject to regular assessment by business owners. The assessment includes a review of the adequacy of the design of the suite of controls, an assessment of the actual performance of those controls, evidence to support control performance and an overall effectiveness conclusion.

The results of the CSA certification process provides senior management with assurance over the effectiveness and quality of the control environment operated across the key business processes. CSA results may also lead to designing new procedures or changing existing procedures in order to reduce the probability of control failures.

Risk event management

A risk event is a risk that has materialised as a result of a deficiency in our system of internal control or an external event. Since they can have a significant impact on the Company's reputation and performance, we aim to identify and understand them quickly to ensure that an appropriate response is taken.

The ORAC system is used to log any risk events that occur and ensure action plans are put in place for corrective action.

SYSTEM OF GOVERNANCE CONTINUED
B.4 INTERNAL CONTROL SYSTEM CONTINUED
B.4.1 Conduct and Operational Risk framework continued

Action plan management

Action plan management is an important aspect of the conduct and operational risk control framework. Its purpose is to:

- ensure that control improvement work is identified, what is required is clearly expressed, ownership is clear and target dates are set;
- demonstrate active management of the control environment;
- prioritise control improvement work; and
- provide progress on work to allow source owners to determine the impact of outstanding issues.

Key Risk Indicators

Our key risk indicators ('KRIs') aim to identify potential issues before they materialise and are used as a monitoring tool to provide a snapshot of the current business exposure to specific risks.

KRIs are a blend of performance indicators, control indicators and other management information that is focused on a particular risk. The key differential of a KRI is that the metric has a direct correlation to an increase or decrease in probability, impact or exposure to a specific risk.

KRIs assist both business management and risk management functions by providing a tool to:

- monitor risks by measuring trends or performance of KRIs;
- provide an early warning to enable proactive rectifying action and help to minimise exposure to losses;
- promote a proactive risk culture by providing a trigger for management action; and
- bring objectivity to the risk process.

All the outputs from our conduct and operational risk control framework flow through to the other stages of the ERM framework, such as the risks being reflected in our risk and capital models.

B.4.2 Risk and Compliance function

The Risk and Compliance function is a second line of defence function, and is embedded into our strategic and operational decision making. The function promotes informed decision-making and controlled risk-taking that improves customer outcomes and delivers long-term value for shareholders.

The Risk and Compliance function achieves this by:

- providing guidance, advice, challenge, independent review and assurance of key activities;
- developing Regulatory relationships that help deliver the business strategy;
- ensuring that Compliance activities are undertaken; and
- designing and implementing a risk management framework that supports the execution of business strategy.

The Risk and Compliance function is led by the Chief Risk Officer, who reports to the SLAL Chief Risk Officer and has the rights of access to the chairperson of the Risk Committee, and to attend Risk Committee meetings. The function covers legal, operational risk, regulatory risk and financial crime. Financial risks were monitored by the SLIDAC Finance function during 2018 but will be monitored by the Risk and Compliance function from 2019.

Support is also provided by Group functions including Financial Risk, Business Risk Review and Data Protection.

B.4.3 Regulatory Compliance

The Company's Regulatory Compliance policy requires the business to provide assurance that they are complying with the relevant regulations.

The Regulatory Compliance policy sets out the standards the business must adhere to in complying with the relevant regulations. These standards are in place to prevent non-compliance. The Chief Risk Officer is the policy implementation manager for this policy and is also responsible for the annual review of the standards and benchmarks for this policy.

The assessment of the adequacy of the measures adopted to prevent non-compliance is a continuous process and follows an annual cycle, starting and ending at annual policy review. The assessment includes:

- Board review and approval of the policy standards (with benchmarks approved by the Chief Risk Officer) to apply in the following year;
- A quarterly self-assessment of compliance with the Board approved policy. Where this highlights areas of non-compliance, action plans are set up to ensure compliance (along with appropriate timescales);
- A review of the above assessment by the policy implementation manager. This review will consider the evidence provided to show compliance, the action plans and other information already reported in the ORAC system;
- A review of the policy standards and benchmarks by the policy implementation manager. This review takes into account the cases of non-compliance (or near misses) reported over the year and the adequacy of the current standards and benchmarks in reducing the numbers and controlling the impact of these cases; and
- Board review and approval of the revised policy standards resulting from the above review.

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SYSTEM OF GOVERNANCE CONTINUED

B.5 INTERNAL AUDIT FUNCTION

Following the acquisition by PGH, Internal Audit activities for the Company are provided by PGH Internal Audit ('PGIA'). The primary role of PGIA is to support the Board and Executive Management to protect the assets, reputation and sustainability of the organisation. This is achieved by assessing whether all significant risks are identified and appropriately reported, assessing whether they are adequately controlled, and challenging Executive Management to improve the effectiveness of governance, risk management and internal controls.

PGIA operates in compliance with the International Standards for the Professional Practice of Internal Auditing, the Internal Audit Code of Ethics and the Guidance on Effective Internal Audit in the Financial Services Sector.

The full Internal Audit Charter can be found on the governance pages of the Group's website (http://www.thephoenixgroup.com/about-us/corporate-governance/board-committees/audit-committee/group-internal-audit-charter.aspx).

B.5.1 Roles and responsibilities of Internal Audit

The Internal Audit scope is unrestricted and there are no aspects of the organisation which PGIA is prohibited from reviewing. Key business risk areas and industry themes identified both internally and externally are prioritised to receive more extensive coverage, regular ongoing review and opinion formation.

The function has a number of responsibilities, including producing, delivering and reporting on the annual Internal Audit plan.

B.5.2 Reporting

PGIA attend, and issue reports to the PGH, Phoenix Life and SLAL Board Audit Committees ('BACs') and any other governing bodies and Board committees as appropriate (including for SLIDAC).

PGIA's reporting to the PGH BAC includes significant control weaknesses, root-cause and relevant 'lesson learned' analysis, themes and a view on the adequacy of management's remediation plans. Bi-annually, PGIA provides an opinion on the strength of the design and operation of the Risk Management/Internal Control Framework (and adherence to the Risk Appetite Framework across the business).

B.5.3 Independence and objectivity of the Internal Audit function

In order to maintain its independence and objectivity from the activities it reviews, PGIA ensures the following:

- The Group Head of Internal Audit ('GHIA') reports functionally to the Group Board (through the Group BAC Chair) and administratively to the Group Chief Executive Officer ('CEO'). Where the GHIA's tenure exceeds seven years, the Group BAC will explicitly assess independence and objectivity annually. The Group BAC Chair is the final approval point for recommendations made by the CEO regarding the performance objectives, appraisal, appointment or removal of the GHIA, as well as the overall compensation package of the GHIA which is further ratified by the RemCo.
- The remuneration of the GHIA and the Senior Internal Audit Managers is structured in a manner such that it avoids conflicts of interest, does not impair independence and objectivity, and is not directly or exclusively linked to the short term performance of the organisation.
- The GHIA ensures that PGIA remains free from anything that impacts its ability to carry out its responsibilities in an unbiased manner.
- PGIA has the right to attend and observe all or part of executive management meetings and any other key management decision-making forums. It also has sufficient and timely access to all Board and executive management information, and a right of access to all of the organisation's records necessary to discharge its responsibilities.
- Effective Risk Management, Compliance and other assurance functions are an essential part of the Group's corporate governance structure. PGIA is independent of these functions and is neither responsible for, nor part of them. In evaluating the effectiveness of internal controls and risk management processes, in no circumstances does PGIA rely exclusively on the work of these other assurance providers. PGIA exercises informed judgement as to when to leverage the work of other assurance providers and always examines for itself an appropriate sample of the activities under review, after a thorough evaluation of the effectiveness of other assurance providers' work in relation to the applicable area.

SYSTEM OF GOVERNANCE CONTINUED

B.6 ACTUARIAL FUNCTION

The actuarial function in the Company is split across two roles: the statutory Head of Actuarial Function ('HoAF') role is outsourced to Milliman Limited, and the internal Senior Actuary co-ordinates work done locally. The two are in constant contact throughout the year, but opinions provided in the Actuarial Report on Technical Provisions and the Actuarial Opinion on Technical Provisions are ultimately those of the HoAF.

The actuarial function is a first line of defence function and has the following responsibilities:

- **Technical provisions:** co-ordinate calculation of technical provisions; inform the Board of the adequacy of calculation; provide opinion on the adequacy of technical provisions;
- **Underwriting:** prepare an opinion on overall underwriting policy;
- **Reinsurance**: prepare an opinion on adequacy of reinsurance arrangements; and
- **Risk management:** contribute to an effective risk management system; provide an opinion to the Board on the range of risks and adequacy of the scenarios considered as part of the ORSA.

In addition to the above which are required by the Solvency II Directive delegated acts and guidelines, the Actuarial function also performs the following functions:

- **IFRS actuarial liabilities:** oversee and co-ordinate calculation of IFRS actuarial liabilities, recommend to the Board methodology and assumptions for the calculations of IFRS actuarial liabilities;
- **Solvency Capital Requirement ('SCR')**: recommend results of the SCR to the Board, recommend methodology and assumptions used for the calculation of the SCR within the framework defined by the Risk function;
- **Financial projections:** perform calculations of financial projections used in business planning, capital management and the ORSA; and
- **Capital and liquidity management:** monitor and manage capital and liquidity.

B.7 OUTSOURCING

The SLIDAC Outsourcing Policy sets the standards that the Company must comply with for outsourcing arrangements.

The Company expressly retains responsibility for meeting all relevant regulatory and legal requirements by outsource providers and includes the requirement for the implementation of appropriately robust governance structures. The policy also highlights that customer outcomes must be considered at the outset and throughout the lifecycle of any outsourcing arrangement.

For each material (critical or important) outsourcing arrangement, an Executive Sponsor, Accountable Authority and Supplier Relationship Manager are appointed. In addition outsourced control functions (as per CBI fitness and probity definitions) are required to satisfy the fitness and probity requirements.

In addition to the roles mentioned above, the Chief Risk Officer and the ERMC have specific roles and responsibilities in relation to the approval and subsequent governance of outsourcing arrangements.

The ERMC is responsible for reviewing all proposed outsourcing arrangements that are identified by the Chief Risk Officer (or nominated deputy) as potentially having a material impact on the risk profile and annually reviews the complete master list of outsourcing arrangements across the Company.

The Company uses a number of outsourcing partners to operate and deliver core systems, capabilities and processes. Most outsourcing arrangements are to other companies within Phoenix Group and are located in the UK.

B.8 ANY OTHER INFORMATION

B.8.1 Assessment of the adequacy of the System of Governance to the nature, scale and complexity of the risks inherent in the business

The System of Governance was reviewed in 2018 with particular focus on being ready for the transfer of SLAL's Ireland and Germany branch business to the Company in 2019. A number of changes were made as outlined above to ensure the continuing effectiveness of the system of governance and ERM framework.

This, along with the review of the Group Chief Internal Auditor of the overall effectiveness of our System of Governance and risk and control framework, leads to the conclusion that the System of Governance is adequate given the nature, scale and complexity of the risks inherent in the Company.

SECTION C
RISK PROFILE

IN THIS SECTION

SECTION C

RISK PROFILE

The purpose of this section is to describe the material risks to which the Company is exposed and the techniques used to monitor and manage them.

The Company's principal risks and uncertainties are described in Note 23 of the 2018 Annual Financial Statements. These are:

Risk	Description	More detail included in section
Demographic and Expense Risk	Risk that arises from the inherent uncertainties as to the occurrence, amount and timing of future cash flows due to demographic and expense experience differing from that expected.	C.1 Underwriting risk
Financial Market and Credit Risks	Risk or losses due to risks inherent in financial markets.	C.2 Market risk; C.3 Credit risk
Liquidity Risk	Risk that we are unable to realise investments and other assets in order to settle our financial obligations when they fall due, or can do so only at excessive cost.	C.4 Liquidity risk
Conduct Risk	The risk that through our behaviours, strategies, decisions and actions the firm, or individuals within the firm, do not do the right things and/or do not behave in a manner which: • pays due regard to treating our customers and clients fairly; • is consistent with our disclosures and setting of customer and client expectations; and • supports the integrity of financial markets.	
Operational Risk	Risk of loss or adverse consequences for the business resulting from inadequate or failed internal processes, people or systems, or from external events.	C.5 Operational risk
Strategic Risk	Risks which threaten the achievement of the strategy through poor strategic decision-making, implementation or response to changing circumstances.	C.6 Other material risks

These risks are covered in this section, which follows a prescribed format and order. Sections C.1 to C.6 provide information on specific material risks to which the Company is exposed. Section C.7 covers information which applies across these material risks.

