SOLVENCY AND FINANCIAL CONDITION REPORT 2018

Standard Life Assurance Limited, part of Phoenix Group Holdings plc
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 Assurance Limited ('SLAL' or 'the Company') for 2018, to satisfy the requirements of Solvency II.

The purpose of the report is to assist policyholders and other stakeholders to understand the capital position under Solvency II of SLAL as at 31 December 2018.

In 2016, the Solvency II regulatory regime came into force for insurers across the European Union ('EU'). 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', or 'SCR'. The SCR is calibrated so that the likelihood of a loss exceeding the SCR is less than 0.5% over one year. This ensures that capital is sufficient to withstand broadly a '1 in 200 year event'. The capital resources available to meet the requirements are called 'Own Funds'.

The main purpose of holding capital is to provide security to policyholders and other customers. The Company considers itself to be strongly capitalised under Solvency II, as Own Funds are significantly higher than the SCR as set out in the Capital Management Section of this summary. As at 31st December 2018 the Company's Solvency II surplus over the Solvency Capital Requirement ('SCR') is £1,726 million, with a ratio of eligible own funds to SCR of 170%.

BUSINESS AND PERFORMANCE

The Company is an insurance undertaking and a wholly owned subsidiary of Phoenix Group Holdings. The Company's main activities consist of the provision of life assurance and pension products in the UK, Ireland and Germany, with the business written in Ireland and Germany through branches.

The Company's immediate parent is Phoenix Group Holdings, a company incorporated in the Cayman Islands. The Company's ultimate parent company is Phoenix Group Holdings plc, a company incorporated and resident in the United Kingdom.

On 31 August 2018, following shareholder, regulatory and other necessary approvals, Phoenix Group Holdings acquired the Company from Standard Life Aberdeen plc ('SLA plc' hereafter).

Prior to the completion of the transaction a number of reorganisation steps were carried out. More information is included within section A.1.4.

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 £378 million (2017: £353 million) for the year ended 31 December 2018. Operating profit included a benefit from non-economic assumption changes of £101 million (2017: £98 million), primarily relating to mortality assumption changes. Further details on the components and the key drivers of the operating profit result are included in section A.2.

The IFRS profit for the year of £519 million (2017: £316 million) was boosted by a one-off £133 million from impacts arising following the transfer of the Company to Phoenix Group Holdings. This includes one-off impacts on the valuation of IFRS insurance contracts from aligning certain assumptions and estimates with those used by other Phoenix Group Holdings. The 2017 result included a £100 million impact from the increase in the provision for historic annuity sales practices.

SYSTEM OF GOVERNANCE

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. SLAL has continued to operate under the existing ERM framework throughout 2018 and this document reflects that position.

Following the sale of the Company to Phoenix Group Holdings ('PGH') work has commenced to harmonise the Risk Management Framework ('RMF') and the governance structure of the Company with that of the Group. Work to implement a harmonised framework started following the acquisition and this will continue throughout 2019.

The system of governance comprises four key components:

- governance framework;
- organisational and operational structure;
- risk management system; and
- internal control system.

More information on each of these components is included in section B.

RISK PROFILE

The Company operates a standardised Risk Management Framework ('RMF') 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.

In August 2018, the Company was granted the PRA's approval for use of its Internal Model to assess its capital requirements. The capital assessment of the Company's subsidiary SL Intl has been on a Standard Formula basis since the introduction of the Solvency II regulatory regime on 1 January 2016. Therefore, the Solvency II position of the Company and the results presented in this SFCR are based on a partial Internal Model. Original approval to use a partial internal model for the calculation of the SCR was granted on 5 December 2015.

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

RISK PROFILE CONTINUED

A summary of the undiversified SCR of the Company is presented below:

Risk profile of insurance subsidiaries and the Group	Section reference	SLAL (Excluding SL Intl)
Underwriting risk	C.1	34%
Market risk (including credit risk)	C.2 & C.3	54%
Liquidity risk	C.4	0%
Operational risk	C.5	12%
Other risks	C.6	0%
Total	–	100%

Significant business and other events during 2018 that impacted the risk profile of the Company included:

- the sale of SLAL to Phoenix Group Holdings gave rise to a number of changes in the Company's balance sheet and risk profile, including:
  - the derecognition from the Company's balance sheet of defined benefit pension plans operated by the SLA Group, of which the Company had been the sponsoring employer;
  - The redemption of the Company's subordinated debt;
  - The in-specie distribution of shares in Standard Life Savings Limited, Standard Life Client Management Limited and 1825 Financial Planning Limited from the Company to SLA plc; and
  - An indemnity has been provided by SLA plc to protect the Company from the risk of higher than expected costs in respect of historic annuity sales practices.

During 2018 the Company entered into equity hedging instruments to provide protection against the impact of a fall in equities on the value of future management charges upon policyholder business. The shareholders of the Company bear the market risk arising from these instruments.

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 set out in the table below:

31 December 2018	£m
Excess of assets over liabilities	5,392

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.

CAPITAL MANAGEMENT

As outlined in the Risk Profile section above, significant changes were made to the Company's capital position in advance of, and as part of, the sale of SLAL to Phoenix Group Holdings.

The capital position for the Company at 31 December 2018 and 31 December 2017 is presented in the table below:

	31 December 2018	31 December 2017
Eligible Own Funds	4,203	6,449
SCR	(2,477)	(3,245)
Solvency II surplus	**1,726**	**3,204**
Ratio of Eligible Own Funds to SCR	**170%**	**199%**
Shareholder capital coverage ratio	**186%**	**191%**

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

Quality of Own Funds

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

As at 31 December 2018, the Company's Solvency II surplus over the SCR is £1,726 million, with a ratio of Eligible Own Funds to SCR of 170%. The decrease in the Solvency II surplus from £3,204 million largely reflects the changes outlined above and the dividend paid to SLA plc, offset by favourable economic experience.

Further details of material drivers of change are provided in E.1.4.3.

99.5% 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. This includes Transitional Measures on Technical Provisions ('TMTP') which are included in the calculation of Basic Own Funds as Tier 1 capital. The TMTP allows firms to apply a transitional deduction to their technical provisions. Transitional measures are aimed at providing a smooth transition between the technical provisions under the previous Solvency I regulatory regime and the technical provisions under the Solvency II regulatory regime in order to enhance stability in the insurance sector.

The Company has PRA approval to apply a Matching Adjustment in the valuation of UK immediate annuity liabilities and a Volatility Adjustment in the valuation of liabilities of all contract types where a Matching Adjustment is not used, except for unit-linked business and certain best estimate expense provisions. The application of the Matching Adjustment allows insurers to use a (typically) higher discount rate when valuing liabilities that meet strict eligibility criteria, with the effect of increasing Own Funds and reducing the SCR. The Volatility Adjustment is designed to protect insurers with long-term liabilities from the impact of market volatility, by reducing the likelihood that insurers sell their risky assets when markets are falling. The Volatility Adjustment is a parallel increase in the market segment of the risk free curve. There is no change to the ultimate forward rate.

The impact of the TMTP, Volatility Adjustment and Matching Adjustment being set to zero is set out in section D.2.7.

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

SCR by risk category

The SCR is the amount of capital an insurer is required to hold under the regulations. Further details are set out in section E.2.

Shareholder capital coverage ratio

In the calculation of the Solvency II surplus, the SCR of unsupported with-profit funds is included, but the related Eligible Own Funds are recognised only to a maximum of the SCR amount. Surpluses that arise in with-profit funds are therefore not recognised by the Company as such surpluses will not accrue to shareholders. However such surpluses are available to absorb economic shocks, thereby increasing resilience to economic stresses.

The Company focuses on the metric of shareholder capital coverage ratio, as a more appropriate measure of the extent to which shareholders' Eligible Own Funds cover the associated risk capital. It is defined as the ratio of Eligible Own Funds to SCR, after adjustment to exclude amounts relating to unsupported with-profit funds (being the Heritage With Profit Fund ('HWPF').

As at 31 December 2018, the shareholder capital coverage ratio for the Company is 186% (2017: 191%).

CAPITAL MANAGEMENT CONTINUED

Sensitivities and scenario analysis

As part of the Company's internal risk management processes, the Solvency II surplus is tested against a number of financial scenarios. The results of that stress testing on the Company's Solvency II surplus are provided below and demonstrate the resilience of the Solvency II surplus.

Solvency II Surplus £m	SLAL exc. SL Intl
Base: 1 January 2019[1]	**1,723**
Following a 20% fall in equity markets	1,703
Following a 15% fall in property values	1,708
Following a 60bps interest rates rise[5]	1,732
Following a 80bps interest rates fall[5]	1,713
Following credit spread widening[2]	1,614
Following a 6% decrease in annuitant mortality rates[3]	1,519
Following a 10% increase in assurance mortality rates	1,703
Following a 10% change in lapse rates[4]	1,650

1. Assumes stress occurs on 1 January 2019.
2. Credit stress equivalent to an average 150bps spread widening across ratings, 10% of which is due to defaults/downgrades.
3. Equivalent of six month increase in longevity applied to the annuity portfolio.
4. Assumes most onerous impact of a 10% increase/decrease in lapse rates across different product groups.
5. Assumes recalculation of transitionals (subject to PRA approval).

FUTURE DEVELOPMENTS

During 2019, the Company is focused on the following priorities:

- Ensuring that we are prepared for Brexit and that our customers are protected from the effects of the UK leaving the European Union.
- Contributing to the delivery of the Phoenix Group Transition programme. This is divided into 3 phases:
  - Phase 1 Enabling functions: harmonisation of Risk, HR, Legal, Procurement and Internal Audit systems, development of a single Risk Management Framework and combining of management teams and functional operations
  - Phase 2 Finance and Actuarial: harmonisation of the actuarial, accounting and investment systems, move onto a single Group Internal Model and put a single investment office and oversight framework in place
  - Phase 3 Customer and Technology: delivery of a best-in-class operating model

During 2019 we are aiming to complete Phase 1 and progress Phases 2 and 3.

- Improving customer outcomes by maintaining the expected high standard of customer service and continuing to enhance the customer experience.
- Delivery of new business initiatives.
- Continuing to work closely with Standard Life Aberdeen to strengthen the Standard Life customer and workplace propositions.

EVENTS AFTER THE REPORTING PERIOD

Sale of Standard Life International Designated Activity Company

On the 21 February 2019 the Company sold its subsidiary Standard Life International Designated Activity Company ('SL Intl') to its ultimate parent company, Phoenix Group Holdings. This subsidiary has been transferred at carrying value via a loan arrangement and therefore has no material impact on the distributable reserves of SLAL. The Solvency II impact of this transaction was primarily to increase the excess of Own Funds of the Company as a result of removing the capital requirements associated with SL Intl.

Part VII transfer of German, Austrian and Irish Policies

On Tuesday 19 March 2019 the Court of Session in Edinburgh approved the transfer of approximately 600,000 German, Austrian and Irish policies from the Company into SL Intl. The effective date of the transfer was 29 March 2019.

On 29 March 2019 the transfer went ahead in accordance with the terms of a scheme under Part VII of the Financial Services and Markets Act 2000 ('The Scheme'). On the same date the Heritage With-Profit ('HWPF'), German post-demutualisation with-profits and German smooth-managed business were insured back to SL Intl to the Company through a reinsurance arrangement.

The Part VII transfer and associated reinsurance arrangement described above has not had a material impact on the distributable reserves of SLAL. The Solvency II impact of the transfer was a reduction in the excess of Own Funds due to the future value from European unit-linked contracts now being recognised within SL Intl rather than SLAL.

DIRECTORS' RESPONSIBILITY STATEMENT

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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 PRA 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 PRA rules and 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 so to comply and will continue so to comply in future.

For and on behalf of the Board of Directors

STEPHEN PERCIVAL
DIRECTOR

11 April 2019

AUDITOR'S REPORT

AUDITOR'S REPORT

Report of the independent external auditor to the Directors of Standard Life Assurance Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms.

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

Opinion

Except as stated below, we have audited the following documents prepared by the Company as at 31 December 2018:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company, ('the Narrative Disclosures subject to audit'); and
- Company templates S02.01.02, S12.01.02, S23.01.01, S28.01.01 ('the Templates subject to audit').

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

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

- information contained within the relevant elements of the Solvency and Financial Condition Report set out about above which are, or derive from the Solvency Capital Requirement, as identified in the Appendix to this report;
- The 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;
- Company template S05.01.02, S05.02.01, S.22.01.21, S.25.02.21;
- Information calculated in accordance with the previous regime used in the calculation of the transitional measure on technical provisions, and as a consequence all information relating to the transitional measures on technical provisions as set out in the Appendix to this report; and
- the written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('the Responsibility Statement').

To the extent the information subject to audit in the relevant elements of the Solvency and Financial Condition Report includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK)) including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you were:

- the directors' use of the going concern basis of accounting in the preparation of the Solvency and Financial Condition Report is not appropriate; or
- the directors have not disclosed in the Solvency and Financial Condition Report any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Solvency and Financial Condition Report is authorised for issue.

Emphasis of Matter – Basis of Accounting & Restriction on Use

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

This report is made solely to the Directors of the Company in accordance with Rule 2.1 of the External Audit Part of the PRA Rulebook for Solvency II firms. Our work has been undertaken so that we might report to the Directors those matters that we have agreed to state to them in this report and for no other purpose.

Our opinion is not modified in respect of this matter.

AUDITOR'S REPORT CONTINUED

Other Information

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

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

Responsibilities of Directors or the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations on which they are based which have been modified by the modifications, and supplemented by the approvals and determinations made by the PRA under section 138A of Financial Services and Markets Act 2000, the PRA Rules and the Solvency II Regulations 2015.