Capital held in respect of these risks is described in section E. Please see Quantitative Reporting Template S.25.01.01 to see the split of the SCR by risk category.

The table below shows the composition of the actual Company undiversified SCR, calculated in accordance with the Standard Formula:

Risk profile	Section reference	SLIDAC SCR
Underwriting risk	C.1	49%
Market risk (including credit risk)	C.2 & C.3	50%
Liquidity risk	C.4	0%
Operational risk	C.5	1%
Other risks	C.6	0%
Total		100%

The Company does not hold SCR for liquidity risk, as explained further in section C.4.1.

RISK PROFILE CONTINUED

C.1 UNDERWRITING RISK

Underwriting risk refers to the risk that the frequency or severity of insured events may be worse than expected. The key material underwriting risks to which the Company is exposed are persistency risk and expense risk. There is also a minor exposure to mortality (in respect of insurance business that pays benefits on death).

The Company has not used any special purpose vehicles to transfer underwriting risk.

There were no material changes to the measures used to assess underwriting risks or the exposures to underwriting risks over the reporting period.

A description of how assets have been invested according to the Prudent Person Principle is given in section C.7.2 below.

An assessment of sensitivity to key risks is set out in section C.7.1 below.

C.1.1 Persistency risk

Persistency risk is the risk that that business lapses or takes withdrawals at a different rate than assumed. This risk may arise if persistency or withdrawal rates are greater or less than assumed, or if policyholders selectively lapse when it is beneficial for them. This could adversely impact capital resources through:

- lower than expected future charges being received if more policyholders disinvest than assumed; or
- higher than expected future expenses being incurred if less policyholders disinvest than assumed and per-policy costs are unchanged.

In setting our best estimate, we consider our own current experience and assess whether or not it is representative of expected future experience. Occasionally we apply one-off adjustments to allow for changes in expected future experience. If experience data is not believed to be credible, e.g. for a new product, then other factors will be considered such as the pricing basis and experience for similar products, including products in other business units within Standard Life Group.

The persistency risk modelling consists of three separate risk modules:

- **Lapse rates 50% higher than best estimate** – This captures the risk of mis-estimating the long-term level of persistency assumptions.
- **Lapse rates 50% lower than best estimate** – This captures the risk of mis-estimating the long-term level of persistency assumptions.
- **Mass lapse** – This captures the impact of a discontinuance of 40% of the policies in force i.e. only 60% of policies remain in force.

C.1.2 Expense risk

Expense risk is the risk that the costs of operating our business are higher than expected, either through forecasting insufficient levels of expense, or from inflation being higher than expected and increasing costs gradually over time. This would adversely impact capital resources as we would place a smaller value on the future profitability of policies in force.

Best estimate expenses are set by considering our recent experience and setting a cost per policy. We may apply adjustments to allow for changes in expected future experience.

The expense risk modelling consists of two stresses applied in a single risk module:

- **Per-policy cost 10% higher than best estimate** – This captures the risk that expenses increase beyond management control.
- **Inflation rates are 1% per annum higher than best estimate** – This captures the risk that expenses grow faster than anticipated.

C.1.3 Material underwriting risk concentrations

The Company has a diverse pool of underwriting risks which reduces our exposure to underwriting risk concentrations.

C.1.4 Risk mitigation

Underwriting risks are managed through the use of appropriate and active pricing and regular monitoring of experience. We also have a Risk Appetite Framework which limits the amount of exposure we have to individual risks.

The Company actively monitors its actual persistency and expense experience, along with other underwriting risks. This gives timely identification of any significant divergence from long-term trends, which can enable the underlying causes to be identified and appropriate actions implemented.

RISK PROFILE CONTINUED

C.2 MARKET RISK

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market influences. The key material market risks to which the Company is exposed are equity risk, interest rate risk, and currency risk. There is also a small exposure to property risk. (Note credit risk is covered in section C.3).

Charges linked to policyholder funds are exposed to market risks, in particular equity risk.

Currency risk affects the sterling value that the Company recognises in respect of non-sterling assets and liabilities, including the euro-denominated expenses incurred in operating the business in Ireland.

The following sections discuss the methods used and the key judgements applied to quantify the most material market risks to which the Company is exposed.

There were no material changes to the measures used to assess market risks or the exposures to market risks over the reporting period.

A description of how assets have been invested according to the Prudent Person Principle is given in section C.7.2 below.

An assessment of sensitivity to key risks is set out in section C.7.1 below.

C.2.1 Equity value risk

Equity value risk is the risk of reduction in earnings and/or value, from unfavourable movements in equity asset values and/or equity volatility. In this context, equity assets should be taken to include shares, equity derivatives and equity collectives (OEICs, unit trusts, investment trusts). The Company does not hold any equities in the shareholder fund; all exposure to equity value risk is through the charges linked to policyholder funds. A large proportion of policyholder assets are held in equities, so this is a material risk.

We use the Standard Formula stresses for equities, with the impact on developed and emerging market equities assessed in two separate risk modules. We allow for policyholder behaviour by increasing the lapse rates in the year following the stress.

C.2.2 Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate relative to the respective liability due to the impact of changes in market interest rates and the associated guarantees on certain insurance contracts. Standard Life has a material exposure to interest rate risk through a number of assets and liabilities:

- a UK government bond exposure held in the shareholder fund;
- charges linked to policyholder assets held in corporate and government bonds; and
- the valuation of future charge and expense cash flows, in the technical provisions.

The Company uses the Standard Formula interest rate stresses to revalue its assets and technical provisions in two separate risk modules. As the Company has exposure to expenses in both euro and sterling interest rates, these have the respective stresses applied.

C.2.3 Currency risk

Standard Life has a material exposure to currency risk through:

- charges linked to policyholder assets invested in countries outside the United Kingdom; and
- expenses incurred in operating the business in Ireland denominated in euro.

We use the Standard Formula stresses for foreign exchange – all currencies appreciate or depreciate by 25% relative to sterling. We analyse the impact separately for the exchange rate between sterling and the euro, and a separate stress for the exchange rate between sterling and all other currencies, as the euro stress affects mainly liabilities and the other stress affects assets.

C.2.4 Material market risk concentrations

Market risk concentrations are minimised by offering a wide range of investment options to the Company's customers. The majority of policyholder assets are invested in collective investment funds, either directly or through discretionary investment managers, and these are spread across thousands of funds. We also have a Risk Appetite Framework which limits the amount of exposure we have to individual risks.

C.2.5 Mitigation of market risks

The Company does not use any specific risk-mitigation techniques for market risks. Ultimately the policyholder bears the market risk on their investment, and Standard Life's exposure to market risk through the link to future charges is necessary to operate unit-linked business. Policyholder unit fund assets and liabilities are perfectly matched so that the Company does not bear any mis-matching risk.

The Company has an exposure to a UK government bond on the shareholder balance sheet, which increases in value when interest rates reduce, and vice versa. This provides some protection from the impact of interest rate fluctuations on the value of expenses in the technical provisions.

Similarly, since a large proportion of the Company's expenses are denominated in euro, this provides some protection from the impact of exchange rate fluctuations on the value of non-sterling assets.

RISK PROFILE CONTINUED

C.3 CREDIT RISK

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge its obligation. These obligations can relate to both on and off balance sheet assets and liabilities. The key material credit risk to which the Company is exposed is in respect of corporate bond holdings in policyholder funds; there is the risk that the issuers of those bonds fail to meet their contractual payments, reducing the value of these funds and the charges linked to the value of these funds.

The Company is also exposed to the market risk of corporate bonds fluctuating in value as a result of changes in the market's perception of the credit worthiness and marketability of those bonds. This presents a risk to the Company in a similar way.

Other credit risks that the Company is exposed to are the risk of default from:

- cash counterparties; and
- other miscellaneous creditors such as intermediaries.

To quantify credit risk we use several risk modules – credit spread widening, counterparty default risk relating to cash on both policyholder and shareholder exposures.

There were no material changes to the exposures to credit risk or the measures used to assess credit risk over the reporting period.

A description of how assets have been invested according to the Prudent Person Principle is given in section C.7.2 below.

An assessment of sensitivity to key risks is set out in section C.7.1 below.

C.3.1 Material credit risk concentrations

Policyholder exposures to credit risk are spread across a large number of corporate bond holdings across a large number of pooled investment vehicles, a large panel of cash deposit options, and the International Bond bank account, which limits the scope of individual credit risk exposures arising. Shareholder cash exposures are managed in line with the Investment Management Agreement with Standard Life Investments, which sets limits on the creditworthiness of counterparties used and the maximum exposure to each.

C.3.2 Mitigation of credit risks

The Company has a Credit Risk Management Policy in place to manage our credit risk exposure, which has a number of rules by which we mitigate credit risk, such as limiting the counterparties to which we can gain exposure, and limiting individual exposure levels. This is regularly monitored with actions taken where required to ensure the policy operates as intended.

RISK PROFILE CONTINUED

C.4 LIQUIDITY RISK

Liquidity risk is the risk that the Company is unable to realise investments and other assets in order to settle its financial obligations when they fall due, or can do so only at excessive cost.

Assets are invested in accordance with the mandates of the relevant unit-linked funds where these are managed by Standard Life Investments. Assets invested externally must be sold and encashed before their value can be paid out to policyholders. Policyholder behaviour and the trading position of asset classes are actively monitored. The unit value and value of any associated contracts would reflect the proceeds of any sales of assets. If considered necessary to protect the interests of continuing customers, deferral terms within the policy conditions applying to the Company's contracts can be invoked.

Liquidity risk is measured by comparing the level of liquid assets with the amount required to maintain the normal monthly level of cash flows over the business planning period, with allowance made for any expected non-recurring cash flows.

The Company undertakes periodic investigations into liquidity requirements, which include consideration of cash flows in normal conditions, as well as investigation of scenarios where cash flows differ markedly from those expected (primarily due to significant changes in policyholder behaviour). Liquidity risk is monitored, assessed and controlled in accordance with the relevant principles within the Group's policy framework.

There were no material changes to the exposures to liquidity risk, or the measures used to assess liquidity risk over the reporting period.

A description of how assets have been invested according to the Prudent Person Principle is given in section C.7.2 below.

An assessment of sensitivity to key risks is set out in section C.7.1 below.

C.4.1 Material liquidity risk concentrations

The Company is not exposed to material concentrations of liquidity risk due to holding sufficient liquidity to cover fluctuations in cash outflows arising from these areas. Liquidity risk is defined as the failure of the Company to maintain adequate levels of financial resources to enable it to meet its obligations as they fall due. The Company has exposure to liquidity risk as a result of normal business activities, specifically the risk arising from an inability to meet short-term cash flow requirements.

The Company does not hold risk capital against liquidity risk. Liquidity risk is managed by holding an appropriate proportion of the assets in liquid form, with the proportion determined based on cash flow projections and stress testing.

C.4.2 Mitigation of liquidity risks

The Company:

- co-ordinates strategic planning and funding requirements;
- monitors, assesses and oversees the investment of assets;
- monitors and manages risk, capital requirements and available capital; and
- maintains a portfolio of committed bank facilities.

As a result of the policies and processes established to manage risk, the Company considers the extent of liquidity risk arising from its activities to be small.

C.4.3 Expected Profits in Future Premiums ('EPIFP')

As all of the Company's policies are paid by single premiums, we do not allow for future premiums in our valuation of the business, and so the expected profit included in future premiums is zero.

RISK PROFILE CONTINUED

C.5 OPERATIONAL RISK

C.5.1 Risk exposure

Operational risk is defined as the risk of loss or adverse consequences for the business resulting from inadequate or failed internal processes, people or systems, or from external events. Operational risk includes conduct risk.

The key material operational and conduct risks that the Company is exposed to are captured within the following categories:

- **Process Execution** – Losses arising from failure to execute a process or control in accordance with its design, including administration, payment, manual data entry errors.
- **Customer Treatment** – Losses arising from inappropriately designed, delivered products/services, misinformed advice, failure to meet regulatory standards/requirements, failure to deal with customer complaints satisfactorily and within reasonable timescales, failure to meet the requirements of any other professional obligation to customers/clients. For example this may include impacts of regulator reviews, such as the enhanced annuity past business review.
- **Fraud or Irregularities** – Losses arising from the embezzlement or misappropriation of funds/monetary assets by deliberate acts of deception and/or concealment, collusion, abuse of company/system knowledge, abuse of systems access. Also including failure to meet or comply with anti-money laundering regulations.
- **Regulatory or Legal** – Losses arising from the inability to accurately interpret and/or comply with regulatory requirements.
- **Security** – Losses arising from deliberate corruption/damage/theft of data and/or systems by external/internal parties or other criminal activities, failure to protect company property from theft/malicious damage, failure to safeguard the personal and physical security of staff during working hours.
- **Business Interruption & System Management** – Losses arising from the inability to conduct normal business transactions e.g. money in/money out through loss or damage to premises, people or systems.
- **Supplier Failure** – Losses arising from the failure of outsource partners or other third party suppliers to deliver products/services in accordance with terms and conditions, through the fault of a party other than Standard Life.
- **People** – Losses arising from the inability to adequately attract retain and incentivise staff, the inability to adequately protect staff from injury or other harm, and any breakdown in the management of non-compliance of workforce.
- **Planning** – Missed opportunities/projected income as a result of planning process.

Risk control processes are the practices by which we manage financial and non-financial risks within our business. They are used to identify, assess, control and monitor risk.

We use a control framework which is comprised of: control self-assessment ('CSA'), risk assessment, key risk indicators, risk event and action plan management. The process is supported by the Operational Risk and Control system.

During the year ended 31 December 2018, the key changes to the Company's exposure to operational risk include increases across a range of operational risk categories as the Company prepares for Brexit and the transfer of SLAL's Ireland and Germany branch business. Process Execution, Data Security, Outsourcing and People represent the most significant increases as we set up new structures and processes, and recruit for new roles.

C.5.2 Risk measurement

The Company uses the Standard Formula calculation for operational risk to contribute to the Solvency Capital Requirement. This calculation is based on expenses incurred over the previous 12 months. The capital held in respect of the Company's operational risk on the Standard Formula basis was £1.3 million at 31 December 2018 and represented 1% of the Company's total undiversified SCR as shown in the chart at the beginning of section C.

C.5.3 Risk concentration

The Company does not have any material operational risk concentrations.

C.5.4 Risk mitigation

The Company's aim is to minimise our exposure to operational risk by use of our control framework as described in section B, and manage it within our operational Risk Appetite Framework. A number of insurance policies are used to reduce operational risk exposures in practice. The key policies are professional indemnity cover and employer's liability cover for all employees.

RISK PROFILE CONTINUED

C.6 OTHER MATERIAL RISKS

A business-wide review of risks is performed to determine a list of risks which should be assessed. This assessment considers:

- Reputational risk, including conduct risk, the risk of a downgrade to SLAL's or PGH's external credit rating and impacts on underwriting risks such as persistency and expenses.
- Strategic risk, including impacts on underwriting risks such as persistency, expenses and new business levels.

The approach taken to the assessment is a qualitative analysis of each of the risks in turn, appropriate to the nature, scale and complexity of these exposures. The assessment described here concludes that there are no other material risks that the Company is exposed to. As a consequence:

- There is currently no requirement to hold additional capital in respect of these risks.
- Other risks are not considered when investing assets according to the Prudent Person Principle.
- No material other risks were identified through the sensitivity, scenario and stress tests described in section C.7.1.

RISK PROFILE CONTINUED

C.7 ANY OTHER INFORMATION

C.7.1 Risk sensitivity

Standard Life performs a range of sensitivity, scenario and stress tests as part of its established Stress and Scenario Testing ('SST') Programme, which is reviewed annually by the Risk and Capital Committee ('RCC'). These tests are mainly internally driven by management to improve our understanding of the sensitivity of our business model, supplemented by others that are externally driven, such as regulatory requests.

The 2018 SST Programme covered a comprehensive range of stresses to explore a continuum of plausible stress environments. The SST Programme included stresses to each of our main risk exposures:

- Financial – Market, Credit, Liquidity.
- Demographic – Persistency, Mortality, Expense.
- Other – Conduct, Reputation, Operational.

The SST Programme also included insight into relevant severe combinations of risk events. A variety of stresses were applied to the year-end Solvency II balance sheet and calibrated at, or in excess, of a 1-in-200 year probability level.

The SST Programme includes both combined and solo stress tests and forward-looking scenario projections to support the annual business planning process, and reverse stress tests to consider circumstances or severe events that, if they emerged, could have the potential to cause the business plan to fail.

The scenario projections comprise five year projections on base, down and severe downside scenarios. The projections are completed on the regulatory solvency position and also Economic Capital.

In addition, liquidity stress testing is performed to assess the ability of the balance sheet to support potential outflows under stress, and assess the effectiveness of our Contingency Funding Plan, including circumstances in which market liquidity is stressed.

The sensitivity of our Solvency II surplus to changes in key assumptions, which was calculated as at 31 December 2018, is as follows:

Sensitivity		Solvency II Surplus £'000	Change in Solvency II Surplus £'000
Base		115,398	
Equity & Property	99.5th percentile of fall in equity and property markets	78,415	(36,983)
Interest Rates	99.5th percentile increase in interest rates	118,371	2,973
	99.5th percentile reduction in interest rates	114,418	(980)
Credit Spreads	99.5th percentile spread widening	114,406	(992)
Expenses	10% increase in maintenance expenses, 1% increase in expense inflation	96,720	(18,677)
Surrenders	40% one-off	72,262	(43,135)

C.7.2 Prudent Person Principle

The Prudent Person Principle ('PPP') is a set of requirements which governs the investments that an insurer is allowed to make. For example insurers may only invest in assets and instruments whose risks they can properly identify, measure, monitor, manage, control and report, and appropriately take into account in the assessment of their overall solvency needs. To avoid repetition we describe the PPP compliance of all asset classes together rather than individually.

The Company's investment risk management framework ensures that assets that are backing technical provisions are invested in accordance with the requirements of the PPP, as set out in Article 132 of Directive 2009/138/EC.

The framework is underpinned by Group policy framework, which includes Market Risk Management, Credit Risk Management and Liquidity and Capital Management policies, and requires that the risks associated with investments are identified, assessed, controlled and monitored.

Decisions on significant investment matters (including the types of asset that can be invested in) are the responsibility of the SLIDAC Board. Any new proposals follow robust governance and review processes to ensure that proper consideration of the risks, benefits, costs and other implications has been given.

RISK PROFILE CONTINUED
C.7 OTHER INFORMATION CONTINUED
C.7.2 Prudent Person Principle continued

The Company's shareholder and policyholder assets, other than those relating to unit-linked policies which have been invested in External Fund options, are managed by Standard Life Investments. These assets must be managed in accordance with requirements that are set by the Company with reference to the nature, term and other relevant characteristics of the liabilities that they back, along with considerations of the risk characteristics of the assets. Compliance with these requirements is monitored on an ongoing basis and reviewed at least annually to ensure the ongoing appropriateness of existing asset allocations and constraints. Compliance with regulatory requirements such as the FCA's Conduct of Business rules is also monitored.

Shareholder funds

Shareholder funds are directly exposed to investment profits and losses. These funds are the assets backing the free surplus. These funds are primarily invested in fixed interest investments and cash, with the objective of optimising the risk-adjusted return and ensuring the diversification of credit risk exposures.

The investment strategy is operated within constraints set within the qualitative and quantitative requirements of the risk policies that relate to managing investments: Credit Risk, Market Risk, Liquidity Risk and Capital Management.

The investment constraints set may vary from time to time, but are designed to ensure that adequate levels of diversification and liquidity are maintained. Examples of the types of constraints include limits on permitted asset types and exposures to individual companies, market sectors and credit ratings.

This investment approach ensures the security, quality, liquidity and profitability of the portfolio as a whole.

Unit-linked

Within the Company's unit-linked business we offer a wide range of funds which offer customers a choice of investment risk, asset classes and investment styles. These funds comprise both the Company's Own Funds (internal funds) and external fund links ('EFL'). Our internal funds are managed by Aberdeen Standard Investments ('ASI').

There is a fund mandate for each of the Company's internal funds which details key aspects of how the fund is to be managed by ASI, including the objective of the fund, its benchmark, and the assets that the fund is permitted to invest in including any restrictions.

We operate an extensive governance framework covering all of our unit-linked funds (internal and external) to ensure that our unit-linked fund range is developed and managed appropriately on an ongoing basis. As part of this, all unit-linked funds are reviewed regularly to ensure that expectations set with customers remain aligned to how the funds are being managed by the investment manager. The effectiveness of the operation of this framework is regularly reported to the SLIDAC Board.

To ensure the quality, security and liquidity of our funds, we predominantly invest in liquid securities that are listed or traded on regulated exchanges, or in daily priced funds that are authorised or recognised by the FCA. Discretionary Investment Managers must only invest policyholder assets in permitted links according to the service level agreements in place between them and the Company. During significant market events we ensure our funds are priced appropriately and we may take other action as required to protect all customers in the fund. For example, we may place a fund into deferral in response to liquidity concerns until an appropriate level of liquidity is reached.

C.7.3 Use of special purpose vehicles

Throughout 2018 the Company has not owned any Special Purpose Vehicles for the purpose of transferring risk.

SECTION D

VALUATION FOR SOLVENCY PURPOSES

IN THIS SECTION

SECTION D

VALUATION FOR SOLVENCY PURPOSES

This section provides information on the valuation of assets, technical provisions and other liabilities for the Company's Solvency II balance sheet.

In accordance with Solvency II valuation regulations and unless expressly stated below, the Company has valued its assets and other liabilities at fair value. In order to establish the fair value of assets and other liabilities, the following principles have been applied:

- Assets have been valued at the amounts for which they could be exchanged between knowledgeable willing parties in an arm's length transaction.
- Other liabilities have been valued at the amounts for which they could be transferred or settled between knowledgeable willing parties in an arm's length transaction.

The valuation of assets is described in section D.1 and the valuation of the technical provisions is described in section D.2.

Details on Other Liabilities are covered in section D.3, and the methods and assumptions used to determine the fair values of assets and other liabilities are included in section D.4.

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.1 ASSETS

This section provides information on the types and values of assets in the Company's Solvency II balance sheet and a quantitative and qualitative explanation of any material differences with their International Financial Reporting Standards ('IFRS') statutory accounting valuation.

The total value of assets in the Company's Solvency II balance sheet at 31 December 2018 was £6,150,222k. An analysis of the Solvency II balance sheet by type of asset is provided in Quantitative Reporting Template ('QRT') SE.02.01.16, a copy of which is included in Appendix 1.

Solvency II regulations require that assets of insurers be valued on a basis that reflects their fair value, described as an 'economic valuation'. The valuation basis adopted should, as far as possible, be consistent with IFRS. Details on the methods and assumptions used to determine the fair values of assets are included in section D.4.

The following table gives the valuation bases used as at 31 December 2018, along with a comparison between Solvency II and IFRS statutory accounts values. The IFRS statutory accounts values below reflect the IFRS statutory accounting values of the Company, reallocated into the corresponding balance sheet QRT line items.

	Description of basis and method of valuation
Deferred acquisition costs	Under IFRS, certain costs incurred in issuing certain insurance and participating investment contracts are deferred and amortised over the life of the contracts as the related revenue is recognised. After initial recognition, DAC is reviewed by category of business and written off to the extent that they are no longer considered to be recoverable. In accordance with the Solvency II valuation guidelines, nil value has been allocated to Deferred Acquisition Costs ('DAC'). Accordingly, the following valuation difference can be observed between the Solvency II balance sheet and the IFRS statutory accounts:

	£'000
DAC as per Solvency II balance sheet	–
DAC as per IFRS statutory accounts	40,282
Difference	40,282

Intangible assets	Under IFRS, intangible assets are recognised if it is probable that the relevant future economic benefits attributable to the asset will flow to the Company and they can be measured reliably and are either identified as separable (i.e. capable of being separated from the entity and sold, transferred, rented, or exchanged) or they arise from contractual or other legal rights, regardless of whether those rights are transferable or separable. The Company has recognised as intangible assets software which has been developed internally and other purchased technology which is used in managing and executing our business. Intangible assets are recognised at cost and charged to the income statement on a straight-line basis over the length of time the Company expects to derive benefits from the asset. Under the Solvency II valuation guidelines, intangible assets are recognised and measured at fair value so long as they can be sold separately, and fair value measurement using quoted prices in an active market is possible. When intangible assets cannot be sold separately or fair value measurement using quoted prices in an active market is not possible, such intangible assets are valued at nil. The Company's intangible assets do not meet the criteria for recognition and are therefore valued at nil. Accordingly, the following valuation difference can be observed between the Solvency II balance sheet and the IFRS statutory accounts:

	Total £'000
Intangible assets as per Solvency II balance sheet	–
Intangible assets as per IFRS statutory accounts	383
Difference	383

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.1 ASSETS CONTINUED

	Description of basis and method of valuation
Deferred tax assets	The following section describes the valuation approach for both deferred tax assets and liabilities. Under IFRS, a deferred tax asset represents a tax deduction that is expected to arise in a future period. It is only recognised to the extent that there is expected to be future taxable profit to offset the tax deduction. A deferred tax liability represents taxes which will become payable in a future period as a result of a current or prior year transaction. All deferred tax liabilities are recognised. The tax rates used to determine deferred tax are those enacted or substantively enacted at the reporting date. Where local tax law allows, deferred tax assets and liabilities are netted off on the statement of financial position. Shareholder deferred tax for Solvency II valuation purposes is determined by identifying temporary differences between the fair value of assets or liabilities on the Solvency II balance sheet and their equivalent tax base. The total value of deferred tax liabilities arising from temporary timing differences between the Solvency II and IFRS amounts to £4,723k. The Company has unrecognised losses from prior years that can be used to offset this tax liability in the future. Therefore the Solvency II deferred tax assets have been increased to the level of these deferred tax liabilities, giving a nil deferred tax asset on a net basis. The IFRS statutory accounts show a deferred tax asset for £1,578k based on a projection horizon of five years.