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

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

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

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the Solvency and Financial Condition Report.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: https://www.frc.org.uk/Our-Work/Audit-and-Actuarial-Regulation/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Auditors-responsibilities-for-audit/Description-of-auditors-responsibilities-for-audit.aspx. The same responsibilities apply to the audit of the Solvency and Financial Condition Report.

Other Matter

The Company has authority to calculate its Solvency Capital Requirement using a partial internal model ('the Model') approved by the Prudential Regulation Authority in accordance with the Solvency II Regulations. In forming our opinion and in accordance with PRA Rules, we are not required to audit the inputs to, design of, operating effectiveness of and outputs from the Model, or whether the Model is being applied in accordance with the Company's application or approval order.

Report on Other Legal and Regulatory Requirements

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

ERNST & YOUNG LLP
London

11 April 2019

The maintenance and integrity of the Standard Life Assurance Limited web site is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Solvency and Financial Condition Report since it was initially presented on the website.

Appendix – relevant elements of the Solvency and Financial Condition Report that are not subject to audit.

The relevant elements of the Solvency and Financial Condition Report that are not subject to audit comprise:

- The following elements of template S.02.01.02:
- Row R0550: Technical provisions – non-life (excluding health) – risk margin
- Row R0590: Technical provisions – health (similar to non-life) – risk margin
- Row R0640: Technical provisions – health (similar to life) – risk margin
- Row R0680: Technical provisions – life (excluding health and index-linked and unit-linked) – risk margin
- Row R0720: Technical provisions – Index-linked and unit-linked – risk margin
- The following elements of template S.12.01.02
- Row R0100: Technical provisions calculated as a sum of BE and RM – Risk margin
- Rows R0110 to R0130 – Amount of transitional measure on technical provisions
- The following elements of template S.17.01.02
- Row R0280: Technical provisions calculated as a sum of BE and RM – Risk margin
- Rows R0290 to R0310 – Amount of transitional measure on technical provisions
- The following elements of template S.22.01.21
- Column C0030 – Impact of transitional measure on technical provisions
- Row R0010 – Technical provisions
- Row R0090 – Solvency Capital Requirement
- The following elements of template S.23.01.01
- Row R0580: SCR
- Row R0740: Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds
- The following elements of template S.28.01.01
- Row R0310: SCR
- Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.

BASIS OF PREPARATION

The QRTs and the disclosures in the SFCR have been prepared in accordance with all applicable PRA Rules and Solvency II regulations, hereafter referred to as 'the regulations'.

Some sections of the SFCR require information based on the recognition and measurement principles applicable under the relevant Generally Accepted Accounting Principles ('GAAP') as presented in the financial statements. The Company's financial statements are prepared in accordance with International Financial Reporting Standards ('IFRS') issued by the International Accounting Standards Board ('IASB') as adopted by the European Union.

The body of the SFCR is presented in pound sterling rounded to the nearest million, which is consistent with the presentation in the IFRS financial statements of SLAL. The Public Disclosure QRTs in Appendix 1 have been presented in pound sterling rounded to the nearest thousand.

The SFCR excludes disclosures required by the regulations which are not applicable to the Company, which include, but are not limited to:

- information on non-life business;
- information on Solvency II Insurance Special Purpose Vehicles ('SPVs');
- information on significant branches within the meaning of the regulations; and
- comparatives are included throughout the document, where required by the regulations.

Certain financial information in the SFCR has been rounded. As a result of the rounding, the totals in the tables presented in this SFCR may vary slightly from the data presented in the QRTs in Appendix 1.

SECTION A
BUSINESS AND PERFORMANCE

IN THIS SECTION

SECTION A

A.1 BUSINESS

A.1.1 Information regarding the Company

The Company is an insurance undertaking and its main activities consist of the provision of life assurance and pension products in the UK, Ireland and Germany, with the business written in Ireland and Germany through branches.

The Company's immediate parent is Phoenix Group Holdings, a company incorporated in the Cayman Islands. The Company's ultimate parent company is Phoenix Group Holdings plc, a company incorporated and resident in the United Kingdom.

The Company is registered in Scotland (Company number: SC286833) and is regulated by UK legislation (e.g. including the Companies Act 2006). As a provider of financial services, the regulation of the Company is through the Prudential Regulatory Authority ('PRA') and the Financial Conduct Authority ('FCA'). The supervisor of the Company is the PRA.

The PRA's and FCA's contact details are provided below:

Prudential Regulation Authority, 20 Moorgate, London EC2R 6DA.

Financial Conduct Authority, 12 Endeavour Square, London E20 1JN.

The name and contact details for the external auditor of the Company are provided below:

Ernst & Young LLP, 25 Churchill Place, Canary Wharf, London E14 5EY.

Ernst & Young LLP were appointed as the Company's external auditor for the year ended 31 December 2018.
The Company's External auditor for the year ended 31 December 2017 was KPMG LLP, 20 Castle Terrace, Edinburgh EH1 2EG.

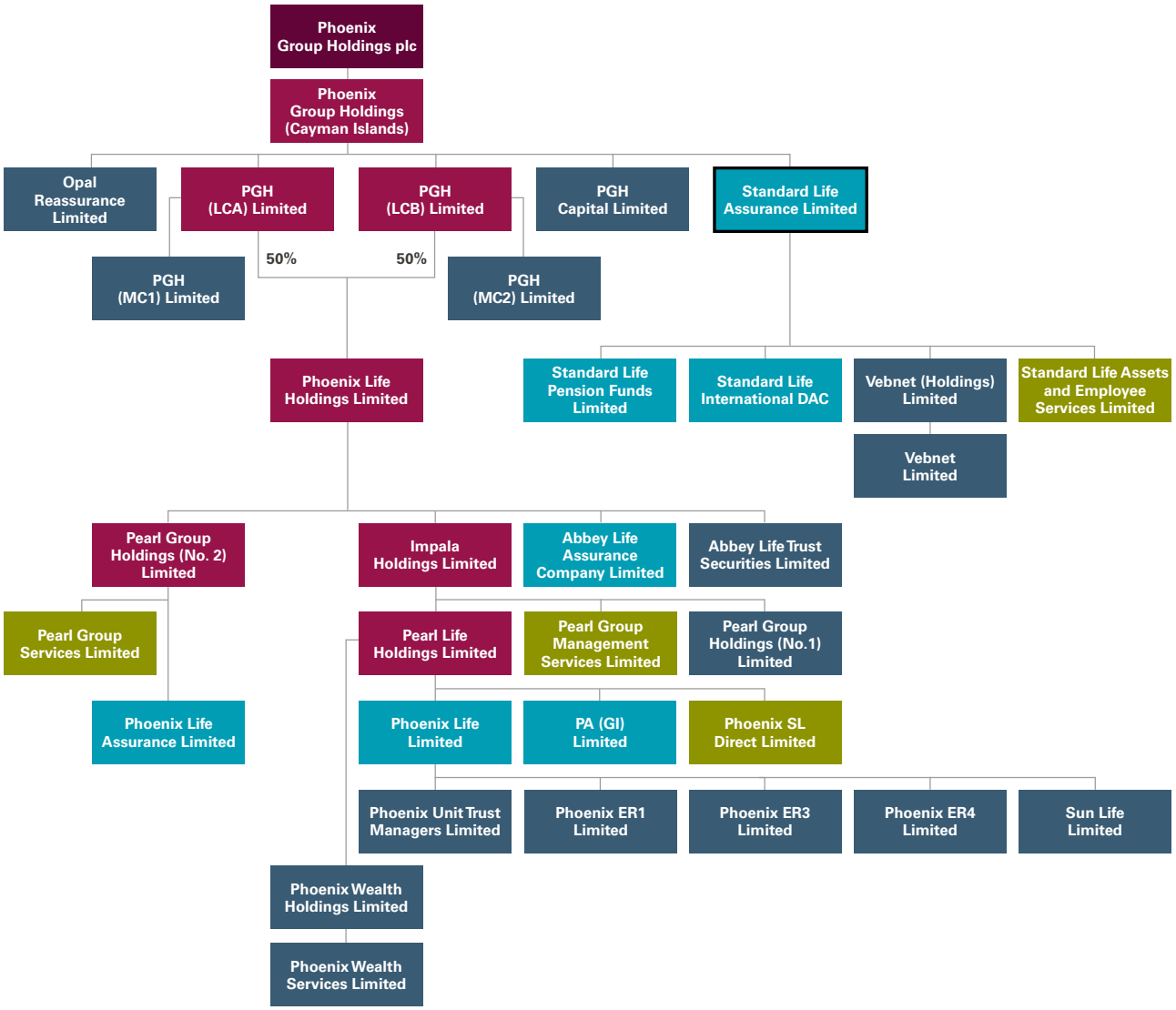
A.1 BUSINESS CONTINUED

A.1.2 Company and Group structure

A.1.2.1 Legal structure of the Group

A simplified Phoenix Group Holdings structure chart as at 31 December 2018 is provided below, and shows the Company's position within the legal structure of the Phoenix Group. All shareholdings are 100% unless shown otherwise.

Subsequent analysis of financial information in this section relates to the Company only.



A.1 BUSINESS CONTINUED

A.1.2 Company and Group structure continued

A.1.2.2 Material undertakings of the Company

A list of the material related undertakings of the Company as at 31 December 2018 is provided below. A full list of the Company's related undertakings including the name, legal form, country of incorporation and proportion of ownership interest held can be found in note 43 on pages 111 to 116 of the Company's 2018 Annual financial statements.

Solvency II Surplus £m	Country of incorporation or registration	% interest held 2018	% interest held 2017	Nature of business
Standard Life Lifetime Mortgages Limited	Scotland	100%	100%	Mortgage finance
Standard Life Pension Funds Limited	Scotland	100%	100%	Life assurance
Standard Life International Designated Activity Company*	Ireland	100%	100%	Life assurance
Standard Life Assets and Employee Services Limited	Scotland	100%	–	Service company
Vebnet (Holdings) Limited	Scotland	100%	–	Technology services

* On the 21 February 2019 the Company sold Standard Life International Designated Activity Company to Phoenix Group Holdings.

A.1.2.3 Governance and organisation

Prior to 31 August 2018, the Company was owned by Standard Life Aberdeen ('SLA') plc and the management of the Company was carried out in a manner consistent with the policies of SLA plc in relation to strategy, governance and risk management.

Following the acquisition of the Company by Phoenix Group Holdings on 31 August 2018, the Company is transitioning to a new governance framework.

Further information on the governance structure is provided in section B.

A.1.3 Material lines of business and geographical areas

A.1.3.1 Material lines of business

There are four Solvency II lines of business which are based on the characteristics of the different products administered. The table below shows the material Lines of Business ('LoB') for the Company:

	SLAL
Insurance with profit participation	✓
Index-linked and unit-linked insurance	✓
Health insurance	–
Other life insurance	✓

A.1.3.1.1 Insurance with-profit participation

The insurance with-profit participation LoB is comprised of conventional with-profit products and unitised with-profit products.

A with-profit, or participating, policy is one where the policyholder participates in the profits of the fund. An insurer aims to distribute part of its profit to the with-profit policyholders in the form of bonuses. The value of such distributions is based on, among other things, the performance of the underlying pool of assets. Policy pay-outs are generally subject to a minimum guarantee and are 'smoothed' to lessen the impact of changes in the underlying value of the assets in the short term.

All with-profit policies are entitled to potential incremental bonuses throughout the life of the policy as well as a terminal, or final, bonus. The terminal bonus represents the policyholder's final share of the assets of the fund.

A.1.3.1.2 Index-linked and unit-linked insurance

The value of unit-linked products is linked directly to the performance of the underlying assets. The policyholder typically bears all of the investment risk with unit-linked products. The benefits attributable to the policyholder are determined by reference to the investment performance of a specified pool of assets.

Customers do not legally own the underlying assets or the units themselves; they own a contract (the policy) with a right to a benefit. The value of that benefit is determined by reference to the price of their chosen fund.

A.1.3.1.3 Health insurance

Health insurance business is not material in the context of the Company's overall insurance business.

A.1.3.1.4 Other life insurance

Other life insurance includes all remaining underwritten business and includes protection policies and annuity business. The majority of the business included in this line of business is annuity business. Annuities generally provide a specified income stream over the life of the policyholder.

A.1.3.2 Geographical areas

The Company operates in the UK, Ireland (through the SLAL Irish branch) and Germany (through the SLAL German branch).

A.1 BUSINESS CONTINUED

A.1.4 Significant business and other events

A.1.4.1 Purchase of the Company by Phoenix Group Holdings

On 31 August 2018, following shareholder, regulatory and other necessary approvals, Phoenix Group Holdings acquired the Company from Standard Life Aberdeen plc.

Prior to the completion of the transaction a number of reorganisation steps were carried out. These included the:

- in-specie distribution of shares in Standard Life Savings Limited, Standard Life Client Management Limited and 1825 Financial Planning Limited from the Company to SLA plc;
- transfer of Vebnet (Holdings Limited) from SLA plc to the Company;
- transfer of the Company's membership interests in the Standard Life Assurance Company 2006 to SLA plc;
- creation of a new subsidiary Standard Life Assets and Employee Services Limited; and
- repayment of subordinated debt owed by the Company to SLA plc.

On completion of the transaction the Group entered into a Strategic Partnership with Standard Life Aberdeen plc ('SLA plc'). The Strategic Partnership provides additional growth opportunities and is an enabler for the delivery of the Group's strategy. The Company is directly impacted by the principal terms of the Client Service Proposition Agreement ('CSPA') between SLA plc and the Group. The CSPA formalises the Strategic Partnership and establishes the contractual terms by which SLA plc will continue to market and distribute certain products that will be manufactured by the Group.