	£'000
Net deferred tax assets as per Solvency II balance sheet	–
Net deferred tax assets as per IFRS statutory accounts	1,578
Difference	1,578

Investments (other than assets held for index-linked and unit-linked funds)	**Bonds** In the Company's IFRS statutory accounts, debt securities are valued at fair value. There are no valuation differences between the IFRS and Solvency II values. **Government Bonds** Government, including provincial and municipal, and supranational institution bonds

	£'000
Government Bonds as per Solvency II balance sheet	16,347
Government Bonds as per IFRS statutory accounts	16,347
Difference	–

Investments (other than assets held for index-linked and unit-linked funds)	**Collective Investments Undertakings** This represents the Company's holding in a pooled investment fund investing in money-market assets. There are no valuation differences between the IFRS and Solvency II values.

	£'000
Holdings in related undertakings, including participations as per Solvency II balance sheet	62,194
Holdings in related undertakings, including participations as per IFRS statutory accounts	62,194
Difference	–

SECTION A BUSINESS AND PERFORMANCE
SECTION B SYSTEM OF GOVERNANCE
SECTION C RISK PROFILE
SECTION D VALUATION FOR SOLVENCY PURPOSES
SECTION E CAPITAL MANAGEMENT
APPENDIX AND ADDITIONAL INFORMATION

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.1 ASSETS CONTINUED

	Description of basis and method of valuation
Assets held for index-linked and unit-linked funds	In the Company's IFRS statutory accounts, assets held for index-linked and unit-linked contracts are valued at fair value using prices sourced from the primary exchange on which they are listed where these are available, or alternative valuation methods where published prices are not available. For the Solvency II balance sheet, assets held for index-linked and unit-linked funds are recorded at fair value. Accordingly, there is no valuation difference between the Solvency II balance sheet and the IFRS statutory accounts:

	£'000
Investment in Assets held for index-linked and unit-linked contracts as per Solvency II balance sheet	6,053,339
Investment in Assets held for index-linked and unit-linked contracts as per IFRS statutory accounts	6,053,339
Difference	–

Insurance and intermediaries receivables	Insurance and intermediaries receivables are stated at realisable value in the Solvency II balance sheet. This is consistent with the valuation approach followed in the IFRS statutory accounts. The difference is due to balances between receivables and payables that were netted off in the statutory accounts as the supplier was the same. The corresponding figure can be seen in the insurance and intermediaries payables in the liabilities section.

	£'000
Insurance and intermediaries receivables as per Solvency II balance sheet	4,794
Insurance and intermediaries receivables as per IFRS statutory accounts	4,692
Difference	(101)

Cash and cash equivalents	Cash and cash equivalents comprise cash balances and demand deposits, which are valued at amounts receivable on demand. There is no difference between the valuation basis for the Solvency II balance sheet and the IFRS statutory accounts.

	£'000
Cash and cash equivalents as per Solvency II balance sheet	13,548
Cash and cash equivalents as per IFRS statutory accounts	13,548
Difference	–

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.2 TECHNICAL PROVISIONS

This section provides information on the valuation of technical provisions. The total value of technical provisions in the Company's Solvency II balance sheet at 31 December 2018 was £5,986,070k.

D.2.1 Introduction

The valuation of technical provisions is performed in line with the Solvency II Directive, and the more detailed provisions of Chapter III of the Delegated Acts.

This approach values liabilities at the amount to be paid if the Company's insurance obligations were immediately transferred to another insurance undertaking, making use of, and consistent with, information provided by the financial markets and generally available data on underwriting risks (market consistency).

The value of technical provisions is determined as the sum of technical provisions calculated as a whole, a best estimate, and a risk margin.

Technical provisions calculated as a whole are the full value of the policyholder unit-linked investment funds, as these are made up of assets which have a reliable observable market value.

The best estimate is a probability weighted average of future cash flows, taking account of the time value of money, using an appropriate risk-free interest rate term structure. The calculation is based upon realistic assumptions, using appropriate actuarial and statistical methods and taking account of all future cash inflows and outflows required to settle the insurance obligations.

The risk margin is the additional amount required to ensure that the value of the technical provisions is equivalent to the amount that another insurance undertaking would be expected to require in order to take-over and meet the insurance obligations.

The best estimate and the risk margin are calculated separately.

The Company does not apply the transitional measure on technical provisions as described in the Solvency II Directive. This allows for a deduction from technical provisions which reduces to zero over the transitional period of 16 years. The transitional risk-free interest rate term structure referred to in Article 308c of Directive 2009/138/EC is not applied by the Company.

The valuation approach is summarised in subsequent sections.

The only simplified method used to calculate technical provisions is the risk driver approach to calculating the risk margin as set out in section D.2.11.

For the purpose of Solvency II reporting, the Company has only one material Line of Business:

- Index-linked and unit-linked insurance – unit-linked business, including the present value of future profits.

As at 31 December 2018, the contribution to technical provisions was as follows:

31 December 2018 **Technical provisions by Line of Business**	**Index-linked and unit linked insurance £'000**	**Total technical provisions £'000**
Best Estimate Liabilities	(105,860)	**(105,860)**
Risk margin	38,591	**38,591**
Technical provisions as a whole	6,053,339	**6,053,339**
Gross technical provisions	**5,986,070**	**5,986,070**

The valuation of cash flows is determined at policy level, with no grouping of similar policies.

This business is written in the UK, with cash flows denominated in sterling. Euro-denominated expense cash flows incurred in Ireland are converted to sterling.

The following sections describe the nature of cash flows and the valuation methodology.

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.2 TECHNICAL PROVISIONS CONTINUED
D.2.2 Technical provisions by Line of Business

The table below outlines separately for each LoB, the material differences between the bases, methods and main assumptions used for Solvency II and those used for IFRS. All of the Company's contracts are unit-linked life insurance bonds.

IFRS contract liability valuation depends on whether the contract is defined as 'insurance' or 'investment' business. Insurance contracts are those that transfer significant insurance risk. The IFRS valuation treatment is broadly as follows:

- Insurance contracts – A discounted cash flow method, based on an assumed prudent rate of interest derived from yields on underlying assets in line with CBI requirements before the introduction of Solvency II, and prudent non-economic assumptions.
- Investment contracts – Value of unit-linked funds.

The table below reconciles the main difference between the IFRS contract liabilities and Solvency II technical provisions.

The IFRS figures shown represent the total insurance and investment contract liabilities.

Technical provisions – IFRS to Solvency II reconciliation	Index-linked and unit-linked insurance £'000	Total technical provisions £'000
Statutory accounts value technical provisions – gross	**6,064,407**	**6,064,407**
Derecognise sterling reserves on insurance business	(11,068)	**(11,068)**
Recognise Solvency II Best Estimate Liabilities	(105,860)	**(105,860)**
Include risk margin	38,591	**38,591**
Solvency II technical provisions – gross	**5,986,070**	**5,986,070**
Solvency II reinsurance	–	–

An explanation of the material changes between the IFRS valuation for technical provisions and that used for Solvency II is included below:

- For IFRS reporting, the minimum reserve for each policy is set to be zero whereas Solvency II allows negative reserves.
- For IFRS, non-unit reserves are calculated only for contracts classified as insurance under IFRS 4, whereas non-unit Best Estimate Liabilities is calculated for all policies under Solvency II, regardless of whether these are classified as Insurance or Investment.
- A risk margin is held under Solvency II for the cost of holding capital against non-hedgeable risks. For IFRS reporting, risk margin is not held. Instead a prudence margin for lapse rates is maintained within the IFRS reserves.
- The Solvency II yield curves are adjusted for IFRS reporting.

These adjustments lead to the Solvency II reserves being £78,337k lower than the IFRS reserves.

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.2 TECHNICAL PROVISIONS CONTINUED

D.2.3 Bases, methodology and main assumptions used for Best Estimate Liability

The value of technical provisions corresponds to the amount to be paid if the Company's insurance obligations were immediately transferred to another insurance undertaking, making use of and consistent with information provided by the financial markets and generally available data on underwriting risks.

The value of technical provisions is determined as the sum of a best estimate and a risk margin.

The risk margin is the additional amount required to ensure that the value of the technical provisions is equivalent to the amount that another insurance undertaking would be expected to require in order to take-over and meet the insurance obligations.

The best estimate and the risk margin are calculated separately.

The Company's Solvency II technical provisions comprise the following three components:

- Technical provisions as a whole;
- Best Estimate Liabilities ('BEL'); and
- Risk margin.

The valuation approach is summarised in subsequent sections.

D.2.3.1 Best Estimate Liability

The best estimate is a probability weighted average of future cash flows, taking account of the time value of money, using an appropriate risk-free interest rate term structure. The calculation is based upon realistic assumptions, using appropriate actuarial and statistical methods and taking account of all future cash inflows and outflows required to settle the insurance obligations.

All assumptions are updated to reflect current economic conditions and demographic experience. Material changes in the relevant assumptions made in the calculation of technical provisions are covered in section D.2.5.

The following section details the methodology and key assumptions used to calculate the BEL.

D.2.3.2 Overview of methodology

A cash flow projection model is used to calculate BEL. This projects cash inflows and outflows required to meet the Company's obligations to policyholders over the lifetime of the policy, taking into account the undertaking's regulatory duty to treat its customers fairly.

The projection of future cash flows is performed using realistic assumptions regarding future experience. The relevant assumptions include expected future trends in mortality and lapse rates. An allowance is also made for future expenses.

The model takes account of the time value of money through discounting at an appropriate risk-free rate (see section D.2.3.3 below).

In certain specific circumstances, the best estimate may be negative (where the value of future charges exceeds the value of future expenses). A negative BEL is permitted under the regulations.

D.2.3.3 Discount rates

The valuation of future policyholder liabilities requires best estimate economic assumptions, and in particular a future interest rate assumption (i.e. yield curve). A risk-free yield curve is the base curve used to value liabilities but with an allowance for credit risk. The risk-free yield curves are based on swap rates, and specified by EIOPA ('European Insurance and Occupational Pensions Authority'). A different yield curve is used depending on the currency of the liabilities, which for the Company are sterling and euro. The Company has not used volatility or matching adjustments to risk-free yield curves.

An adjustment (also specified by EIOPA) is made to the swap curve for credit risk. At 31 December 2018, the sterling credit risk adjustment was minus 10bps, and for euros minus 10bps at each duration.

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.2 TECHNICAL PROVISIONS CONTINUED

D.2.3 Bases, methodology and main assumptions used for best estimate liability continued

D.2.3.4 Tax assumptions

The mainstream tax rate is 12.5%.

D.2.3.5 Contract boundaries

The boundary of an insurance contract (or reinsurance contract) defines the cash flows which must be taken into account when calculating the technical provision in respect of that contract. Only cash flows that relate to premiums payable up to and including the contract boundary should be taken into account. These cash flows include not only those premiums, but also benefit payouts, charges, expenses and other cash flows related to the premiums within the contract boundary. For the avoidance of doubt, all premiums which have been paid up to and including the reporting date are included in the boundary of the contract. That means that all the related cash flows in respect of premiums paid up to and including the reporting date are included in the calculation of technical provisions.

The Company sells single premium products and therefore does not need to apply contract boundaries to future premiums.

D.2.3.6 Grouping of liability data

The valuation of cash flows is determined at policy level, with no grouping of similar policies.

D.2.4 Calculation

The following sub-sections outline how each component of BEL is valued.

D.2.4.1 Insurance with-profit participation

This section is intentionally left blank as all of the Company's contracts are unit-linked life insurance bonds.

D.2.4.2 Other life insurance (including health)

Other life insurance – annuities

This section is intentionally left blank as all of the Company's contracts are unit-linked life insurance bonds.

Other life insurance – protection and other business (including health)

This section is intentionally left blank as all of the Company's contracts are unit-linked life insurance bonds.

D.2.4.3 Index-linked and unit-linked business

All of the Company's contracts are unit-linked life insurance bonds.

Valuation approach

The unit-linked fund values meet the requirements to be a replicating portfolio. Therefore the gross unit fund value with no associated risk margin, will be treated as 'technical provisions as a whole'.

The overall technical provision for a unit-linked contract is then unbundled into the following components:

- Technical provisions as a whole (unit fund).
- Best estimate liability component (present value of future profits or 'PVIF') plus risk margin on PVIF.

The best estimate is required to be a probability weighted average of future cash flows. The PVIF is calculated deterministically.

To calculate the PVIF, best estimate charge income and expense cash flows are projected, with the unit fund rolled up at the same risk-free interest rate term structure that is used for discounting the net cash flows. The projection is carried out using best estimate assumptions.

Depending on the nature of the contract, the unit-linked PVIF valuation allows for the following cash flows:

- Inflows: fund management charges (net of large fund discounts), commission charges, surrender penalties, and policy fees (including product and platform charges).
- Outflows: commission, renewal expenses, termination expenses, investment expenses, adviser payments, and external fund manager charges.

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.2 TECHNICAL PROVISIONS CONTINUED

D.2.5 Demographic and expense assumptions

Non-economic assumptions are determined from annual experience investigations, are subject to detailed internal review and approved by the Board. Best estimate assumptions are made in respect of future levels of mortality, surrenders, withdrawals and expenses. These assumptions reflect our best estimates of likely future experience, based on recent experience, relevant industry data and expert judgement as appropriate. The approach is to treat the best estimate assumptions as the median of the range of possible assumptions.

Mortality assumptions are generally set by reference to recent experience without allowing for future changes in mortality.

Assumptions regarding surrender and withdrawal reflect recent experience.

Best estimate expense assumptions on a per policy basis are derived from an analysis of management expenses. This allows for all expenses incurred in servicing policies, including overheads, assuming that the Company continues to write new business.

The investment management expense assumptions are derived as the best estimate of the future charges expected to be paid to Standard Life Investments, reflecting current investment management agreements.

There were no material changes in the demographic and expense assumptions made in the calculation of technical provisions compared to the previous reporting period.

D.2.5.1 Mortality

Mortality	
Unit-linked	Varies by: age, gender, and product.

D.2.5.2 Persistency

Persistency	
Unit-linked	These assumptions cover lapse rates. They vary by: product type and duration of business.

D.2.5.3 Premium indexation

The Company currently sells single premium business only.

D.2.5.4 Option take-up rates

The Company does not currently provide products where option take-up rates apply.

D.2.5.5 Expense assumptions

Expense assumptions	
Unit-linked	*Maintenance expenses* These include an allowance for both renewal and termination expenses, and vary by product. *Investment expenses* Vary by types of investments.

D.2.6 Stochastic model

The Company does not currently use a stochastic model.

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.2 TECHNICAL PROVISIONS CONTINUED

D.2.7 Solvency II long term guarantee and transitional measures

The Company does not apply the transitional measure on technical provisions as described in the Solvency II Directive.

D.2.7.1 Matching adjustment and volatility adjustment

The Company has not applied to use a matching adjustment or a volatility adjustment.

D.2.7.2 Transitional measures for technical provisions

The Company does not apply the transitional measure on technical provisions.

D.2.8 Recoverables on reinsurance contracts

The Company has not entered into any reinsurance arrangements nor has any special purpose vehicle arrangements.

D.2.9 Simplifications

Where it is proportionate, the Company may adopt simplifications in the calculation of technical provisions. These simplifications may exist within the calculation methodology, or within the valuation models themselves.

D.2.10 Uncertainty associated with the value of technical provisions

The valuation techniques adopted are in line with generally accepted actuarial principles and Solvency II requirements. The best estimate is derived as a probability weighted average of future cash flows, taking account of the expected present value of future cash flows, using an appropriate risk-free interest rate term structure. The calculation is based upon realistic assumptions, taking account of all material future cash inflows and outflows required to settle the insurance obligations.

The Company's business is explicitly modelled in the way summarised in previous sections. The level of uncertainty associated with the amount of technical provisions primarily relates to assumed future experience.

The valuation of liabilities requires assumptions about the future (e.g. mortality, persistency, expenses, and economic conditions), which are inevitably the source of some uncertainty. While the approach adopted by the Company leads to our best estimate of future expected experience, there can be a number of alternative similarly justifiable assumptions.

D.2.11 Risk margin

The value of technical provisions is equal to the sum of a best estimate and a risk margin (plus technical provisions as a whole). The risk margin is held in respect of non-hedgeable risks and is required to ensure that the value of the technical provisions is equivalent to the amount that insurance undertakings would be expected to require in order to take over and meet the insurance obligations.

The risk margin is calculated by determining the cost of providing an amount of Eligible Own Funds, equal to the Solvency Capital Requirement ('SCR') in respect of non-hedgeable risks, necessary to support the insurance obligations over their lifetime. The cost of capital in this calculation is prescribed.

In theory, the calculation of the risk margin involves a projection of future SCRs, which is not practical, and instead a risk driver-based approach is adopted, in line with the guidelines set by EIOPA. The appropriate risk drivers are regularly reviewed. This ensures that they accurately reflect the size of the risk exposure and that the run-off of the risk driver is consistent with, and materially captures the run-off of the underlying risk.

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.3 OTHER LIABILITIES

The valuation of technical provisions is covered in section D.2. Some of the Company's liabilities are determined using alternative valuation methods which use inputs other than quoted prices that are observable for the asset or liability (non-observable market inputs). This section provides information on the types of other liabilities in the Company's Solvency II balance sheet, their value in the Solvency II balance sheet as well as a description of the bases, methods and assumptions used for valuing them, including a quantitative and qualitative explanation of any material differences with their IFRS statutory accounting valuation.

The total value of other liabilities in the Company's Solvency II balance sheet at 31 December 2018 was £48,754k. An analysis of the Solvency II balance sheet by type of other liability is provided in QRT SE.02.01.16, a copy of which is included in Appendix 1.

Solvency II regulations require that other liabilities of insurers be valued on a basis that reflects their fair value (described as an 'economic valuation'), with the exception that liabilities should not be adjusted to take account of an insurer's own credit standing. The valuation basis adopted should, as far as possible, be compatible with IFRS. Details on the methods and assumptions used to determine the fair values of other liabilities are included in section D.4.

Other liabilities have been classified with consideration of their nature, function, risk and materiality. There have been no changes to the recognition and valuations bases or to estimations over the reporting period.

The only significant assumptions or judgements involved in valuing other liabilities on the Solvency II balance sheet relate to deferred tax liabilities, which are based on the value of the temporary timing differences between the IFRS equity and Solvency II Own Funds.

The following table gives the valuation bases and methods used as at 31 December 2018 in valuing other liabilities for Solvency II balance sheet purposes, along with a comparison between Solvency II and IFRS accounting values:

	Description of basis and method of valuation
Insurance and intermediaries payable	Insurance and intermediaries payables are recorded under IFRS at amounts payable at the balance sheet date. This is consistent with the valuation basis under Solvency II. Accordingly, there are no valuation differences between the IFRS statutory accounts and the Solvency II balance sheet. The difference is due to balances between receivables and payables that were netted off in the statutory accounts as the supplier was the same. The corresponding figure can be seen in the insurance and intermediaries receivables in the assets section.
Any other liabilities not elsewhere shown	This balance sheet caption relates to deferred income balances. Under IFRS, front-end fees on service contracts, including investment management service contracts, are deferred as a liability and amortised on a straight-line basis. In accordance with the Solvency II valuation guidelines, nil value has been allocated to deferred income balances. Accordingly, the following valuation difference can be observed between the Solvency II balance sheet and the IFRS statutory accounts:

	£k
Insurance and intermediaries payable as per Solvency II balance sheet	48,754
Insurance and intermediaries payable as per IFRS statutory accounts	48,653
Difference	(101)

	£k
Deferred income as per Solvency II balance sheet	–
Deferred income as per IFRS statutory accounts	115
Difference	115

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.4 ALTERNATIVE METHODS FOR VALUATION

This section provides details on the methods and assumptions used to determine the fair values of assets and other liabilities (other than technical provisions). More information about the valuation methods used for accounting purposes, including a fair value hierarchy, is provided in note 23 of the Company's Annual Financial Statements 2018.

D.4.1 Fair value hierarchy

Investments carried at fair value in the Solvency II balance sheet have been valued based upon a three-level hierarchy ('the fair value hierarchy') depending on the valuation techniques used and whether the inputs to those valuation techniques are observable in the market, as follows:

Level 1: Fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities. An active market exists where transactions take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2: Fair values measured using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Fair values measured using inputs that are not based on observable market data (unobservable inputs).

The following table presents the fair value hierarchy for assets and other liabilities carried at fair value in the Solvency II balance sheet at 31 December 2018. In 2018, all assets have been classified as Level 2.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity securities and interests in pooled investment funds	–	**5,593,049**	–	**5,593,049**
Debt securities	–	**21,824**	–	**21,824**
Total	–	**5,614,873**	–	**5,614,873**

D.4.2 Methods and assumptions used to determine fair value of assets and liabilities

D.4.2.1 Debt securities

For debt securities, the Company has determined a hierarchy of pricing sources. The hierarchy consists of reputable external pricing providers who generally use observable market data. If prices are not available from these providers or are considered to be stale, the Company has established procedures to arrive at an internal assessment of the fair value. These procedures are based largely on inputs that are not based on observable market data. A further analysis by category of debt security is as follows:

Government, including provincial and municipal, and supranational institution bonds
These instruments are valued using prices received from external pricing providers who generally base the price on quotes received from a number of market participants. They are categorised as Level 1 or Level 2 instruments within the fair value hierarchy, depending upon the nature of the underlying pricing information used for valuation purposes.

Corporate bonds listed or quoted in an established over-the-counter market including asset-backed securities
These instruments are generally valued using prices received from external pricing providers who generally consolidate quotes received from a panel of banks into a composite price. As the market becomes less active the quotes provided by some banks may be based on modelled prices rather than on actual transactions. These sources are based largely on observable market data, and therefore these instruments are categorised as Level 2 instruments within the fair value hierarchy. When prices received from external pricing providers are based on a single broker indicative quote the instruments are categorised as Level 3 instruments.

For instruments for which prices are either not available from external pricing providers, or the prices provided are considered to be stale, the Company performs its own assessment of the fair value of these instruments. This assessment is largely based on inputs that are not based on observable market data, principally single broker indicative quotes, and accordingly these instruments are categorised as Level 3 instruments within the fair value hierarchy.

Other corporate bonds including unquoted bonds, commercial paper and certificates of deposit
These instruments are valued using models. For unquoted bonds the model uses inputs from comparable bonds and includes credit spreads which are obtained from brokers or estimated internally. Commercial paper and certificates of deposit are valued using standard valuation formulas. The categorisation of these instruments within the fair value hierarchy will be either Level 2 or Level 3, depending upon the nature of the underlying pricing information used for valuation purposes.

D.4.2.2 Assets Held for Index-Linked and Unit-linked Contracts

Assets held for index-linked and unit-linked contracts are valued using published prices sourced from the primary exchange on which they are listed, where these are available. Where published prices are not available, assets are valued in accordance with the methodologies described elsewhere in this section for different types of assets.

D.5 ANY OTHER INFORMATION

There is no further material information to be disclosed regarding the valuation of assets and liabilities for solvency purposes.