Up until 31 August 2018 the Company was the sponsoring employer for certain defined benefit plans operated by the SLA Group. On 31 August 2018 the Company ceased to be the sponsoring employer and derecognised the IAS 19 surplus or deficit of these schemes which it had previously recognised in its IFRS Statement of financial position.

During 2018 the Company purchased derivative instruments to hedge the Company's exposure to equity movements arising from future profits in relation to with-profits and unit-linked business to benefit the regulatory capital position. The impact of the hedge is fully reflectedequity market movements on the value of the hedging instruments is reflected in the IFRS results, but the corresponding change in the value of future profits is not.

Following the acquisition of the Company by the Phoenix Group, the Company made certain changes to the assumptions and estimates used in the valuation of insurance contracts in its IFRS financial statements. Further information is provided in section A4.

A.1.4.2 Other

The Company has prepared for different potential Brexit scenarios and has plans in place to provide continuity of service to existing European customers. These plans involve Standard Life International Designated Activity Company becoming the entity that will serve existing European customers and write new business in Ireland and Germany. Further information is given in the Events after the reporting period section on page 5.

A.2 UNDERWRITING PERFORMANCE

A.2.1 Operating profit

A summary of the Company's performance during the year ended 31 December 2018 is presented below and in sections A.3 and A.4. The information is presented on an operating profit basis and reconciled to the IFRS result in the financial statements.

Further details on the Company's operating profit metric is included below.

	Section reference	**2018 £m**	2017 £m
Operating profit	A.2.1	**378**	353
Total investment return variances and economic assumption changes	A.3.1	112	89
Other income and expense items:	–	**–**	–
Other non-operating items	A.4.1	**115**	(112)
Profit attributable to non-shareholders	A.4.1	**36**	34
Total other income and expenses	A.4.1	**151**	(78)
IFRS profit before tax expense attributable to owners	–	**641**	364
Total tax expense attributable to owner profits	A.4.2	**(122)**	(48)
IFRS Profit for the year	–	**519**	316

The Company reports a non-GAAP measure of performance being operating profit. 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.

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.

A.2 UNDERWRITING PERFORMANCE CONTINUED

A.2.1 Operating profit continued

A.2.1.1 Investment return variances and economic assumption changes

Variances between actual and expected investment returns, and the impact of changes in economic assumptions on the valuation of liabilities are accounted for outside of the operating profit and presented in the IFRS profit before tax attributable to owners.

A.2.1.2 Other income and expenses

Other income and expense items which are excluded from operating profit comprise:

- profit attributable to non-shareholders, including coupons payable to holders of subordinates notes that were classified as non-shareholders' equity under IFRS; and
- other non-operating items such as financial impacts of mandatory regulatory change, integration, restructuring or other significant one-off projects, and any other items which, in Management's view should be disclosed separately by virtue of their nature or incidence.

A.2.2 Analysis of operating profit

A.2.2.1 Operating profit by line of business

An analysis of the Company's operating profit split by material line of business is presented below.

	2018 £m	2017 £m
Insurance with-profit participation	96	106
Index-linked and unit-linked insurance	131	111
Other life insurance (predominantly annuities and protection business)	151	136
Total operating profit by Line of Business	**378**	**353**

The insurance with profit participations and index-linked and unit-linked insurance lines of business are driven by the revenue and expenses of the Company's fee based business in the UK, Ireland and Germany. Other life insurance is mainly comprised of annuity business which is driven by the spread/risk margin result less related expenses in the UK, Ireland and Germany.

Information on premiums, claims and expenses is not used as a primary measure of underwriting performance by the Company, however the relevant information split by line of business is presented in the S.05.01.02 QRT included in Appendix 1.

The insurance with-profit participation result reduced by £10 million as expected as this business reduces in size as the business runs-off. The index-linked and unit-linked insurance category improved by £20 million helped by growth in this line and a reduction in operating expenses. The other life insurance result increased by £15 million due to an increase in the spread/risk margin, which included a benefit from non-economic assumption changes. Further commentary is provided in the Geographical analysis below.

A.2.2.2 Operating profit by Geographical area

The operating profit of the Company split by material geographical area is as follows:

Year ended 31 December 2018	**UK £m**	**Europe £m**	**Total £m**
Fee based revenue	590	181	771
Spread/risk margin	156	7	163
Operating income	**746**	**188**	**934**
Operating expenses	(416)	(161)	(577)
Capital management	22	(1)	21
Operating profit before tax	**352**	**26**	**378**

Year ended 31 December 2017	**UK £m**	**Europe £m**	**Total £m**
Fee based revenue	588	191	779
Spread/risk margin	143	6	149
Operating income	**731**	**197**	**928**
Operating expenses	(437)	(157)	(594)
Capital management	21	(2)	19
Operating profit before tax	**315**	**38**	**353**

The Company's fee based business is made up of products that generate revenue primarily from asset management charges ('AMCs'), premium based charges and transactional charges. AMCs are earned on products such as self-invested personal pensions ('SIPPs') and corporate pensions, and 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. Fee business includes unit-linked and with profits business.

The Company's spread/risk business mainly comprises of products that provide a guaranteed level of income for customers in return for an investment. The 'spread' referred to in the title primarily relates to the difference between the guaranteed amount paid to customers and the actual return on related assets over the period of the contract. Spread business consists of annuities and risk based business consists of protection products.

A.2 UNDERWRITING PERFORMANCE CONTINUED

A.2.2 Analysis of operating profit continued

A.2.2.2.1 SLAL UK

Operating profit before tax increased by £37 million to £352 million. Fee based revenue increased slightly by £2 million to £590 million, with average AUA levels similar to the prior period.

Spread/risk margin increased by £13 million to £156 million, and included a benefit from non-economic assumption changes of £95 million (2017: £79 million), primarily relating to mortality assumption changes.

Operating expenses reduced by £21 million to £416 million. The 2017 result included the £31 million impairment of an intangible asset that was being built to allow a move away from the mainframe system. Following technical challenges work on this asset was discontinued and the asset was fully impaired. This impact was partly offset by small rises in other categories.

A.2.2.2.2 SLAL Europe

In our European branches, operating profit before tax reduced by £12 million to £26 million. The Europe result included a benefit from non-economic assumption changes of £6 million (2017: £19 million). Both periods benefited from mortality assumption changes whilst the 2017 result also included the impact of favourable expense assumption changes.

A.3 INVESTMENT PERFORMANCE

A.3.1 Analysis of investment return variances and economic assumption changes

The investment performance measure used by the Company is investment return variances and economic assumption changes. These represent the impact of short term volatility. Further details are set out below.

Short term fluctuations are calculated based on expected returns on investments backing equity holder funds, with consistent allowance for the corresponding expected movements in equity holder liabilities. Impacts arising from the difference between the expected return and actual return on investments, and the corresponding impact on equity holder liabilities except where they are directly related to a significant management action, are excluded from operating profit and are presented within investment return variances and economic assumption changes as a component of profit before tax. These generated a profit of £112 million (2017: £89 million) mainly due to an increase in the fair value of derivatives held to protect the value of future profits against reductions in equity markets. The impact of equity market movements on the value of the hedging instruments is reflected in the IFRS results, but the corresponding change in the value of future profits is not.

A.3.2 Investment income and expenses

The table below presents the Company's total investment return by asset class. Expenses are shown in total as they all relate to investment management fees.

Year ended 31 December 2018	2018 £m	2017 £m[1]
Financial instruments other than those at fair value through profit or loss (FVTPL)	–	–
Interest income	–	–
Cash and cash equivalents	27	23
Loans	47	31
Other	2	3
Interest income on instruments other than FVTPL	76	57
Foreign exchange gains on instruments other than FVTPL	–	(46)
Gains on financial instruments other than those at FVTPL	76	11
Financial instruments at FVTPL	–	–
Dividend income	2,264	2,123
Gains/(losses) on financial instruments held at FVTPL	–	–
Investment in subsidiaries	(2,452)	2,102
Equity securities and interests in pooled in investment funds	(6,650)	5,332
Debt securities	188	931
Derivative financial instruments	543	(668)
Loans	6	26
Gains/(losses) on financial instruments held at FVTPL	(6,101)	9,846
Investment property	–	–
Rental income	247	258
Net fair value gains on investment property	114	378
	361	633
Total investment return	(5,664)	10,490

Investment expenses	(132)	(153)
Net investment return after deduction of investment expenses	**(5,796)**	**10,337**

1. 2017 comparative for rental income and net fair value gains/(losses) on investment property restated to include balances previously disclosed as Held for Sale of (£2m).

A.3 INVESTMENT PERFORMANCE CONTINUED

A.3.2 Investment income and expenses continued

Total investment return in 2018 amounts to a loss of £5,664 million (2017: £10,490 million gain) and was driven by losses arising following reductions in equity markets in late 2018. 2017 saw gains from each of the material asset classes held by the Company's shareholder, with profits and unit-linked business categories. In addition to the above the Company recognised gains of £nil (2017: £nil) in respect of owner occupied property directly in equity.

Investment management expenses in 2018 were £132 million (2017: £153 million).

A.3.3 Information on securitisation

At 31 December 2017, the Company had investment in securitisations with a fair value of £136 million (2017: £356 million). This comprised 18 investments (2017: 40) of which the largest was £32 million (2017: £32 million).

A.4 PERFORMANCE OF OTHER ACTIVITIES

A.4.1 Other material income and expenses

Other material income and expenses which are not included within operating profit are outlined below:

Year ended 31 December 2018	2018 £m	2017 £m
Other income and expense items:		
Other non-operating items	115	(112)
Profit attributable to non-shareholders	36	34
Total other income and expenses	**151**	**(78)**

Other non-operating items of £115 million have increased by £227 million in the period. The increase is driven by a one-off £133 million from impacts arising following the transfer of the Company to Phoenix Group Holdings. This includes one-off impacts on the valuation of IFRS insurance contracts from aligning certain assumptions and estimates with those used by other Phoenix Group companies and the impairment of an IT intangible asset and related costs following a change in strategy in our IT transformation programme. In 2017 other non-operating items included a £100million impact from the increase in the provision for historic annuity sales practices. Other non-operating items also include restructuring and corporate transaction expenses amounted to £18 million (2017: £12 million).

Profit attributable to non-shareholders of £36 million increased by £2 million in the period.

A.4.2 Tax expense

The total tax expense attributable to shareholders' profits for the year ended 31 December 2018 was £122 million (2017: £48 million).

A.4.3 Leasing arrangements

The only material classes of assets subject to leasing arrangements are property, in relation to operating leases for investment property (where the Company is the lessor). Rental income from investment property during the year to 31 December 2018 was £247 million (2017: £258 million).

A.5 ANY OTHER INFORMATION

There is no further information to be disclosed regarding the 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 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.

Following the sale of the Company to Phoenix Group Holdings ('PGH') work has commenced to harmonise the Risk Management Framework ('RMF') and the governance structure of the Company with that of the Group. Work to implement a harmonised framework started following the acquisition and this will continue throughout 2019.

The system of governance comprises:

- **governance framework** – how the business is managed including the role of the Board and its committees;
- **organisational and operational structure** – how the business is structured and defined 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 the business. It includes the methods and processes we use to manage risks consistently. We refer to our risk management system as the ERM framework; and
- **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

An effectiveness review of the system of governance and ERM framework is conducted annually. This process considers each key component of the system of governance in isolation and assesses its effectiveness.

In addition, the Group Head of Internal Audit reviews, at least annually, the overall effectiveness of our system of governance, and risk and control framework and reports on this to the Group Audit Committee (in line with the Internal Audit Guidelines for Financial Services issued by the Chartered Institute of Internal Auditors).

The result of these reviews in 2018 concluded that the system of governance and ERM framework were effective taking into account the nature, scale and complexity of the risks inherent in the business.

B.1.2 System of governance

The objective of the Company's Governance Model is to ensure that management is empowered to run the business on a day-to-day basis in accordance with the delegated authority received from the Board, whilst ensuring that Directors are able to discharge their statutory and regulatory responsibilities, and that the Board have appropriate oversight and supervision of the Company's business.

The Board has the power to manage the Company in accordance with legislation (Companies Act), regulations (including the regulations of the FCA and the PRA), constitution (Memorandum and Articles of Association), and Governance Code (UK Corporate Governance Code). This also involves referral of certain matters to shareholders for approval. Therefore the Board:

- where relevant has the power to manage the insurance subsidiaries in accordance with laws and regulations;
- sets 'Matters Reserved' which is a schedule of items which must go to that Board for approval. This operates as an escalation route to ensure that relevant matters are referred up through the appropriate Board structures;
- delegates powers to Board committees through terms of reference; and
- delegates powers to Executive Directors and management through Delegations of Authority.