SECTION E

CAPITAL MANAGEMENT

IN THIS SECTION

CAPITAL MANAGEMENT

STANDARD LIFE'S APPROACH TO CAPITAL MANAGEMENT

The Liquidity & Capital Management policy is reviewed annually and is approved by the Company's Board. Following the sale of SLAL to PGH Group, the Company has continued to develop its existing capital framework with a view to harmonising the capital management framework with PGH Group capital management framework in 2019.

Details of the Company's current liquidity and management policy are provided below.

- The Company has processes to manage and report its capital positions, and has capital framework policies that specify the buffer capital that the executive management believes is sufficient to hold within the Company.
- The Compnay closely monitors its current and projected solvency position and risk exposures, and has a series of triggers for further action. The Company's capital position is also tested under a series of stressed scenarios. The Company's capital needs and stresses are considered over a five-year planning horizon on a rolling basis.
- The Company actively seeks to ensure that its capital position can be maintained at a viable level to continue to operate the business under stress, in order to protect policyholders, customers and other key stakeholders. Within this overriding framework, the Company seeks to optimise its use of capital to maximise returns for shareholders and policyholders at an appropriate level of rewarded risk, and to manage its operations effectively to minimise or eliminate unrewarded risk.
- The Company primarily manages its capital position by reference to its Capital Targets Framework. The key component of the Framework is the intention to maintain a minimum capital coverage under the most onerous of a range of plausible stress scenarios, which are reviewed on a frequent basis. The Framework is used to inform all key board decisions with capital implications, in particular dividend proposals, investment strategy, capital planning and other management actions.

In addition to this, the Company defines limits for those risks which it actively seeks to manage. The risk limits are set with the overriding aim of supporting an overall suitable capital position under stress, with individual limits then set subject to this constraint in order to support the delivery of the business plan.

The solvency position, risk exposures versus limits, and Risk Appetite Framework status are monitored on an ongoing basis with monthly reports produced for the Board. These reports set out a number of triggers for further action which are monitored and reported upon, many of which relate to capital coverage.

KEY SOLVENCY METRICS

At 31 December 2018, the capital position for the Company is presented in the table below:

	31 December 2018	31 December 2017
	£'000	£'000
Eligible Own Funds	**115,398**	136,389
SCR	**82,977**	101,842
Solvency II surplus	**32,421**	34,546
Ratio of Eligible Own Funds to SCR	**139%**	134%

As at 31 December 2018, the Company's Solvency II surplus over the Company SCR is £32,421k, with a ratio of Eligible Own Funds to SCR of 139%.

100% of the Company's Eligible Own Funds are unrestricted Tier 1, and are principally comprised of ordinary share capital, share premium account related to ordinary share capital and the reconciliation reserve.

All the required SCR quantitative limits have been complied with by the Company, and result in no restrictions nor are any Own Funds required to be relegated to lower tiers.

Further details regarding the capital position of the Company are set out in section E.1.

CAPITAL MANAGEMENT CONTINUED

E.1 OWN FUNDS

E.1.1 Own Funds

Own Funds are the regulatory capital resources of an insurance undertaking or group under Solvency II.

Own Funds comprise on balance sheet items, (referred to as Basic Own Funds) and items that may be called up to absorb losses that are off balance sheet (referred to as Ancillary Own Funds). Basic Own Funds consist of the excess of assets over liabilities (including technical provisions), all of which must be valued in accordance with Solvency II regulations and guidance. Ancillary Own Funds are subject to prior supervisory approval. The Company does not have any Ancillary Own Funds as at 31 December 2018.

This section provides information on the structure, amount and quality of the Company's Own Funds, as well as a quantitative and qualitative explanation of any material differences between equity as shown in the Company's financial statements and the excess of assets over liabilities as calculated for solvency purposes.

There were no material changes to the objectives, policies and process for managing own funds, including the planning horizon used, during the reporting period.

E.1.2 Structure and quality of Own Funds

Items of Own Funds vary in their ability to absorb losses both in the normal course of business and in times of stress. Items are graded into three tiers to reflect their ability to absorb losses, with Tier 1 being of the highest quality and Tier 3 the lowest.

The tiering of Own Funds is based on the extent to which Own Funds items possess the characteristics of permanent availability and subordination. A further four features also need to be taken into consideration, these are: sufficient duration, absence of incentives to redeem, absence of mandatory servicing costs and absence of encumbrances. Definitions of each of these characteristics are as follows:

- **Permanent availability** refers to whether an item is available, or can be called up on demand, to fully absorb losses on a going-concern basis, as well as in the case of a winding-up.
- **Subordination** refers to whether, in the case of a winding-up, the total amount of the item is available to absorb losses and the repayment of the item is refused to its holder until all other obligations, including insurance and reinsurance obligations towards policyholders and beneficiaries of insurance and reinsurance contracts, have been met.
- **Sufficient duration** requires that consideration be given to the duration of the item, in particular whether the item is dated or not. Where an Own Fund item is dated, the relative duration of the item as compared to the duration of the insurance obligations should be considered.
- **Absence of incentives to redeem** refers to whether the item is free from requirements or incentives to redeem the nominal sum.
- **Absence of mandatory servicing costs** refers to whether the item is free from mandatory fixed charges.
- **Absence of encumbrances** refers to whether the item is free from encumbrances. Encumbrances include factors such as rights of set off, restrictions and charges or guarantees and should be considered applying the principle of substance over form.

To be classified as Tier 1, an item of Own Funds must substantially possess the characteristics of permanent availability and subordination taking into consideration the additional four features described above. For an item of Own Funds to be classified as Tier 2, it must substantially possess the characteristics of subordination taking into consideration the additional four features.

Where Own Funds do not meet the criteria to be classified as Tier 1 or Tier 2, the items will be classified as Tier 3.

Transitional provisions within the Solvency II regulations allow existing items qualifying as capital under the Solvency I regime to be 'grandfathered' into Tier 1 or Tier 2 when they do not meet the criteria for classification as own funds under Solvency II rules. For the Company, no such transitional provisions have been applied.

Based on the tiering classifications, there are certain regulatory limits regarding the eligibility of Own Funds to meet capital requirements. Limits are placed on Tier 2 and Tier 3 and hybrid/restricted (e.g. subordinated liabilities) Tier 1 items to ensure that there is a sufficiently high proportion of highest quality Own Funds (non-restricted Tier 1) and that only higher quality Own Funds (Tier 1 and Tier 2 Own Fund items) cover the Minimum Capital Requirement (MCR).

The key eligibility limits are as follows:

- At least 50% of the SCR must be covered by Tier 1 Own Funds (and no more than 20% of those Tier 1 items may be hybrid instruments such as subordinated liabilities) and a maximum of 15% may be covered by Tier 3.
- At least 80% of the MCR must be covered by Tier 1 (and no more than 20% of those Tier 1 items may be hybrid instruments such as subordinated liabilities). Tier 3 Own Funds are not eligible to cover the MCR. This in effect means that Tier 2 Basic Own Funds are eligible as long as they are no more than 20% of the MCR.

CAPITAL MANAGEMENT CONTINUED

E.1 OWN FUNDS CONTINUED

E.1.2 Structure and quality of Own Funds continued

The following table sets out the values of Own Funds of the Company as at 31 December 2018, shown before and after application of the tiering limits:

Description	Tier 1 unrestricted £'000	Tier 1 restricted £'000	Tier 2 £'000	Tier 3 £'000	Total £'000
Ordinary share capital	37,446	–	–	–	37,446
Share premium	43,517	–	–	–	43,517
Reconciliation reserve	34,435	–	–	–	34,435
Deferred tax assets	–	–	–	–	–
Own Funds	**115,398**	**–**	**–**	**–**	**115,398**
Own Funds eligible to meet the SCR	**115,398**	**–**	**–**	**–**	**115,398**
Own Funds eligible to meet the MCR	**115,398**	**–**	**–**	**–**	**115,398**

There were no relevant deductions from Own Funds or restrictions on availability as at 31 December 2018.

More detail on each of the items included in the previous table is provided in section E.1.3.1.

E.1.3 Analysis of solvency position

E.1.3.1 Basic Own Funds

The Company's Basic Own Funds total £115,398k (2017: £136,389k) and comprise of ordinary share capital, share premium account related to ordinary share capital, and a reconciliation reserve. Further details regarding each Basic Own Funds item are set out below.

Ordinary share capital

The Company's issued and fully paid ordinary share capital is £37,446k and is treated as Tier 1 unrestricted Own Funds.

Share premium account related to ordinary share capital

The share premium account related to ordinary share capital of £43,517k is treated as Tier 1 unrestricted Own Funds.

The following table summarises the characteristics of the ordinary share capital and share premium issued by the Company to support their classification into the appropriate tier of Own Funds:

Instrument	Tier	Duration	Subordination	Redemption incentives	Mandatory servicing costs	Encumbrances
Ordinary share capital	Tier 1	Permanent	Last upon winding-up	None	None	None
Share premium	Tier 1	Permanent	Last upon winding-up	None	None	None

The Company's Articles of Association allow cancellation of the payment of dividends (or other distributions) on ordinary shares prior to payment in certain circumstances, where it may be necessary or appropriate to do so because of legal, regulatory, capital or solvency requirements.

CAPITAL MANAGEMENT CONTINUED
E.1 OWN FUNDS CONTINUED
E.1.3 Analysis of solvency position continued
Reconciliation reserve

The reconciliation reserve is the amount of excess assets over liabilities (valued in accordance with the Solvency II regulations and guidance) that remain once all the other identified elements of Basic Own Funds have been deducted. As such, it serves to ensure that the total of all the individual Basic Own Funds items are equal to the total excess of assets over liabilities and subordinated liabilities.

The following table analyses the Company's reconciliation reserve as at 31 December 2018:

	£'000
Excess of assets over liabilities	115,398
Other Basic Own Fund items (ordinary share capital, share premium and deferred tax assets)	(80,963)
Reconciliation reserve total	**34,435**

The reconciliation reserve is treated as Tier 1 unrestricted Own Funds. Further details regarding the impact of various sensitivities on the excess of assets over liabilities which forms part of the Own Funds calculation are set out in section C.7.

Deferred tax assets

Under Solvency II regulations and guidance, the value of any net shareholder deferred tax assets must be deducted from Tier 1 Own Funds and recognised as Tier 3. Deferred tax assets and liabilities are netted where legal offset is permitted.
At 31 December 2018, there was no recognition of net deferred tax asset as Tier 3 Capital.

E.1.3.2 Analysis of movement in capital position

The following table sets out the movements in the Company's Own Funds, analysed by tier, during 2018.

Description	**Tier 1 £'000**	**Tier 2 £'000**	**Tier 3 £'000**	**Total £'000**
Opening Own Funds	136,389	–	–	136,389
Opening eligibility restrictions	–	–	–	–
Opening Eligible Own Funds to meet the SCR	136,389	–	–	136,389
Movements in Period:				
Own Funds	(20,991)	–	–	(20,991)
Eligibility restrictions	–	–	–	–
Total movements in Eligible Own Funds	(20,991)	–	–	(20,991)
Closing Eligible Own Funds to meet the SCR	**115,398**	**0**	**0**	**115,398**

There were no Ancillary Own Funds at 31 December 2018.

The changes during 2018 were due to the loss made and the change in the value of technical provisions, including new business written.

CAPITAL MANAGEMENT CONTINUED
E.1 OWN FUNDS CONTINUED
E.1.3 Analysis of solvency position continued
E.1.3.3 Reconciliation of IFRS equity to excess of assets over liabilities

The Company's Own Funds position is different from the equity stated in the IFRS statutory accounts. The table below reconciles the financial statements to the Solvency II Own Funds position as at 31 December 2018:

	Section	£'000	£'000
Equity attributable to equity holders per the financial statements on an IFRS basis			79,188
Valuation differences:			
In respect of DAC/DIR and other intangible assets	D.1	(40,550)	
In respect of technical provisions	D.2	78,337	
In respect of deferred taxation	D.1	(1,578)	
			36,210
Excess of Assets over Liabilities after adjustments			**115,398**

The valuation differences are described in sections D.1 (assets), D.2 (technical provisions) and D.3 (other liabilities).

CAPITAL MANAGEMENT CONTINUED

E.2 SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT

E.2.1 Solvency Capital Requirement

The Company's capital position is governed by the Solvency II regulatory regime. Under Solvency II, every insurer is required to identify its key risks – e.g. that equity markets fall – and hold sufficient capital to withstand adverse outcomes from those risks. The capital required to withstand these outcomes is the Solvency Capital Requirement ('SCR'). The SCR is calibrated so that the likelihood of a loss being greater than the SCR in one year is less than 1-in-200.

The Company's SCR at the end of 2018 was £82,977k. The Company uses the Standard Formula to calculate its SCR. Please see Quantitative Reporting Template S25.01.01 to see the split of the SCR by risk category.

The SCR is greater than the Minimum Capital Requirement (see section E.2.2).

The Company's SCR does not include a capital add-on, and does not include any impact from the use of undertaking-specific parameters. In addition, no simplified calculations have been used. The final SCR is not subject to supervisory assessment.

The Company's SCR at 31 December 2018 is presented below.

Analysis of SCR – 31 December 2018	Note	**£'000**
Risk categories		
Underwriting risk (i.e. insurance risk)	1	54,305
Market risk	2	47,918
Credit risk	3	2,070
Total undiversified SCR		**104,293**
Operational risk	4	1,390
Diversification benefits	5	(22,707)
Total SCR		**82,977**

The definitions of each of the risks are included in the table below. The components and sources of each of the risks and, of the methods used to assess, measure and monitor each of the risks are included in section C.

Note	**Risk module**	**Information**
1	**Underwriting risk**	Underwriting risk (i.e. insurance risk) is the risk that the frequency and severity of insured events may be worse than expected. The main sources of insurance risk are lapse risk, mortality risk and expense risk. More details on these risks are included in section C.1.
2	**Market risk**	Market risk is the risk that the fair value of future cash flows of a financial instrument fluctuates because of changes in market influences. More details on these risks are included in section C.2.
3	**Credit risk**	Credit risk is the risk that a party to a financial instrument will cause financial loss for the other party by failing to discharge an obligation. These obligations can relate to both on and off balance sheet assets and liabilities. More details on these risks are provided in section C.3.
4	**Operational risk**	Operational risk is the risk of reduction in earnings and/or value, through financial or reputational loss, from inadequate or failed internal processes and systems, or from people related or external events. Details of the sources of operational risk are provided in section C.5.
5	**Diversification benefits**	Diversification arises when the adverse outcome from one risk can be offset by a more favourable outcome from another risk, where those risks are not perfectly correlated. Diversification benefits are determined using a correlation matrix.

CAPITAL MANAGEMENT CONTINUED

E.2 SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT CONTINUED

E.2.2 Minimum Capital Requirement

The Minimum Capital Requirement ('MCR') applies to EEA-based insurance undertakings. The MCR represents an absolute floor to the level of Eligible Own Funds that the insurance undertaking is required to hold under Solvency II. If the level of Own Funds falls below the MCR, the CBI would intervene. The MCR should correspond to the amount of capital needed to ensure that the insurance undertakings will be able to meet their obligations over the next 12 months with a probability of at least 85%. It is bound between 25% (or €3,700k, whichever is higher) and 45% of the insurance undertaking's SCR.

The non-life insurance element of the MCR calculation is zero for the Company, as it does not have any business covered by the non-life insurance calculation.

The Company's MCR was £37,340k at 31 December 2018 (2017: £43,058k). This has been calculated according to the formula specified in the Solvency II regulations, with the following inputs in addition to the value of the SCR:

Component	2018 £'000	2018 £'000
Linear formula component for life insurance obligations, based on:	**37,340**	
Technical provisions excluding risk margin		**5,947,479**
Capital at risk		**767,227**
Absolute floor of the MCR (€3,700k)	**3,288**	
Final MCR (maximum of floor and linear formula component)	**37,340**	

E.3 USE OF THE DURATION-BASED EQUITY RISK SUB-MODULE IN THE CALCULATION OF THE SOLVENCY CAPITAL REQUIREMENT

The Company is not using the duration-based equity risk sub-module for the calculation of its Solvency Capital Requirement.

E.4 DIFFERENCES BETWEEN THE STANDARD FORMULA AND ANY INTERNAL MODEL USED

The Company is not using any Internal Model for the calculation of its Solvency Capital Requirement.

E.5 NON-COMPLIANCE WITH THE MINIMUM CAPITAL REQUIREMENT AND NON-COMPLIANCE WITH THE SOLVENCY CAPITAL REQUIREMENT

Throughout 2018 Own Funds have at all times exceeded both the MCR and the SCR and therefore the Company fully complied with capital requirements.

E.6 ANY OTHER INFORMATION

There is no further material information to be disclosed regarding the Company's Own Funds and SCR.

APPENDIX AND ADDITIONAL INFORMATION

IN THIS SECTION

APPENDIX AND ADDITIONAL INFORMATION

APPENDIX AND ADDITIONAL INFORMATION

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018)

Appendix 1.1 – SE.02.01.16 Balance sheet

		Solvency II value
		C0010 £'000
Assets		
Intangible assets	R0030	–
Deferred tax assets	R0040	–
Pension benefit surplus	R0050	–
Property, plant & equipment held for own use	R0060	–
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	**78,541**
Property (other than for own use)	R0080	–
Holdings in related undertakings, including participations	R0090	–
Equities	R0100	–
Equities – listed	R0110	–
Equities – unlisted	R0120	–
Bonds	R0130	16,347
Government Bonds	R0140	16,347
Corporate Bonds	R0150	–
Structured notes	R0160	–
Collateralised securities	R0170	–
Collective Investments Undertakings	R0180	62,194
Derivatives	R0190	–
Deposits other than cash equivalents	R0200	–
Other investments	R0210	–
Assets held for index-linked and unit-linked contracts	R0220	6,053,339
Loans and mortgages	**R0230**	**–**
Loans on policies	R0240	–
Loans and mortgages to individuals	R0250	–
Other loans and mortgages	R0260	–
Reinsurance recoverables from:	**R0270**	**–**
Non-life and health similar to non-life	R0280	–
Non-life excluding health	R0290	–
Health similar to non-life	R0300	–
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	–
Health similar to life	R0320	–
Life excluding health and index-linked and unit-linked	R0330	–
Life index-linked and unit-linked	R0340	–
Deposits to cedants	R0350	–
Insurance and intermediaries receivables	R0360	4,794
Reinsurance receivables	R0370	–
Receivables (trade, not insurance)	R0380	–
Own shares (held directly)	R0390	–
Amounts due in respect of Own Fund items or initial fund called up but not yet paid in	R0400	–
Cash and cash equivalents	R0410	13,548
Any other assets, not elsewhere shown	R0420	–
Total assets	**R0500**	**6,150,222**

APPENDIX AND ADDITIONAL INFORMATION CONTINUED
APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) CONTINUED
Appendix 1.1 – SE.02.01.16 Balance sheet continued

		Solvency II value
		C0010 £'000
Liabilities		
Technical provisions – non-life	**R0510**	**–**
Technical provisions – non-life (excluding health)	**R0520**	**–**
Techinical provisions calculated as a whole	R0530	–
Best estimate	R0540	–
Risk margin	R0550	–
Technical provisions – health (similar to non-life)	**R0560**	**–**
Technical provisions calculated as a whole	R0570	–
Best estimate	R0580	–
Risk margin	R0590	–
Technical provisions – life (excluding index-linked and unit-linked)	**R0600**	**–**
Technical provisions – health (similar to life)	**R0610**	**–**
Techinical provisions calculated as a whole	R0620	–
Best estimate	R0630	–
Risk margin	R0640	–
Technical provisions – life (excluding health and index-linked and unit-linked)	**R0650**	–
Technical provisions calculated as a whole	R0660	–
Best estimate	R0670	–
Risk margin	R0680	–
Technical provisions – index-linked and unit-linked	**R0690**	**5,986,070**
Technical provisions calculated as a whole	R0700	6,053,339
Best estimate	R0710	(105,860)
Risk margin	R0720	38,591
Contingent liabilities	R0740	–
Provisions other than technical provisions	R0750	1,820
Pension benefit obligations	R0760	–
Deposits from reinsurers	R0770	–
Deferred tax liabilities	R0780	–
Derivatives	R0790	–
Debts owed to credit institutions	R0800	–
Financial liabilities other than debts owed to credit institutions	R0810	–
Insurance & intermediaries payables	R0820	46,934
Reinsurance payables	R0830	–
Payables (trade, not insurance)	R0840	–
Subordinated liabilities	R0850	–
Subordinated liabilities not in BOF	R0860	–
Subordinated liabilities in BOF	R0870	–
Any other liabilities, not elsewhere shown	R0880	–
Total liabilities	R0900	6,034,824
Excess of assets over liabilities	R1000	115,398

APPENDIX AND ADDITIONAL INFORMATION CONTINUED
APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) CONTINUED
Appendix 1.2 – S.05.01.01 Premiums, claims and expenses by line of business

		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										
Gross	R1410	–	–	620,703	–	–	–	–	–	620,703
Reinsurers' share	R1420	–	–	–	–	–	–	–	–	–
Net	**R1500**	**–**	**–**	**620,703**	**–**	**–**	**–**	**–**	**–**	**620,703**
Premiums earned										
Gross	R1510	**–**	**–**	**620,703**	**–**	**–**	**–**	**–**	**–**	**620,703**
Reinsurers' share	R1520	–	–	–	–	–	–	–	–	–
Net	**R1600**	**–**	**–**	**620,703**	**–**	**–**	**–**	**–**	**–**	**620,703**
Claims incurred										
Gross	R1610	–	–	424,707	–	–	–	–	–	424,707
Reinsurers' share	R1620	–	–	–	–	–	–	–	–	–
Net	**R1700**	**–**	**–**	**424,707**	**–**	**–**	**–**	**–**	**–**	**424,707**
Changes in other technical provisions										
Gross	R1710	–	–	(149,394)	–	–	–	–	–	(149,394)
Reinsurers' share	R1720	–	–	–	–	–	–	–	–	–
Net	**R1800**	**–**	**–**	**(149,394)**	**–**	**–**	**–**	**–**	**–**	**(149,394)**
Expenses incurred	R1900	–	–	26,588	–	–	–	–	–	26,588
Other expenses	R2500									–
Total expenses	R2600									26,588

APPENDIX AND ADDITIONAL INFORMATION CONTINUED

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) CONTINUED

Appendix 1.2 – S.05.02.01 Premiums, claims and expenses by country

		Home country	Top 5 countries (by amount of gross premiums written) – life obligations					Total Top 5 and home country
		C0150	C0160	C0170	C0180	C0190	C0200	C0210
	R1400							
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
Premiums written								
Gross	R1410	–	620,703					620,703
Reinsurers' share	R1420	–	–					–
Net	R1500	–	620,703					620,703
Premiums earned								
Gross	R1510	–	620,703					620,703
Reinsurers' share	R1520	–	–					–
Net	R1600	–	620,703					620,703
Claims incurred								
Gross	R1610	–	424,707					424,707
Reinsurers' share	R1620	–	–					–
Net	R1700	–	424,707					424,707
Changes in other technical provisions								
Gross	R1710	–	(149,394)					(149,394)
Reinsurers' share	R1720	–	–					–
Net	R1800	–	(149,394)					(149,394)
Expenses incurred	R1900	–	26,588					26,588
Other expenses	R2500							–
Total expenses	R2600							26,588

APPENDIX AND ADDITIONAL INFORMATION CONTINUED
APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) CONTINUED
Appendix 1.3 – S.12.01.01 Life and health SLT technical provisions

			Index-linked and unit-linked insurance				Other life insurance				
		Insurance with-profit participation		Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Accepted reinsurance	Total (life other than health insurance, including unit-linked)
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150
Technical provisions calculated as a whole	R0010	–	6,053,339			–			–	–	6,053,339
Total Recoverables from reinsurance/ SPV and Finite Re after the adjustment for the expected losses due to counterparty default associated to technical provisions as a whole	R0020	–	–			–			–	–	–
Technical provisions calculated as a sum of BE and RM											
Best estimate											
Gross best estimate	R0030	–		–	(105,860)		–	–	–	–	(105,860)
Total Recoverables from reinsurance/ SPV and Finite Re after adjustment for expected losses due to counterparty default	R0080	–		–	–		–	–	–	–	–
Best estimate minus recoverables from reinsurance/ SPV and Finite Re – total	R0090	–		–	(105,860)		–	–	–	–	(105,860)
Risk margin	R0100	–	38,591			–			–	–	38,591
Amount of the transitional on technical provisions											
Technical provisions calculated as a whole	R0110	–	–			–			–	–	–
Best estimate	R0120	–		–	–		–	–	–	–	–
Risk margin	R0130	–	–			–			–	–	–
Technical provisions – total	R0200	–	5,986,070			–			–	–	5,986,070