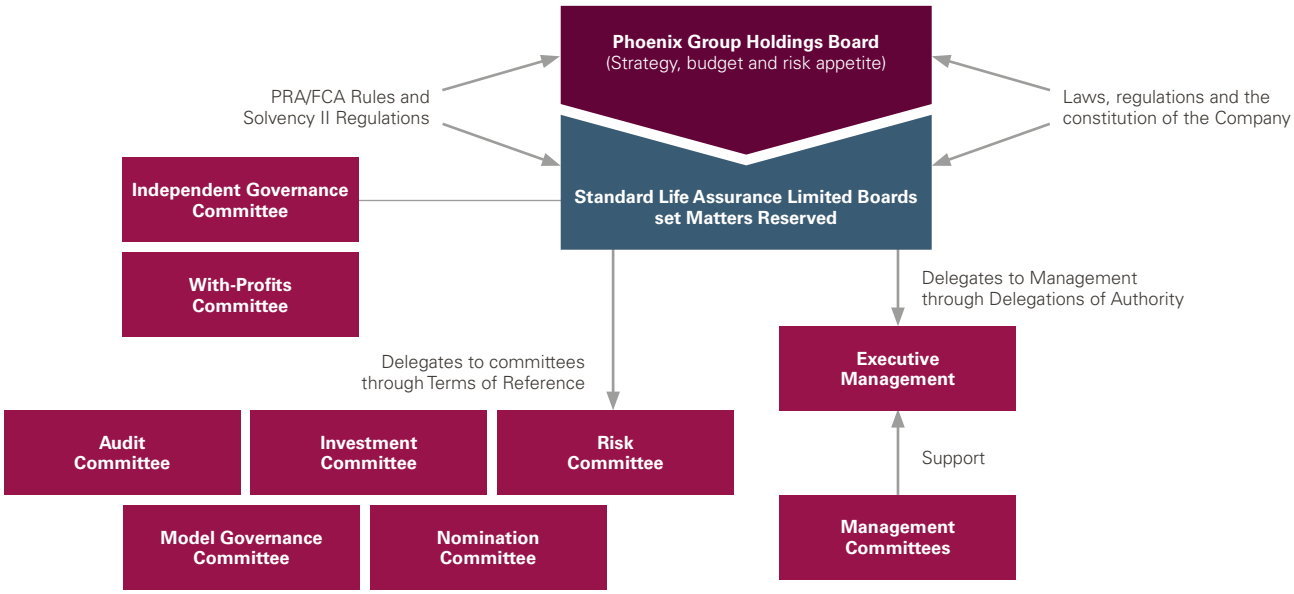
Management oversight committees support management in making decisions under the Delegations of Authority (and are also used to review proposals before they go to the Boards).

A system of Solvency II key functions (Actuarial, Internal Audit, Risk and Compliance) operates within the Company, reporting to both management oversight committees and Board committees accordingly. Their duties and responsibilities are allocated, segregated and co-ordinated in line with SLAL and Group policies. In addition, the Internal Audit function reports directly to the Board Audit Committees. There are also a number of other key functions in the Group including Group Finance, Treasury, Group Tax, Legal Services, Human Resources ('HR'), Corporate Communications, Strategy and Corporate Development, Investor Relations and Company Secretariat.

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED

B.1.2 System of governance continued

The diagram below shows the new Company Board and delegated Committee structure following the acquisition of the Company by PGH plc on 31 August 2018.



B.1.2.1 Roles and responsibilities of the Board

The role of the Board is to:

- provide entrepreneurial leadership of the Company within a framework of prudent and effective controls which enable risks to be assessed and managed;
- set the Company's strategic aims, ensure that the necessary financial and human resources are in place for the Company to meet its objectives, and review management performance; and
- uphold the Company's values and standards and ensure that obligations to its shareholders, policyholders and other stakeholders are understood and met.

The Board is responsible and accountable for strategic matters (within the strategy set by the PGH plc Board), oversight of management and the performance of the Company's business.

B.1.2.2 Composition of the Board

The Board comprises nine Board members, four of whom are Executive Directors and five of whom are independent Non-Executive Directors (NEDs).

B.1.2.3 Committee Framework

The Board has established and delegated specific responsibilities to the following standing committees of the Board:

- Audit Committee;
- Investment Committee;
- Independent Governance Committee;
- Model Governance Committee ('MGC');
- Nomination Committee;
- Risk Committee; and
- With-Profits Committee.

The Independent Governance Committee and With-Profits Committee are each chaired by an independent member of the committee who is not a Director. Both of these committees have a number of independent members who are not Directors.

The other standing committees of the Board are chaired by NEDs.

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED

B.1.2 System of governance continued

B.1.2.3 Committee Framework continued

Further details regarding each of these committees are set out in the table below.

Details of the composition and role/duties of each standing committee of the Board are outlined below:

Committee	Role, duties and responsibilities
Audit Committee	Monitor the overall integrity of financial reporting. Review the overall effectiveness of the relevant Company's internal control and risk management system and the Internal Audit function. Agree the nature and scope of external audits and to oversee the relationship with the external auditors. Monitor and review the effectiveness of the Finance function and the integrity of financial reporting. Approve the remit of the Phoenix Group Internal Audit ('PGIA') function.
Investment Committee	Establish and implement investment strategy and to regularly review investment and Asset Liability Management ('ALM') strategy whilst ensuring customers are treated fairly. Initiate or review proposals for material changes in investment direction, and to approve such changes. Review relative investment performance and oversee the governance of the relationships between the relevant Company and all investment managers, including oversight and review of fees, fee structures and Service Level Agreements. Oversight and review the appropriateness of investment mandates. Liaise with management committees which have responsibility for the shareholder impact of investment matters and also with the With-Profit Committee which has responsibility for the policyholder impact of investment matters.
Independent Governance Committee	Act in the interest of members of the contract-based workplace pension schemes operated by the relevant Company and assess the ongoing value for money delivered by them.
Model Governance Committee	Monitor the strategic direction and overall governance of the Internal Model used by the Company. Provide assurance to the relevant Board on the ongoing appropriateness, performance and effectiveness of the Internal Model.
Nomination Committee	Lead the process for appointments and ensure that the Board retains an appropriate balance of skills, knowledge, experience and diversity to support the strategic objectives of the relevant Company. Ensure there is a formal, rigorous and transparent approach to the appointment of Directors including maintaining an effective framework for succession planning. Approve proposals for the appointment or removal of Directors to/from the Board. Regularly review the structure, size and composition of the Board and make recommendations with regard to any changes that are deemed necessary. Identify and nominate candidates to fill Board vacancies as and when they arise, and give consideration to succession planning. Review annually the time required from NEDs and recommend the re-appointment to the Board of any NED at the end of their specified term of office.
Risk Committee	Advise the relevant Board on all risk matters including risk appetite and tolerance in setting the future strategy. Maintain the RMF, reviewing the risk appetite framework and limits. Approve the overall risk management strategy and principal risk policies including monitoring compliance. Oversight of the design and execution of the stress and scenario testing framework, and also ensuring that risks to the business plan are adequately identified and assessed through stress testing and scenario analysis.
With-Profits Committee	Support the relevant Board in discharging its governance responsibilities in relation to compliance with the Principles and Practices of Financial Management ('PPFM'). Assess, report on, and provide clear advice and, where appropriate, recommendations to the Board on the way in which each with-profits fund is managed and whether this is properly reflected in the PPFM and on any other issue which the Board or Committee considers that with-profits policyholders might reasonably expect the Committee to be involved. Provide independent judgement in the assessment of PPFM compliance and how any competing or conflicting rights and interests of policyholders and, if applicable, shareholders have been addressed. Consider all major transactions involving the Company (for example Part VII transfers, reinsurances, outsourcing) to the extent to which they impact upon with-profit policyholders. Consider at the request of the Board all proposals for the exercise of discretion in respect of non-profit policies and the conduct and overall approach to treating customers fairly.

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED

B.1.3 Executive Committees

The Company has one Executive Committee being the SLAL Management Board.

The purpose of the SLAL Management Board is to assist the SLAL CEO in the exercise of her duties.

The SLAL Management Board manages the connectivity and co-ordination across the different SLAL business areas in order to ensure successful delivery of the business plan. The Management Board takes an appropriate level of oversight across the SLAL business.

B.1.4 Key functions

Solvency II defines 'function' within a system of governance, as an internal capacity to undertake practical tasks and to operate a system of governance which includes the Risk Management function, the Compliance function, the Internal Audit function and the Actuarial function.

The functions which operate within the Group are as follows:

- Risk and Compliance function (see section B.4.2 for further details);
- Internal Audit function (see section B.5 for further details); and
- Actuarial function (see section B.6 for further details).

Their duties and responsibilities are allocated, segregated and coordinated in line with SLAL policies. This ensures that all the important duties are covered and that unnecessary overlaps are avoided.

Further details on how the key functions have the necessary authority, resources and operational independence to carry out their tasks together with how those functions report to and advise the Boards of the Group are provided in the sections which cover each function (see sections B.3. B.4, B.5 and B.6).

B.1.5 Pre-acquisition Board and Committee structure

See the 2017 SLAL SFCR for information about Board and committee structure prior to the PGH acquisition.

The constitution of the acquired Board committees and their terms of reference were considered and where appropriate, amended by the Board at their first post-acquisition Board meeting on 3 September 2018.

B.1.6 Remuneration

Prior to the acquisition of the Company by PGH the Company adopted the remuneration policy and principles of SLA plc. Further details are set out in section B.1.2 of the SFCR for the year ended 31 December 2017 on page 18.

As a company within the Phoenix Group, the principles of the Phoenix Group-wide remuneration policy apply to the Company from its date of joining Phoenix Group Holdings in 2018.

The Group has one consistent remuneration policy for all levels of employees which is made available to all staff. Therefore, the same remuneration policy principles guide reward decisions for all Group employees, including Executive Directors, although remuneration packages differ to take into account appropriate factors for different areas of the business.

The Group-wide remuneration policy is overseen by the Remuneration Committee of PGH ('RemCo'). Further details on this Committee can be found on page 75 of the PGH plc Annual Report and Accounts for the year ended 31 December 2018 and on the governance pages of the PGH website (http://www.thephoenixgroup.com/about-us/corporate-governance.aspx).

The policy focuses on ensuring sound and effective risk management and supports management in the operation of their business through the identification of minimum standards and key controls.

The key principles of the remuneration policy which applies across the Group are set out below.

a) **Attract, retain and motivate quality staff** – management keep remuneration practices under review to ensure that these support promotion of the long-term interests of the Group and its stakeholders, and adequately and fairly reward staff.

b) **Remuneration is positioned appropriately against external benchmarks** – remuneration is benchmarked against independent third party data at appropriate intervals.

c) **Remuneration is aligned to the long-term success of the Company** – performance related components of remuneration are aligned to measures which reflect achievement of the Group's long-term success and strategy.

d) **Proportion of variable pay is appropriate and balanced, and has due regard to any impact of risk** – the ratio of fixed to variable remuneration will differ depending on the specific incentive schemes in operation across the business. However, the Group seeks to ensure that an appropriate balance between fixed and variable remuneration is maintained for all employees, with the fixed proportion being sufficient to allow variable pay to operate on a fully-flexible basis, including the possibility of no payments of variable remuneration in a year. For Approved Persons (further details are included in section B.2) there is also an appropriate balance between annual and long-term incentives, with the deferral of annual incentives into shares and all incentives including provision for the application of malus and clawback where appropriate.

e) **Independence and strong governance in decision-making processes** – as the policy is overseen by RemCo this ensures an appropriate level of independent challenge given RemCo exclusively comprises independent NEDs. Certain roles within control functions (Risk, Compliance, Internal Audit and Actuarial) are also subject to different variable pay arrangements which exclude any linkage to financial performance for annual incentives.

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED

B.1.6 Remuneration continued

Variable remuneration plans

Annual Incentive Plan

All members of staff not participating in any other incentive arrangement were eligible to participate in the 2018 Short Term Incentive Plan ('STIP') and this plan was retained for the full year as it was not appropriate to change arrangements party way through the year.

This plan is subject to a mixture of Corporate (financial and strategic) and Personal (individual objectives) performance measures for all staff. This represents a balanced scorecard which includes customer metrics in addition to financial and personal measures.

For 2018, the selected performance measures for the corporate element of the STIP were as follows:

Performance Metric	Weighting of Corporate measure
Corporate measures for STIP in 2018	
Financial Metrics	70%
Strategic metrics (including Customer, People and Risk)	30%

Long-Term Incentive Plan

Selected senior managers received a Long-Term Incentive Plan ('LTIP') from Standard Life Aberdeen ('SLA') in 2018. This award was pro-rated to the point of Change in Control and the balance forfeited. A grant under the Phoenix LTIP was then awarded to replace this forfeited element. This Phoenix aware was not subject to company performance conditions and the vesting schedule mirrors that of the forfeited SLA LTIP.

Description of pension arrangements

All members of staff are invited to participate in the Group Personal Pension Plan or other defined contribution pension arrangement that are open at that time. Where an individual is impacted by annual or lifetime limits on contribution levels to qualifying pension plans, the balance could be taken as a cash supplement (reduced for the impact of employers' National Insurance Contributions).

The Group does not operate any discretionary pension benefits. Death in Service benefits are provided to all staff.

Material transactions with shareholders and members of the Boards

There were no transactions with shareholders, members of the Board or persons who exercise significant influence on the Company.

B.2 FIT AND PROPER REQUIREMENTS

Senior Managers and Certification Regimes

In December 2018, the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA') introduced a new regulatory regime called the Senior Managers and Certification Regime ('SMCR'). The SMCR replaced the Senior Insurance Managers Regime (SIMR) and the Approved Persons Regime.

The aim of the SMCR is to reduce harm to consumers and strengthen market integrity by making individuals more accountable for their conduct and competence.

The SMCR aims to:

- encourage a culture of employees at all levels taking personal responsibility for their actions; and
- make sure companies and employees clearly understand and can demonstrate where responsibility lies.

The SMCR contains three separate elements:

- the Senior Managers Regime;
- the Certification Regime; and
- conduct Rules.

SMCR was built out from SIMR and Approved Persons, but has a broader application and impacts a greater number of individuals. In particular through the certification regime. Senior managers who perform key roles (referred to as 'SMF' roles) will need PRA or FCA approval before starting their roles.