APPENDIX AND ADDITIONAL INFORMATION CONTINUED
APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) CONTINUED
Appendix 1.4 – S.23.01.01 Own funds

		Total C0010 £000s	Tier 1 – unrestricted C0020 £000s	Tier 1 – restricted C0030 £000s	Tier 2 C0040 £000s	Tier 3 C0050 £000s
Ancillary Own Funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300	–			–	
Unpaid and uncalled initial funds, members' contributions or the equivalent Basic Own Fund item for mutual and mutual-type undertakings, callable on demand	R0310	–			–	
Unpaid and uncalled preference shares callable on demand	R0320	–			–	–
A legally binding commitment to subscribe and pay for subordinate liabilities on demand	R0330	–			–	–
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340	–			–	
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350	–			–	–
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360	–			–	
Supplementary members calls – other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370	–			–	–
Other Ancillary Own Funds	R0390	–			–	–
Total Ancillary Own Funds	R0400	–			–	–
Basic Own Funds before deduction for participations in other financial sector as foreseen in Article 68 of Delegated Regulation (EU) 2015/35						
Ordinary share capital (gross of own shares)	R0010	37,446	37,446		–	
Share premium account related to ordinary share capital	R0030	43,517	43,517		–	
Initial funds, members' contributions or the equivalent Basic Own Fund item for mutual and mutual-type undertakings	R0040	–	–		–	
Subordinated mutual member accounts	R0050	–		–	–	–
Surplus funds	R0070	–	–			
Preference shares	R0090	–		–	–	–
Share premium account related to preference shares	R0110	–		–	–	–
Reconciliation reserve	R0130	34,435	34,435			
Subordinated liabilities	R0140	–		–	–	–
An amount equal to the value of net deferred tax assets	R0160	–				–
Other items approved by supervisory authority as Basic Own Funds not specified above	R0180	–	–	–	–	–
Own Funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II Own Funds						
Own Funds from the financial statemwents that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II Own Funds	R0220					
Deductions						
Deductions for participations in financial and credit institutions	R0230	–	–	–	–	–
Total Basic Own Funds after deductions	R0290	115,398	115,398	–	–	–

APPENDIX AND ADDITIONAL INFORMATION CONTINUED
APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) CONTINUED
Appendix 1.4 – S.23.01.01 Own funds continued

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	115,398
Own shares (held directly and indirectly)	R0710	–
Foreseeable dividends, distributions and charges	R0720	–
Other Basic Own Fund items	R0730	80,963
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring-fenced funds	R0740	–
Reconciliation reserve	R0760	34,435
Expected profits		
Expected profits included in future premiums ('EPIFP') – Life business	R0770	–
Expected profits included in future premiums ('EPIFP') – Non-life business	R0780	–
Total EPIFP	R0790	–

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010 £000s	C0020 £000s	C0030 £000s	C0040 £000s	C0050 £000s
Available and eligible own funds						
Total available Own Funds to meet the SCR	R0500	115,398	115,398	–	–	–
Total available Own Funds to meet the MCR	R0510	115,398	115,398	–	–	
Total eligible Own Funds to meet the SCR	R0540	115,398	115,398	–	–	–
Total eligible Own Funds to meet the MCR	R0550	115,398	115,398	–	–	
SCR	R0580	82,977				
MCR	R0600	37,340				
Ratio of Eligible Own Funds to SCR	R0620	1.39				
Ratio of Eligible Own Funds to MCR	R0640	3.09				

APPENDIX AND ADDITIONAL INFORMATION CONTINUED
APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) CONTINUED
Appendix 1.5 – S.25.01.01 Solvency capital requirement – using the standard formula

		Gross solvency capital requirement C0110 £'000	USP C0090 £'000	Simplifications C0100 £'000
Market risk	R0010	47,918		
Counterparty default risk	R0020	2,070		
Life underwriting risk	R0030	54,305		
Health underwriting risk	R0040	–		
Non-life underwriting risk	R0050	–		
Diversification	R0060	(22,707)		
Intangible asset risk	R0070	–		
Basic Solvency Capital Requirement	**R0100**	**81,587**		

Calculation of Solvency Capital Requirement		**C0100 £'000**
Operational risk	R0130	1,390
Loss-absorbing capacity of technical provisions	R0140	–
Loss absorbing capacity of deferred taxes	R0150	–
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	–
Solvency Capital Requirement excluding capital add-on	**R0200**	**82,977**
Capital add-on already set	R0210	–
Solvency Capital Requirement	**R0220**	**82,977**
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	R0400	–
Total amount of Notional Solvency Capital Requirement for remaining part	R0410	–
Total amount of Notional Solvency Capital Requirements for ring-fenced funds	R0420	–
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	–
Diversification effects due to RFF nSCR aggregation for Article 304	R0440	–

APPENDIX AND ADDITIONAL INFORMATION CONTINUED
APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) CONTINUED
Appendix 1.6 – S.28.01.01 – Minimum capital requirement only life or non-life insurance or reinsurance activity

Linear formula component for non-life insurance and reinsurance obligations			C0010
MCR_{NL} Result	R0010		–
		Net (of reinsurance/ SPV) best estimate and TP calculated as a whole C0020 £000s	Net (of reinsurance) written premiums in the last 12 months C0030 £000s
Medical expense insurance and proportional reinsurance	R0020	–	–
Income protection insurance and proportional reinsurance	R0030	–	–
Workers' compensation insurance and proportional reinsurance	R0040	–	–
Motor vehicle liability insurance and proportional reinsurance	R0050	–	–
Other motor insurance and proportional reinsurance	R0060	–	–
Marine, aviation and transport insurance and proportional reinsurance	R0070	–	–
Fire and other damage to property insurance and proportional reinsurance	R0080	–	–
General liability insurance and proportional reinsurance	R0090	–	–
Credit and suretyship insurance and proportional reinsurance	R0100	–	–
Legal expenses insurance and proportional reinsurance	R0110	–	–
Assistance and proportional reinsurance	R0120	–	–
Miscellaneous financial loss insurance and proportional reinsurance	R0130	–	–
Non-proportional health reinsurance	R0140	–	–
Non-proportional casualty reinsurance	R0150	–	–
Non-proportional marine, aviation and transport reinsurance	R0160	–	–
Non-proportional property reinsurance	R0170	–	–

Note: This page is blank as the Company does not have any non-life insurance.

APPENDIX AND ADDITIONAL INFORMATION CONTINUED

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018) CONTINUED

Appendix 1.6 – S.28.01.01 – Minimum capital requirement only life or non-life insurance or reinsurance activity continued

Linear formula component for life insurance and reinsurance obligations			C0040
MCR_L Result	R0200		42,169
		Net (of reinsurance/ SPV) best estimate and TP calculated as a whole C0050	Net (of reinsurance/ SPV) total capital at risk C0060
Obligation with-profit participation – guaranteed benefits	R0210	–	
Obligation with-profit participation – future discretionary benefits	R0220	–	
Index-linked and unit-linked insurance obligations	R0230	5,947,479	
Other life (re)insurance and health (re)insurance obligations	R0240	–	
Total capital at risk for all life (re)insurance obligation	R0250		767,227

Overall MCR calculation

		C0070
Linear MCR	R0300	42,169
SCR	R0310	82,977
MCR cap	R0320	37,340
MCR floor	R0330	20,744
Combined MCR	R0340	37,340
Absolute floor of the MCR	R0350	3,288
Minimum Capital Requirement	R0400	37,340

APPENDIX 2 – GLOSSARY

ASSUMPTIONS
Variables, which can be economic or non-economic in nature, used in actuarial models to project expected policy cash flows.

BEST ESTIMATE LIABILITY
The part of technical provisions representing a probability weighted average of future cash flows, taking account of the time value of money, using an appropriate risk-free interest rate term structure. The calculation is based upon realistic assumptions, using appropriate actuarial and statistical methods and taking account of all future cash inflows and outflows required to settle the insurance obligations.

BOARD
The Board of Directors of Standard Life International Designated Activity Company.

CAPITAL RESOURCES ('CR')
Capital resources include the assets in excess of liabilities, valued on a regulatory basis, and certain other components of capital.

CBI
The Central Bank of Ireland.

COMPANY
Standard Life International Designated Activity Company.

CONTRACT BOUNDARY
The boundary of an insurance contract (or reinsurance contract) defines the cash flows which must be taken into account when calculating the technical provision in respect of that contract.

DELEGATED REGULATION
Commission Delegated Regulation supplementing the Solvency II Directive

DIRECTOR
A Director of Standard Life International Designated Activity Company.

DISCOUNTING
This is the process of reducing a future cash flow back to present value terms, by way of an assumed future interest (discount) rate.

ECONOMIC ASSUMPTIONS
Assumptions in relation to future interest rates, investment returns, inflation and tax.

EIOPA
European Insurance and Occupational Pensions Authority.

EXTERNAL FUND LINKS ('EFL')
These are unit-linked fund options on Standard Life products, where the funds are not managed by Standard Life.

FCA
Financial Conduct Authority.

LARGE FUND DISCOUNTS
The practice of reducing the effective annual management charge applied to a policy depending on the size of the unit fund.

MAINTENANCE EXPENSES
Expenses relating to the ongoing maintenance of business. This would include customer service costs, for example.

MARKET CONSISTENCY
A market consistent value is the market value if the instrument is readily traded. In the context of liabilities, a market consistent value is a valuation that is consistent with the prices of assets with similar characteristics to those liabilities. For liability cash flows with option-like features e.g. guarantees, these values should be consistent with market option prices.

MATCHING ADJUSTMENT
An adjustment to the risk-free yield used to calculate the best estimate to reflect where long-term liabilities are backed by assets which closely match the cash flows, where these assets have yields in excess of risk-free and the extent that the assets are expected to be held long term.

NON-ECONOMIC ASSUMPTIONS
Assumptions in relation to future expenses and future lapse, withdrawal, and mortality rates.

OWN FUNDS
Own Funds are the regulatory capital resources of an insurance undertaking or group under Solvency II.

OPTION (INSURANCE POLICY FEATURE)
A benefit feature of an insurance contract that may be selected at the discretion of the policyholder, e.g. right to convert a maturity value into an income for life at guaranteed terms.

APPENDIX 2 – GLOSSARY CONTINUED

PRA
Prudential Regulation Authority.

PRESENT VALUE OF IN-FORCE BUSINESS ('PVIF')
The expected future profits (usually excess of charges over expenses) on existing business.

REINSURANCE
Process whereby one entity takes on all or part of the risk covered under a policy issued by an insurance company in return for a premium payment.

RISK MARGIN
The part of technical provisions in addition to the best estimate liability required to ensure that the value of the technical provisions is equivalent to the amount that insurance undertakings would be expected to require in order to take over and meet the insurance obligations.

SLAL
Standard Life Assurance Limited.

SLIDAC
Standard Life International Designated Activity Company.

SOLVENCY II DIRECTIVE
Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II).

SOLVENCY CAPITAL REQUIREMENT ('SCR')
The economic capital to be held by an insurer in order to ensure that it will still be in a position to meet its obligations to policyholders over the following 12 months, with a probability of at least 99.5% (i.e. limit probability of failure to less than 1-in-200 years).

STOCHASTIC MODEL
An actuarial projection model in which the input variables (e.g. future investment returns) are defined in terms of a range of values in the form of probability distributions, reflecting the volatility of those variables. This leads to a range of modelled outcomes. This approach is useful when a policy provides a guarantee, e.g. a minimum rate of investment return. A deterministic model would not allow for the volatility of future investment returns and hence is a less appropriate way of estimating the cost of providing the guarantee.

TECHNICAL PROVISIONS
The value attributed to future insurance obligations determined in line with Solvency II regulations, comprising a best estimate liability plus risk margin.

TECHNICAL PROVISIONS AS A WHOLE
The best estimate and the risk margin are typically calculated separately. Where the future cash flows can be replicated reliably using financial instruments for which a reliable market value is observable (such as unit-linked fund values) then the value of technical provisions equals the market value of those financial instruments ('technical provisions as a whole').

UNIT-LINKED
Unit-linked refers to a proposition or fund where the customer will buy 'units' of the fund. The value of a unit changes based on the performance of underlying assets, and the number of units in the fund will change depending on the size of the fund.

UNIT-LINKED POLICY
A policy where the benefits are determined by reference to the investment performance of a specified pool of assets.

VOLATILITY ADJUSTMENT
An adjustment made to the liquid part of the risk-free interest rate in order to reduce the impact of short-term market volatility on the balance sheet.

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