Summary of SMCR impacted individuals

SMF Roles	
SMF1 – Chief Executive	SMF14 – Senior Independent Director
SMF2 – Chief Finance Function	SMF15 – Chair of With Profit Committee
SMF3 – Executive Director	SMF16 – Compliance Oversight
SMF4 – Chief Risk Function	SMF17 – Money Laundering Reporting Officer
SMF5 – Head of Internal Audit	SMF18 – Other Overall Responsibility
SMF6 – Head of Key Business Area	SMF19 – Head of Third Country Branch
SMF7 – Group Entity Senior Manager	SMF20 – Chief Actuarial Function
SMF8 – Credit Union Senior Manager	SMF21 – EEA Branch Senior Manager
SMF9 – Chair of Governing Body	SMF21a – With Profits Responsibility
SMF10 – Chair of Risk Committee	SMF22 – Other Local Responsibility
SMF11 – Chair of Audit Committee	SMF23 – Chief Underwriting Officer
SMF12 – Chair of Rem Committee	SMF24 – Chief Operations Function
SMF13 – Chair of Nom Committee	SMF24 – Chief Operations Function

There are 25 defined 'SMF' roles.

Senior Insurance Managers Regime

Prior to SMCR implementation in December, SLAL complied with the SIMR regime. The SIMR regime came into force in March 2016 and replaced the Approved Person Regime. The intention was to strengthen individual accountability within the insurance industry. The regime sought to ensure that senior individuals are responsible and accountable for the sound and prudent management of their firms, and behave with appropriate integrity, honesty and skill. SLAL implemented a framework to address the requirements of SIMR. Reflecting the key components of the regime, the framework comprised of:

- a governance map – detailing senior manager roles and responsibilities, governance structures, matters reserved for the Board and the remit and function of committees;
- scope of responsibilities – a summary of individual responsibilities for each key individual captured by the regime;
- prescribed responsibilities – 11 PRA–specified responsibilities which have been allocated to particular individuals;
- conduct requirements – rules and standards to be adhered to by all individuals within the scope of the regime;
- fitness and propriety – SLAL's requirement to assess the fitness and propriety of individuals holding key positions;
- reasonable steps – guidance to help impacted individuals to record and evidence the discharge of their responsibilities; and
- support network – how we support individuals in meeting these responsibilities.

B.2 FIT AND PROPER REQUIREMENTS CONTINUED

Senior Managers and Certification Regimes continued

Senior Insurance Managers Regime continued

SLAL carries out initial 'fit and proper' checks before appointing new Directors (including Non-Executive Directors), executives, heads of function or other SIMR, SMCR or PRA/FCA Approved Persons. These individuals are identified as Key Function Holders ('KFH's) and the fit and proper checks require them to meet the standards expected of a 'fit and proper' person. This includes proving and maintaining certain standards of honesty, integrity, reputation, competence, capability and financial soundness.

An assessment is carried out on a KFH's initial appointment and then repeated annually to ensure they continue to meet the fitness and propriety standards.

This assessment:

- reviews competence, capability and experience to carry out the documented responsibilities of the role effectively;
- ensures the KFHs have the relevant qualifications to perform the role;
- ensures training to perform the function is undertaken;
- checks current behaviour and past business conduct meets the required standard; and
- considers whether the KFHs have the appropriate personal characteristics to meet their responsibilities.

B.2.1 Scheme of delegation

The scheme of delegation sets out the flow and principles of delegation from the SLAL Board to the Chief Executive Officer and onwards to their direct reports and others as required.

The Authority to Execute documents list contains details of the individuals who have been granted authority, by the Board, to sign documents on behalf of SLAL. Before a document may be executed it must first be approved. Authority to approve is granted by various different routes (e.g. contained within the risk policies, formally approved committee terms of reference or by a specific board resolution). A record of approval authorities is held in the form of the Register of Authorities.

The risk policies provide the mechanism to monitor compliance with documented authorities and may also set out additional governance requirements that are not covered by the Articles of Association or Board Charter.

B.2.3 Code of Business Conduct

Good governance within SLAL is predicated on the ethical behaviour of the organisation's staff. In recognition of this the SLAL 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, SLAL's people and other stakeholders. The code will be aligned to PGH's values and refreshed in 2019.

B.3 RISK MANAGEMENT SYSTEM

SLAL's risk management system is part of the wider system of governance and includes the ERM framework, the Own Risk and Solvency Assessment ('ORSA') and the internal model.

Three lines of defence

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

B.3 RISK MANAGEMENT SYSTEM CONTINUED

B.3.1 Enterprise Risk Management Framework

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

A key part of SLAL'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 SLAL 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 SLAL. 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.

B.3 RISK MANAGEMENT SYSTEM CONTINUED

B.3.2 Own Risk and Solvency Assessment

The Own Risk and Solvency Assessment ('ORSA') encompasses the key processes with which SLAL integrates its risk and capital management process and assesses its own capital requirements, in accordance with Solvency II Systems of Governance requirements.

It aims to provide a forward looking perspective to SLAL, focusing on its strategy, the risks it is exposed to as a result of its strategy, its risk appetite for those risks, the scenarios that could threaten the pursuit of that strategy, proposing mitigating action, and using the insights gained to influence the business planning cycle and validate the strategy.

The ORSA assessment uses existing output from ongoing processes, overlaid with specific ORSA analysis and management insight to highlight issues identified as a result of the assessment.

The ORSA does not serve to calculate a solvency capital requirement; its purpose is to assess the solvency needs of SLAL in the light of the forward looking assessment of risks.

The ORSA cycle illustrated below connects strategy, risk, risk appetite and capital management.

The processes underlying our ORSA cycle are in place to identify, assess, control and monitor risk. ORSA processes include, but are not limited to:

- strategy, capital and business planning process;
- validation activity and validation reporting processes;
- customer proposition development process;
- stress and scenario programme;
- reverse stress testing;
- liquidity risk management process;
- the identification of risk modules for the internal model;
- monthly management information monitoring and reporting (e.g. of risk exposure against appetites);
- the emerging risk process; and
- the ORSA reporting process.

The annual ORSA report is approved and signed off by the SLAL Board.

B.3 RISK MANAGEMENT SYSTEM CONTINUED

B.3.3 Internal Model

Under the Solvency II Directive insurers were given the choice of using the standard model for determining the solvency capital requirement ('SCR'), or applying to use an Internal Model, which, if granted, allows insurers to tailor and build their own Internal Model to reflect the broad range and scale of their individual business.

SLAL has a PRA approved Internal Model, which means that the capital we hold is directly related to the risks we are exposed to and takes account of the benefit of the risk management tools we have in place.

Within SLAL's ERM framework, the Risk function is responsible for oversight of the following tasks carried out by Actuarial function within Finance:

- design and implement the Internal Model;
- test and validate the Internal Model;
- document the Internal Model and subsequent changes to it;
- analyse and report on the Internal Model; and
- inform/report to Board on the internal model.

The governance in place for the internal model ensures that it remains up to date and appropriate for use, for example via regular assessments of our risk environment as reported in our half yearly ORSA summaries feeding into the quarterly review of the coverage of the internal model.

The validation process which is used to monitor the performance and ongoing appropriateness of the internal model is carried out by the Group Financial Risk team. The output of this activity is presented to the Model Governance Committee and the SLAL Board through a quarterly Validation Report.

B.4 INTERNAL CONTROL SYSTEM

Following the sale of SLAL to PGH, work has commenced to harmonise the SLAL and PGH risk management frameworks and internal control systems. A harmonised framework will be implemented across the business throughout 2019.

The SLAL 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 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 business unit managers 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 SLAL 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 SLAL.

B.4 INTERNAL CONTROL SYSTEM CONTINUED

B.4.1 Conduct and Operational Risk framework continued

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.

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 INTERNAL CONTROL SYSTEM CONTINUED

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 objective of the Risk and Compliance function is to understand and actively manage the sources and scale of uncertainty to which the Company and PGH's strategic objectives are exposed. The consistent application of effective and pre-emptive risk management across our business protects the value of the Company and PGH in the short-term while encouraging the development of long-term value.

The Risk and Compliance function achieves this by ensuring that:

- well informed risk-reward decisions are taken in pursuit of the Group's business plan objectives;
- compliance activities are undertaken; and
- capital is delivered to areas where most value can be created for the risks taken.

The SLAL Risk and Compliance function is led by the SLAL Chief Risk Officer, who reports to the PGH Chief Risk Officer, and comprises of the following areas:

- Operational Risk and Financial Crime, Conduct and Compliance and With Profits Governance.

The following Group Risk functions provide services to the SLAL Risk and Compliance function:

- Financial Risk, Business Risk Review, Data Protection and Regulatory Relationships.

In addition, the SL Intl CRO reports to the SLAL CRO.

B.4.3 Regulatory Compliance

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

The Regulatory Compliance policy sets out the standards the business units must adhere to in complying with the relevant regulations. These standards are in place to prevent non-compliance. The head of the Conduct and Compliance team 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 SLAL Chief Risk Officer) to apply in the following year.
- A quarterly self assessment of compliance with the Board approved policy by the business units. 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.
- Board review and approval of the revised policy standards resulting from the above review

B.5 INTERNAL AUDIT FUNCTION

Internal Audit activities for Standard Life Assurance Limited are provided by Phoenix Group 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 Phoenix Group Holdings ('PGH'), Phoenix Life and SLAL Board Audit Committees ('BACs') and any other governing bodies and Board committees as appropriate (including for Standard Life International).

PGIA's reporting to the BACs 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.

B.6 ACTUARIAL FUNCTION

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.
- **Internal model methodology:** design, document and implement appropriate modelling methodology that captures the characteristics of the business' risk exposures; inform the Board of the Solvency Capital Requirement each quarter and provide opinion on its appropriateness.
- **Underwriting:** prepare an opinion on overall underwriting policy.
- **Reinsurance:** prepare an opinion on adequacy of reinsurance arrangements.
- **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 not required by Solvency II:

- **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 Own Risk and Solvency Assessment.
- **Capital and liquidity management:** monitor and manage capital and liquidity.
- **With Profits management:** recommend to the Board actions and methodology around With Profits business including level of with profits bonuses and managing the HWPF in line with the Scheme of Demutualisation.
- **Investment strategy and investment guidelines:** recommend asset liability management strategy and investment guidelines for with profits and shareholder funds and oversee the implementation of the approved strategy.

B.7 OUTSOURCING

The Outsourcing Policy sets the standards that business units must comply with for outsourcing arrangements.

The policy highlights that SLAL retains responsibility for meeting all relevant regulatory and legal requirements 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. Where the outsourced services relate to regulated activities, the Executive Sponsor must be an approved person/SMCR.

In addition to the roles mentioned above, the Chief Risk Officer and the SLAL ERMC have specific roles and responsibilities in relation to the approval and subsequent governance of outsourcing arrangements. The SLAL ERMC is responsible for reviewing all proposed outsourcing arrangements that are identified by the Business Unit Chief Risk Officer (or nominated deputy) as potentially having a material impact on the Company's risk profile and annually reviews the complete master list of outsourcing arrangements across the Company.

The Head of Conduct and Compliance is responsible for contact with the regulator on all material outsourcing issues. All FCA and PRA regulated arrangements require written notification to the FCA and PRA.

SLAL uses a number of outsourcing partners to operate and deliver core systems, capabilities and processes. Key relationships include Aberdeen Standard Investments ('ASI') and its role in the delivery of investment management and ancillary services through Investment Management Agreements and Ancillary Services Agreements. ASI's main operations are located in the UK.

Key material intra-group outsourcing arrangements include the provision of People Function services, IT support, financial controls, statutory reporting and fund accounting services from SLAL to SLAL Ireland.

B.8 ANY OTHER INFORMATION

None.

SECTION C
RISK PROFILE

IN THIS SECTION

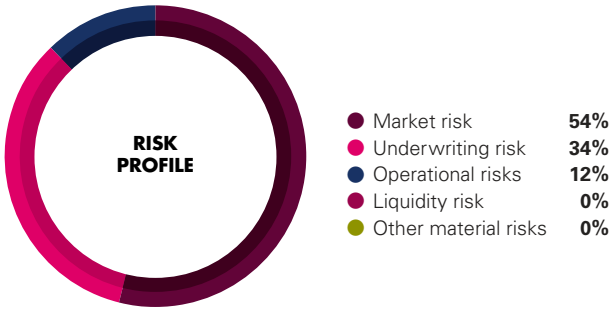
SECTION C

RISK PROFILE

Section B.3 sets out the risk management system including information on how the Risk Management Framework is implemented and integrated into the organisational structure and decision-making processes of the Company.

This section provides information on the risk profile of the Company, including for each category of risk, a description of the risks, a description of the measures used to assess these risks, material risk exposures, concentrations and risk mitigation techniques. Sensitivity analysis for each category of risk is also provided.

The chart below shows the composition of the actual Company undiversified SCR, calculated in accordance with the PRA approved partial Internal Model. The split excludes SL Intl as it uses the Standard Formula and so categorises risk differently to SLAL, which uses its Internal Model to calculate its SCR. The exclusion of SL Intl does not materially affect the risk profile due to its relative size.



The undiversified SCR of the Company is presented below. The figures and commentary below do not include SL Intl as SL Intl does not materially affect the risk profile of the Company and information on SL Intl's risk profile is covered separately in SL Intl's SFCR.

Risk profile of SLAL (exc. SL Intl)	Section reference	SLAL exc. SL Intl
Underwriting risk	C.1	34%
Market risk (including credit risk)	C.2 & C.3	54%
Liquidity risk	C.4	0%
Operational risk	C.5	12%
Other risks	C.6	0%
Total	–	100%

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

More details regarding the SCR are set out in section E.2.

C.1 UNDERWRITING RISK

C.1.1 Risk exposure

Underwriting risk refers to the risk that the frequency or severity of insured events may be worse than expected and includes expense risk. Contracts underwritten by the insurance subsidiaries within the Company include the following material sources of underwriting risk:

Risk source	Description
Lapse risk (including persistency risk)	Adverse movement in either surrender rates or persistency rates on policies, leading to losses. This includes the risk of greater than expected policyholder option exercise rates giving rise to increased claims costs.
Longevity risk	Lower than expected number of deaths experienced on annuity products or greater than expected improvements in annuitant mortality.
Expense risk	Unexpected timing or value of expenses incurred.

The table below shows the split of the undiversified SCR in respect of underwriting risk.

Components of underwriting risk	SLAL exc. SL Intl
Lapse risk (including persistency risk)	16%
Longevity risk	11%
Expense risk	6%
Other life underwriting risk	1%
Total underwriting risk	34%

During the year ended 31 December 2018, the key changes to the Company's exposure to underwriting risk include:

- Assumption changes to more accurately reflects customer behaviours in drawdown for self invested personal pensions ('SIPP').
- Long-term expense assumption changes to reflect the position of the Company following the sale to PGH.
- As the Company is no longer the sponsoring employer for the SLA defined benefit pension schemes, it is no longer exposed to the risks of meeting those obligations, which has reduced the longevity risk exposure for the Company.
- The sale of the Company to Phoenix has not materially changed our best estimate view of lapse risk, but we believe the likelihood of an adverse shock to persistency rates has temporarily increased.

C.1.2 Risk measurement

The Company uses several methods to assess and monitor underwriting risk exposures both for individual types of risks insured and the overall risks. These methods include the PRA approved partial Internal Model, experience analyses, external data comparisons, sensitivity analyses, scenario analyses and stress testing.

The risk capital requirement for underwriting risk is assessed using the Company's PRA approved partial Internal Model, which is calibrated to withstand a stress event to a 99.5% confidence level over a one-year period.

As at 31 December 2018, underwriting risk represented 34% of the Company's total undiversified SCR as shown in the chart at the beginning of section C.

C.1 UNDERWRITING RISK CONTINUED

C.1.3 Risk concentration

The Company is not exposed to any material concentration of underwriting risk. For all underwriting risks described above, the Company's exposure is spread across a diversified portfolio of products with approximately 4.8 million individual policy numbers. No individual policyholder contract size is large enough to represent a material concentration as a proportion of the Company's total risk exposure.

C.1.4 Risk mitigation

Reinsurance is used within the Company primarily to reduce longevity exposure on annuity business. The key arrangement used to do this is a reinsurance treaty with Canada Life International Re Designated Activity Company, which is by far the largest of the reinsurance treaties in place. This treaty cedes a significant part of the longevity and investment risk from immediate annuities relating to around £4 billion of liabilities. In addition, reinsurance is used to reduce mortality and morbidity exposure on protection business.

Underwriting risks are managed through the use of appropriate and active pricing and regular monitoring of experience. The Company also has a risk appetite framework which limits the amount of exposure it has to individual risks.

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

The ongoing effectiveness of insurance risk mitigation is monitored on a regular basis by the Executive Risk Management Committee ('ERMC').

C.1.5 Sensitivity analysis

As part of the Company's internal risk management processes, the impact of a number of underwriting risk scenarios on the SCR is monitored. The results of such stress testing on the Company's SCR are provided below.

	SLAL exc. SL Intl	
SCR £m (or %)	**SCR (£m)**	**SCR Ratio (%)**
Base: 1 January 2019[1]	**2,477**	**170%**
Following 6% decrease in annuitant mortality rates[2]	2,497	161%
Following 10% increase in assurance mortality rates	2,477	169%
Following a 10% change in lapse rates[3]	2,425	168%

1. Assumes stress occurs on 1 January 2019.
2. Equivalent of six month increase in longevity applied to the annuity portfolio.
3. Assumes most onerous impact of a 10% increase/decrease in lapse rates across different product groups.

As can be seen from the results, the Company is reasonably resilient to such scenarios.

C.2 MARKET RISK

C.2.1 Risk exposure

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 Company is exposed to the following material sources of market risk (note credit risk is covered in section C.3. but is included in market risk for the SLAL S25.02.21 QRT):

Risk source	Description
Interest rate risk	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.
Equity risk	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).
Gilt swap spread risk	The risk of reduction in earnings and/or value, from unfavourable movements in the spread between government bond yields and swap rates used to discount insurance liabilities.
Currency risk	The risk of reduction in earnings and/or asset and liability values, arising solely as a consequence of changes to currency exchange rates. This risk category also covers the risk of a change in swap rates in one currency, relative to the swap rate in another currency.

During the year ended 31 December 2018, the following are the key changes to the Company's exposure to market risk:

- Investment markets showed negative returns in 2018. UK equity markets fell, with the FTSE All Share Index closing approximately 7% behind the 31 December 2017 position. Since August 2018, the Company has sought to hedge the majority of shareholder exposure from declines in equity markets through the use of derivatives. The decrease in equity markets over the year largely occurred in the second half of the year and led to an increase in value of these derivatives. The solvency position was broadly unchanged as expected. While swap yields increased and credit spreads widened across ratings, there was not a significant impact on the Company's solvency position, as cashflow matching is used to minimise the exposure to these risks from the Company's annuity portfolio.
- The assumption changes to more accurately reflects customer behaviours in drawdown for self-invested personal pensions ('SIPP') have led to an increased exposure to market risk.
- As the Company is no longer the sponsoring employer for the SLA defined benefit pension schemes, it is no longer exposed to the risks of meeting those obligations, which has reduced the market risk exposure for the Company.
- On 31 August 2018 the Company implemented an equity hedge on unit-linked fund exposures to protect against the impact of falls in equity markets on the solvency position, which has reduced the equity risk exposure for the Company.

The table below shows the split of the undiversified SCR in respect of market risk for the Company.

Components of market risk	SLAL exc. SL Intl
Spread risk (including all credit risk and gilt swap spread risk)	20%
Interest rate risk	18%
Currency risk	8%
Equity risk	5%
Other market risks	3%
Total market risk	54%

C.2.2 Risk measurement

The Company uses several methods to assess and monitor market risk exposures both for individual market risk categories and for the aggregate exposure to all market risks. These methods include monitoring of asset portfolio composition, interest rate mismatch risk metrics, strategic asset allocation, and hedge effectiveness. In addition, risk is measured using the PRA approved partial Internal Model, sensitivity analyses, scenario analyses and stress testing.

The risk capital requirement for market risk is assessed using the Company's PRA approved partial Internal Model, which is calibrated to withstand a stress event to a 99.5% confidence level over a one-year period.

As at 31 December 2018, market risk (including credit risk) represented 54% of the Company's total undiversified SCR as shown in the chart at the beginning of section C and above.

C.2 MARKET RISK CONTINUED

C.2.3 Risk concentration

Market risk concentrations are minimised in the with profits funds by the use of index benchmarking with specific caps that limit the investment freedom away from these benchmarks and therefore limit the scope of individual market risk concentrations arising. The Company also has a risk appetite framework which limits the amount of exposure it has to individual risks.

The Company does not minimise concentrations in unit-linked business directly as the fund will be managed according to a fund mandate.

C.2.4 Risk mitigation

A number of financial risk mitigation techniques are used throughout the Company including:

Risk mitigation technique	Description
Diversification	Where possible investments are diversified across class, industries and counterparties.
Cash flow matching	In the case of the immediate annuity portfolios assets with similar cash flows to the liabilities are selected to minimise the risk of reinvesting cash flows at adverse prices.
Hedging	Hedging programmes are in place to reduce the exposure to equity risk on future policyholder charges, and to manage market risk (in particular equity and interest rate risk) within the with profits funds of the Company. To mitigate exposure to interest rate risk assets with similar sensitivity to interest rate risk as the corresponding liabilities are selected where possible.
Reinsurance	As mentioned in section C.1., reinsurance is used to mitigate investment and longevity risk on immediate annuities.

The ongoing effectiveness of market risk mitigation is monitored on a regular basis by the ERMC.

C.2.5 Sensitivity analysis

As part of the Company's internal risk management processes, the impact of a number of market risk scenarios on the SCR is monitored. The results of that stress testing on the Company's SCR are provided below.

	SLAL exc. SL Intl	
SCR £m (or %)	**SCR (£m)**	**SCR Ratio (%)**
Base: 1 January 2019[1]	**2,477**	**170%**
Following a 20% fall in equity markets	2,418	170%
Following a 15% fall in property values	2,475	169%
Following a 60bps interest rates rise[1]	2,251	177%
Following a 80bps interest rates fall[1]	2,684	164%

1. Assumes recalculation of transitionals (subject to PRA approval).

As can be seen from the results, the Company is reasonably resilient to such scenarios.

C.3 CREDIT RISK

C.3.1 Risk exposure

Credit risk is the risk that one party to a financial instrument or contract 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 Company is exposed to the following sources of credit risk:

Risk source	Description
Spread risk	The risk of reduction in earnings and/or value, arising from changes in the spread between corporate bond yields and the swap curve.
Investment counterparty risk	The risk of reduction in earnings and/or value, arising from counterparty defaults on investments such as bonds, derivatives and cash deposits.
Reinsurance counterparty risk	The risk of reduction in earnings and/or value, arising from the failure of a reinsurance counterparty to meet its contractual obligations by way of default or delayed claim settlements.

During the year ended 31 December 2018, the following are the key changes to the Company's exposure to credit risk:

- Reduction in exposure to assets with lower credit risk in order to fund the redemption of the subordinated debt.

Note: credit risk is included under market risk for the purpose of the SLAL S25.02.21 QRT, so its contribution to the undiversified SCR is shown in the market risk section.

C.3.2 Risk measurement

Several methods are used to assess and monitor credit exposures. These methods include monitoring of asset portfolio composition, single name counterparty monitoring and Value-at-Risk ('VaR'). In addition, risk is measured using the PRA approved partial Internal Model, sensitivity analyses, scenario analyses and stress testing.

The risk capital requirement for credit risk is assessed using the Company's PRA approved partial Internal Model, which is calibrated to withstand a stress event to a 99.5% confidence level over a one-year period.

C.3 CREDIT RISK CONTINUED

C.3.3 Risk concentration

Concentration of credit risk exists where the Company has significant exposure to an individual counterparty or a group of counterparties with similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic and other conditions. Counterparty credit risk is monitored by the counterparty limits contained within the investment guidelines and investment management agreements.

An indication of the exposure to credit risk is the quality of assets. The table below provides information regarding the aggregate credit exposure split by credit rating, for direct holdings in government and corporate bonds included in investments (other than assets held for index-linked and unit-linked contracts).

	SLAL exc. SL Intl	
Rating	**Market value £m**	**Percentage of Total %**
AAA	4,006	16%
AA	14,033	56%
A	3,109	12%
BBB	2,725	11%
BB	217	1%
B and below	17	0%
Non-rated	1,005	4%
Total	**25,112**	**100%**

As at 31 December 2018, the largest credit counterparty exposures to a single name counterparty in the Company's asset portfolio were:

Top 10 single name credit exposures (£m)	**SLAL exc. SL Intl**
UK Government	8,968
German Government	2,917
French Government	2,282
Belgian Government	698
European Investment Bank	485
Austrian Government	385
Finnish Government	241
Dutch Government	235
Électricité de France SA	209
AT&T Inc	150

The Company is exposed to concentration risk in respect of reinsurance ceded to external counterparties, although this is largely mitigated by collateral arrangements with the reinsurers and concentration limits in respect of individual reinsurance counterparties.

C.3 CREDIT RISK CONTINUED

C.3.4 Risk mitigation

The Company has a Credit Risk Management policy in place to manage its credit risk exposure, which has a number of rules by which it mitigates credit risk, such as limiting the counterparties to which it can gain exposure, and limiting individual exposure levels. This is regularly monitored by the ERMC with actions taken where required to ensure the policy operates as intended. For example, one of the Company's most material counterparty exposures is to BlackRock Asset Management Pensions Ltd which is managed in line with and regularly reported against the Credit Risk Management policy.

There is a counterparty exposure to Canada Life International Re Designated Activity Company from the reinsurance arrangement which is mitigated through holding collateral. Refer to section C.1.4.

The ongoing effectiveness of credit risk mitigation is monitored on a regular basis by the ERMC.

C.3.5 Sensitivity analysis

As part of the Company's internal risk management processes, the impact of a credit risk scenario on the SCR is monitored. The results of that stress testing on the Company's SCR are provided below and demonstrate the resilience of the Company.

	SLAL exc. SL Intl	
SCR £m (or %)	**SCR (£m)**	**SCR Ratio (%)**
Base: 1 January 2019[1]	**2,477**	**170%**
Following credit spread widening[2]	2,431	166%

1. Assumes stress occurs on 1 January 2018.
2. Credit stress equivalent to an average 120bps spread widening across ratings. 10% of which is due to defaults/downgrades.

C.4 LIQUIDITY RISK

C.4.1 Risk exposure

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.

On 31 August 2018, SLAL implemented an equity hedge on unit-linked fund exposures to protect against the impact of falls in equity markets on SLAL's solvency position. The resulting liquidity exposure to rising markets is managed through the use of call options to cap the maximum liquidity strain to a level consistent with the Company's liquidity resources and risk appetite.

C.4.2 Risk measurement

Monitoring of liquidity takes place daily with a forward-looking 12-month forecast to ensure that resources are available to meet liquidity demands both for normal business activities and to cover a buffer identified through liquidity stress testing for unplanned liquidity demand.

C.4.3 Risk concentration

Liquidity Risk for SLAL arises primarily from the following key sources:

- Equity hedge on unit linked fund exposures (when equity markets rise).
- Operational Risk events.
- Mass Lapse events.
- Longevity risk on annuity business.
- Asset defaults (beyond best estimate) on assets exposed to credit risk backing annuity liabilities.
- Very short-term pre-funding of large investments or switches.

SLAL is not exposed to material concentrations of liquidity risk due to holding sufficient liquidity to cover fluctuations in cash outflows arising from these areas.

C.4.4 Risk mitigation

The Board have defined a number of governance objectives and principles and the liquidity risk framework is designed to ensure that:

- liquidity risk is managed in a manner consistent with the Board's strategic objectives, risk appetite and PPFM;
- cash flows are appropriately managed and the reputation of the Company is safeguarded; and
- appropriate information on liquidity risk is available to those making decisions.

The Company's policy is to maintain sufficient liquid assets of suitable credit quality at all times including, where appropriate, access to borrowings so as to be able to meet all foreseeable current liabilities as they fall due in a cost-effective manner. Forecasts are prepared monthly to predict the required liquidity levels over both the short and medium term allowing management to respond appropriately to changes in circumstances.

The equity hedge exposures are mitigated through the purchase of call options which cap the maximum exposure to a level commensurate with the risk appetite and to stay within the available resources required to meet the overall liquidity exposures of SLAL.

For with-profits contracts, a portfolio of assets is maintained in the relevant funds appropriate to the nature and term of the expected pattern of payments of liabilities. Within that portfolio, liquidity is provided by substantial holdings of cash and highly liquid assets (principally government bonds). Where it is necessary to sell less liquid assets within the relevant portfolios, then any incurred losses are generally passed onto with-profits policyholders in accordance with policyholders' reasonable expectations.

For unit-linked contracts, assets are invested in accordance with the mandates of the relevant unit-linked funds. 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 majority of the Company's unit-linked contracts can be invoked.

For annuity contracts, assets are held which are specifically chosen with the intention of matching the expected timing of annuity payments. Liquidity risk is minimised through the process of asset and liability cash flow matching.

The risks associated with pre-funding are carefully managed through credit checks on counterparties and use of appropriate legal arrangements.

The ongoing effectiveness of liquidity risk mitigation is monitored on a regular basis by the Contingency Funding Committee ('CFC'), as well as the ERMC.

C.4 LIQUIDITY RISK CONTINUED

C.4.5 Stress testing

Liquidity stress testing is conducted at least annually by assessing each of the Company's identified liquidity exposures the amount of exposure which could arise over the following 12 months based on a 1-in-200 year probability (consistent with the Solvency Capital Requirement). Any material change in liquidity exposure would be a trigger to review these targets ahead of the next annual review.

C.4.6 Expected Profits in Future Premiums ('EPIFP')

Own Funds are used to cover the SCR (see more details in section E.1). The value of liabilities, included within Own Funds, takes into account expected future premium payments even if the policyholder is not contractually committed to making the payments. This methodology for valuing liabilities therefore implicitly allows for any Expected Profits In Future Premiums ('EPIFP') which reduces the liability value and increases Own Funds.

The contribution of EPIFP to Own Funds is important from a liquidity perspective as the extent of future premiums assumed in the liability valuation may not emerge in practice (for example due to higher than assumed policyholder lapse rates), thus potentially lowering the available Own Funds to cover the SCR.

As at 31 December 2018, the Company's EPIFP included as a component of the reconciliation reserve is shown below. This comprised mainly of future profits arising on unit-linked business.

	SLAL £m
EPIFP (gross of tax)	850

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.

The main sources of operational risk are regulatory & legal and process execution risks.

During 2018, the aggregate operation risk capital requirement increased slightly due to the following key changes to the Company's exposure:

- The Company's assessment of risks in relation to:
  - Regulatory development, driven by increased focusby the FCA on the risk of customers drawing down their pension wealth at unsustainable rates, as highlighted in the FCA's consultation paper CP18/17 published in June 2018. The scope of the operational risk assessment has widened to include the risk of remediating drawdown customers who may have taken tax free cash, not just customers taking taxed income only.
  - Product design and development, driven by the natural growth in the business increasing the exposure; and
  - Unauthorised or illegal activity, due to an increase in the estimated level of fines from the Competition and Market Authority based on updated guidance introduced in April 2018.
- Increase in risk exposure to reflect the increased demands from integration and transitional activities with Phoenix and Transitional Services Agreement ('TSA') with the retained business SLA.
- Decrease in the capital requirement for some risks as a result of the Phoenix transaction to account for changes in the risk profile for the Company since separation, in particular due to the removal of 1825 which led to a reduction in its exposure to risks in relation to providing financial advice and the risk from commercial legal disputes.

C.5.2 Risk measurement

The risk capital requirement for operational risk is assessed using the Company's PRA approved partial Internal Model which is calibrated to withstand a stress event to a 99.5% confidence level over a one-year period. The Internal Model defines the operational risk categories and loss distribution functions used to quantify capital requirements. As there is limited historical data on extreme operational losses, operational risks are assessed using ground up scenario analysis. This approach blends the expert opinion of senior management with internal or external loss data to estimate loss impacts and likelihoods. Stochastic models are used to determine the amount of capital for low probability, high impact events.

The capital held in respect of SLAL operational risk (pre-diversification) was £431 million at 31 December 2018 and represented 12% of the Company's total undiversified SCR as shown in the chart at the beginning of section C.

C.5.3 Risk concentration

Across the universe of operational risks, the Company's largest operational risk concentrations are regulatory developments risks, financial operations risk and risks in relation to unauthorised/illegal activity.

C.5.4 Risk mitigation

The Company's aim is to minimise its exposure to operational risk by use of its control framework as described in section B. However, there is an acceptance that in order to achieve its business strategy the Company will be exposed to a certain amount of operational risk. 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. There is however minimal allowance made for this within the SCR scenarios due to expected length of time for recoveries exceeding the one year forward-looking period.

The ongoing effectiveness of operational risk mitigation is monitored on a regular basis by the ERMC.

C.6 OTHER MATERIAL RISKS

A business-wide review of risks is performed at Phoenix Group level to determine a list of Group-specific risks. This assessment also considers the risks which are also present at individual level, but whose impact could be significantly different (which behave in a different way) at Group level. These could include:

- Reputational risk, including impacts from conduct risk, liquidity risk, the risk of a downgrade to our external credit rating and impacts on underwriting risks such as persistency and expenses.
- Operational risk, as described in Section C.5.
- Strategic risk, including impacts on underwriting risks such as persistency, expenses and new business levels. Our strategic objectives could be impacted by evolving customer preferences, our investment performance, and political and regulatory change. This also includes the risk that we are unable to successfully deliver our strategic objectives.
- Concentration risk, as described throughout Section C for each risk module.

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 has concluded that there are no other material risks that SLAL is exposed to. As a consequence:

- there is currently no requirement to hold additional capital in respect of these risks;
- there are no other material risk concentrations to which the Company is exposed;
- other risks are not considered when investing assets according to the Prudent Person Principle; and
- no material other risks were identified through the sensitivity, scenario and stress tests described in Section C.7.1.

Following the UK vote to leave the EU, we regularly assess whether it would be appropriate to hold additional capital as a result of the decision. We concluded that no additional risk capital was required at the end of 2018.

C.7 ANY OTHER INFORMATION

C.7.1 Prudent Person Principle requirements

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 the PPP compliance of all asset classes has been described 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. These predominantly apply within the Company.

The framework is underpinned by a Group-wide 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 Company's 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.

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 and Standard Life's Principles and Practices of Financial Management (for with-profits business) is also monitored.

There is a Group-wide conflicts of interest policy and localised controls in place to ensure that where conflicts arise they are managed appropriately with the best interests of customers in mind.

The Company manages assets on behalf of with-profits and unit-linked customers as well as assets backing non-profit business and shareholder assets. Further detail of the PPP compliance for these types of business is given in the sections below.

C.7 ANY OTHER INFORMATION CONTINUED

C.7.1 Prudent Person Principle requirements continued

With-profits business

Within the Company's with-profits business, the Company manages investments with the objective of balancing the level of risk taken to deliver growth over the long term and the need to meet all contractual obligations to policyholders.

The with-profits assets are managed in a collection of funds and are invested according to the currency, term and nature of the underlying liabilities. These investments include some assets backing non-profit business that was written prior to The Standard Life Assurance Company's demutualisation and is owned by the SLAL HWPF. For all of these assets the Company seeks to ensure the security, quality and liquidity of the portfolio of assets as a whole by predominantly investing in liquid securities that are listed or traded on regulated exchanges. Concentrations of assets are avoided by adhering to limits set by, for example, asset type, geography and counterparty.

The Company aims to make with-profits investment decisions in the best interests of all its with-profits customers. It is the role of the With-Profits Actuary to advise the Company's Board on its use of discretion for the with-profits funds and on the reasonable expectations and fair treatment of policyholders in SLAL's with-profits funds. The With-Profits Actuary is supported in this aim by the With-Profits Committee, which provides independent advice to the Company's Board in relation to matters affecting the fair treatment of policyholders within SLAL's with-profits funds.

Unit-linked

Within the Company's unit-linked business it offers 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. The Company's internal funds are managed by Standard Life Investments.

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 Standard Life Investments, including the objective of the fund, its benchmark, and the assets that the fund is permitted to invest in including any restrictions.

The Company operates a governance framework covering all of its unit-linked funds (internal and external) to ensure that its 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 Company's Board.

To ensure the quality, security and liquidity of its funds, the Company predominantly invests in liquid securities that are listed or traded on regulated exchanges, or in daily priced funds that are authorised or recognised by the FCA. During significant market events the Company ensures its funds are priced appropriately and it may take other action as required to protect all customers in the fund. For example, the Company may place a fund into deferral in response to liquidity concerns until an appropriate level of liquidity is reached.

Shareholder (including non-profit) funds

Shareholder funds are directly exposed to investment profits and losses. The most significant funds are the assets backing annuities and 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 primary risk exposures arise from the assets supporting annuity business, which has a cash flow matched 'buy and maintain' investment strategy.

For the purposes of setting investment strategy, the financial strength of the Company is defined by its capacity to maintain the proposed investment strategy following defined adverse absolute scenarios as opposed to its prevailing financial strength. Consideration is also given to the capacity within the Company's approved quantitative risk exposure limits (within the risk appetite framework).

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.

C.7 ANY OTHER INFORMATION CONTINUED

C.7.2 Sensitivity analysis

As part of the Company's RMF, stress and scenario tests are used extensively to support the assessment of risks and provide an analysis of their financial impact.

The Solvency II surplus is not very sensitive to market risks, and there is a moderate sensitivity to credit risk.

The most significant underwriting risk sensitivities arise from longevity and lapse risk as insurance are sensitive to the assumptions which have been applied in their calculation.

The table below shows the effect of a change on key assumptions, with all other variables held constant on the Company's Solvency II surplus.

Solvency II Surplus £m	SLAL exc. SL Intl
Base: 1 January 2019[1]	**1,723**
Following a 20% fall in equity markets	1,703
Following a 15% fall in property values	1,708
Following a 60bps interest rates rise[5]	1,732
Following a 80bps interest rates fall[5]	1,713
Following credit spread widening[2]	1,614
Following a 6% decrease in annuitant mortality rates[3]	1,519
Following a 10% increase in assurance mortality rates	1,703
Following a 10% change in lapse rates[4]	1,650

1. Assumes stress occurs on 1 January 2019.
2. Credit stress equivalent to an average 150bps spread widening across ratings, 10% of which is due to defaults/downgrades.
3. Equivalent of six-month increase in longevity applied to the annuity portfolio.
4. Assumes most onerous impact of a 10% increase/decrease in lapse rates across different product groups.
5. Assumes recalculation of transitional (subject to PRA approval).

For operational risk, stress testing at the 99.5th percentile confidence level is used to determine the operational risk capital requirements, using the PRA approved partial Internal Model.

SECTION D
VALUATION FOR SOLVENCY PURPOSES

IN THIS SECTION

SECTION D

VALUATION FOR SOLVENCY PURPOSES

This section covers the valuation of assets (section D.1), technical provisions (section D.2) and other liabilities (section D.3) on the Solvency II balance sheet for the Company. The valuation is determined in line with the regulations, and is consistent with the Phoenix Group. The Balance Sheet QRT S.02.01.02 is included at Appendix 1.

Section D.1.2 provides separately for each material class of assets and liabilities (excluding technical provisions which are covered in section D.2), a description of the bases, methods and main assumptions used in their valuation for solvency purposes. An explanation of differences to the IFRS financial statements is also provided. All classes of assets and liabilities presented are consistent to the S.02.01.02 Balance Sheet QRT. The Solvency II value of the assets and liabilities are set out together with a 'Statutory accounts value' column.

The recognition and valuation methods used for the completion of the 'Statutory accounts value' column are as used by companies in their statutory financial statements in accordance with IFRS. Reclassification of line items has taken place, to align disclosures with the Solvency II presentation format and for ease of comparison between the two sets of numbers. This means that the 'Statutory accounts value' column may not directly agree to line items on the financial statements of Company.

Some of the Company's assets (mainly financial instruments) and liabilities are determined using alternative valuation methods which use non-observable market inputs and follow accepted market practice. Further details are included in section D.4.1.

D.1 ASSETS

D.1.1 Introduction

This section covers the valuation of assets and liabilities on the Solvency II balance sheet.

The table below sets out the Solvency II balance sheet and the 'Statutory accounts value columns' for the Company.

D.1.1.1 Balance sheet – Standard Life Assurance Limited

Standard Life Assurance Limited

Balance sheet as at 31 December 2018	Note	Solvency II value £m	Statutory accounts value £m	Difference £m
Deferred acquisition costs	1	–	528	(528)
Intangible assets	2	–	52	(52)
Deferred tax assets	3	20	1	19
Property, plant and equipment held for own use	4	6	6	–
Investments (other than assets held for index-linked and unit-linked contracts)	5	**44,628**	**44,678**	**(50)**
Property (other than for own use)		557	557	–
Holdings in related undertakings, including participations		18,474	18,524	(50)
Equities		3,205	3,205	–
Bonds		20,022	20,022	–
Collective Investment Undertakings		603	603	–
Derivatives		1,765	1,765	–
Deposits other than cash equivalents		2	2	–
Assets held for index-linked and unit-linked contracts	6	89,293	89,293	–
Loans and mortgages	7	794	794	–
Reinsurance recoverables	8	7,069	7,055	14
Insurance and intermediaries receivables	9	33	33	–
Receivables (trade, not insurance)	10	186	186	–
Cash and cash equivalents	11	58	58	–
Total assets		**142,087**	**142,684**	**(597)**
Technical provisions (BEL plus risk margin)	12	129,514	134,362	(4,848)
Contingent liabilities	13			
Provisions other than technical provisions	14	213	213	–
Deposits from reinsurers	15	4,098	4,098	–
Deferred tax liabilities	3	616	131	485
Derivatives	16	72	72	–
Debts owed to credit institutions	17	1	1	–
Financial liabilities other than debts owed to credit institutions	18	23	23	–
Insurance and intermediaries payables	19	333	333	–
Reinsurance payables	19	4	4	–
Payables (trade, not insurance)	20	1,821	1,821	–
Any other liabilities not elsewhere shown	21	–	130	(130)
Total liabilities		**136,695**	**141,188**	**(4,493)**
Excess of assets over liabilities		**5,392**	**1,496**	**3,896**

D.1 ASSETS CONTINUED

D.1.1 Introduction continued

D.1.1.1 Balance sheet – Standard Life Assurance Limited

The table above reflects reallocation adjustments which have been applied to assets and liabilities in the Company's IFRS statutory accounts at 31 December 2018. These adjustments relate to the following:

- Presentation adjustments (excluding unit/index-linked) move other balances from the balance sheet line items used in the IFRS statement of financial position to the appropriate balance sheet line items used in the Solvency II balance sheet.
- Presentation adjustments (unit/index-linked) move unit-linked fund balances from the relevant balance sheet line items used in the IFRS statement of financial position into the 'Assets held for index-linked and unit-linked contracts' line in the Solvency II balance sheet.

D.1.2 Asset and liability valuation bases, methods and main assumptions

The Company's Solvency II valuation principles (including the bases, methods and main assumptions) for each asset and liability class are set out below. Unless otherwise stated (i.e. where there are differences to the Statutory accounts value column) the valuation methods for IFRS are consistent with the valuation methods of the regulations. Further details on the IFRS valuation principles are set out in the Notes to the IFRS financial statements in the SLAL Annual Report and Accounts for the year ended 31 December 2018. There have been no significant changes to the valuation principles set out below during the year. Details regarding the valuation of technical provisions are covered separately in section D.2.

Note	Balance sheet item	Valuation principles
1	**Deferred acquisition costs**	In the Company's IFRS statutory accounts, some costs incurred in issuing certain contracts are deferred and amortised as Deferred Acquisition Costs ('DAC'). For Solvency II DAC are valued at zero unless they can be sold separately and it can be demonstrated that there is value for the same or similar assets (i.e. that a value has been derived from quoted prices in active markets). None of the deferred acquisition costs in the Company have been assessed as meeting this criteria.
2	**Intangible assets (other than goodwill)**	For Solvency II intangible assets are valued at zero unless the intangible assets can be sold separately and it can be demonstrated that there is value for the same or similar assets (i.e. that a value has been derived from quoted prices in active markets). None of the Company's intangible assets have been assessed as meeting this criteria and therefore these are valued at zero. Furthermore, any related deferred tax is written off. For IFRS, intangible assets are measured on the balance sheet at cost less accumulated amortisation and any impairment loss recognised to date. The Company has recognised as intangible assets software which has been developed internally and other purchased technology which is used in managing and executing its business.
3	**Deferred tax assets/liabilities**	Deferred tax is determined on temporary differences between the fair value of assets and liabilities on the Solvency II balance sheet and their tax base at the valuation date. The tax base is the value as determined under IFRS. This means deferred tax should be provided on temporary differences between the IFRS and the Solvency II balance sheet. All valuation differences between the IFRS and Solvency II balance sheets are identified and deferred tax is calculated, where appropriate, on these differences. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Further details on the origin of the deferred tax assets are provided in section D.1.3.

D.1 ASSETS CONTINUED

D.1.2 Asset and liability valuation bases, methods and main assumptions continued

Note	Balance sheet item	Valuation principles
4	**Property, plant and equipment (held for own use)**	**Property held for own use** In line with IFRS, owner-occupied property is stated at the revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment. **Plant and equipment held for own use** In the Company's IFRS statutory accounts, plant and equipment is initially recognised at cost and subsequently measured at cost less depreciation. Depreciation is charged to the income statement over two to 15 years depending on the length of time the Company expects to derive benefit from the asset. The IFRS accounting values do not differ materially from the fair values and hence there is no valuation difference between the Solvency II balance sheet and the IFRS statutory accounts.
5	**Investments (other than assets held for index-linked and unit-linked contracts)**	In line with IFRS, the value of investments (other than assets held for index-linked and unit-linked contracts) is determined using a fair value methodology as follows: • For financial instruments traded in active markets (such as exchange traded securities and derivatives), fair value is based on quoted market prices at the period end provided by recognised pricing services. Market depth and bid-ask spreads are used to corroborate whether an active market exists for an instrument; • Where quoted market prices are not available, quoted market prices for similar assets or liabilities are used to determine the fair value; • Where either of the above are not possible, alternative valuation methods are used to determine fair value. Where discounted cash flow techniques are used, future cash flows are based on contractual cash flows using current market conditions and market-calibrated discount rates and interest rate assumptions for similar instruments; and • Certain financial instruments are determined by valuation techniques using non-observable market inputs based on a combination of independent third party evidence and internally developed models. Further details are included in section D.4.1. Further details on each item within investments are outlined below. **Property (other than for own use)** The property (other than for own use) balance in the year related to investment property holdings. In the Company's IFRS statutory accounts, property held for long-term rental yields or investment gain that is not occupied by the Company and property being constructed or developed for future use as investment property is classified as investment property. Investment property is initially recognised at cost and subsequently measured at fair value. There are no valuation differences between the Solvency II balance sheet and the IFRS statutory accounts for property (other than for own use). Commercial investment properties are measured at fair value by independent property valuers having appropriate recognised professional qualifications and recent experiences in the location and category of the property being valued. The valuations are carried out in accordance with the Royal Institute of Chartered Surveyors ('RICS') guidelines with expected income and capitalisation rate. Further details are included in section D.4.1. The only material class of assets subject to leasing arrangements are property, in relation to operating leases for property (where the Company is the lessor). Further information about operating leases for investment property is provided in Note 14 on page 48 of the Company's Annual financial statements 2018.

D.1 ASSETS CONTINUED

D.1.2 Asset and liability valuation bases, methods and main assumptions continued

Note	Balance sheet item	Valuation principles
5	**Investments (other than assets held for index-linked and unit-linked contracts)** continued	**Holdings in related undertakings, including participations** Holdings in related undertakings, including participations comprise of Collective Investment Undertakings where the Company holds a greater than 20% interest (where the interest is less than 20% it is included within 'Collective Investment Undertakings' line) and entities in the Company which are valued using the adjusted equity method, which is further explained below. In the Company's IFRS statutory accounts, insurance subsidiaries are recognised at cost. Under Solvency II these subsidiaries are valued at their respective Solvency II valuation (being the excess of assets over liabilities position. Any investments in Collective Investment Undertakings related to unit-linked contracts are included as Assets held for index-linked and unit-linked contracts. Within the Standard Life Assurance Limited there are a number of non-insurance entities (including Standard Life Lifetime Mortgages Limited ('SLLM'), Standard Life Assets and Employee Services Limited ('SLAESL') and Vebnet Holdings Limited ('VHL')) which are treated as other residual related undertakings ('ORRUs'). Under IFRS, these subsidiaries are valued at cost. Quoted market prices are not available for these entities and therefore the option to value using the adjusted equity method is applied. The adjusted equity method requires participations to be valued based on the Company's share of the excess of assets over liabilities of the related undertaking. The excess of assets over liabilities for such participations are valued in accordance with the valuation principles applied by the Company. No alternative valuation methods are used for valuing the ORRUs. The revaluation of SLLM, SLAESL and VHL under Solvency II rules has resulted in a valuation difference between the IFRS and Solvency II holding values of these entities. **Equities** In both the Company's IFRS statutory accounts and the Solvency II balance sheet, equity instruments listed on a recognised stock exchange are valued using quoted market prices. In relation to hedge fund and private equity investments, non-observable third party evidence in the form of net asset valuation statements are usually used as the basis for the valuation. Adjustments may be made to the net asset valuation where other evidence, for example recent sales of underlying investments in the fund, indicates this is required. The Solvency II valuation methodology is the same as for IFRS. Further details on mark to model techniques are included in section D.4.1. **Bonds** In both the Company's IFRS statutory accounts and the Solvency II balance sheet, Government bonds are valued using quoted market prices provided by recognised pricing sources. For corporate bonds listed on a recognised stock exchange, quoted market prices are used. For other corporate bonds, these instruments are valued using pricing data received from external pricing providers or in some cases using broker quotes where observable market data is unavailable. For a small number of investment vehicles and debt securities, standard valuation models (based on a discounted cash flow approach) are used, as by their nature and complexity, they have no external market. Inputs into such models are based on observable market data where applicable. For collateralised securities listed on a recognised stock exchange, quoted market prices are used. For other collateralised securities, these instruments are valued using pricing data received from external pricing providers or in some cases broker quotes where observable market data is unavailable. The majority of the investments are valued using alternative valuation methods and further details are included in section D.4.1.

D.1 ASSETS CONTINUED

D.1.2 Asset and liability valuation bases, methods and main assumptions continued

Note	Balance sheet item	Valuation principles
5	**Investments (other than assets held for index-linked and unit-linked contracts)** continued	**Collective Investment Undertakings** In both the Company's IFRS statutory accounts and the Solvency II balance sheet, interests in pooled investment funds, including holdings in property collective investment schemes (referred to as Collective Investments Undertakings Under Solvency II) are held at fair value. The Company receive valuations from investment managers of the underlying funds, based on quoted market prices. Where quoted prices are not available they are estimated using pricing models or discounted cash flow techniques. Where pricing models are used, inputs are based on market-related data at the period end. Further details regarding alternative valuation methods used to value Collective Investment Schemes are included in section D.4.1. Where the Company holds a greater than 20% interest in an investment fund this interest is recognised within 'holdings in related undertakings, including participations'. Where the interest is less than 20% it is included within 'Collective Investment Undertakings'. Any investments in Collective Investment Undertakings related to unit-linked contracts are included as 'assets held for index-linked and unit-linked contracts'. **Derivative assets** In both the Company's IFRS statutory accounts and the Solvency II balance sheet, derivative assets are held at fair value. The fair value of OTC assets is estimated using pricing models, with inputs based on market-related data at the period end. The fair value of exchange traded securities is based on quoted market prices at the period end provided by recognised pricing services. **Deposits other than cash and cash equivalents** Deposits other than cash and cash equivalents comprise short-term deposits that cannot be used to make payments before a specific maturity date or without any penalty or restriction.
6	**Assets held for index-linked and unit-linked contracts**	Assets held for unit-linked funds are measured based on the fair value of the underlying assets and liabilities (other than technical provisions) held within such funds. Under IFRS, assets and liabilities of unit-linked contracts are separately reported on a line-by-line basis. Under Solvency II, all assets and liabilities backing unit-linked contracts are reported on a single line in 'assets held for index-linked and unit-linked contracts'.
7	**Loans and mortgages**	Assets categorised as Loans and mortgages in the Solvency II balance sheet include Commercial Real Estate Loans ('CREL'), infrastructure loans, loans to individuals and loans on policies. In the Company's IFRS statutory accounts, CREL and infrastructure loans are measured at fair value using valuation models. The same approach to calculating fair value is used in the Solvency II balance sheet and accordingly there are no valuation differences with the Solvency II value. In the Company's IFRS statutory accounts, loans to individuals are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method, less any impairment losses. The IFRS accounting values do not differ materially from the fair values and hence there is no valuation difference between the Solvency II balance sheet and the IFRS statutory accounts.

D.1 ASSETS CONTINUED

D.1.2 Asset and liability valuation bases, methods and main assumptions continued

Note	Balance sheet item	Valuation principles
8	**Reinsurance recoverables**	The value of reinsurance recoverables is dependent on the expected claims and benefits arising under the related reinsured policies. To the extent that the Solvency II valuation of the related technical provisions differs to the valuation under IFRS, the valuation of the related reinsurance recoverable will also be impacted. Further details on the calculation approach for Solvency II reinsurance recoverables are included in section D.2.8.
9	**Insurance and intermediaries receivables Reinsurance receivables**	Given their short-term nature, the carrying amount per the IFRS financial statements is considered to represent the fair value for these assets under Solvency II.
10	**Receivables (trade, not insurance)**	In the Company's IFRS statutory accounts, trade and other receivables (including prepayments) are recorded at amortised cost. This approximates the fair value valuation basis under Solvency II for these assets. Accordingly, there are no valuation differences between the IFRS statutory accounts and the Solvency II balance sheet
11	**Cash and cash equivalents**	Cash and cash equivalents comprise of cash balances that are usable for all forms of payments without penalty or restriction.
12	**Technical provisions**	Details regarding the valuation of technical provisions are covered in section D.2.
13	**Contingent liabilities**	In the Company's IFRS statutory accounts, contingent liabilities are not recognised but disclosed within the notes. On the Solvency II balance sheet, contingent liabilities are valued based on the probability weighted expected present value of future cash flows, required to settle the contingent liability over the lifetime of that contingent liability using the relevant risk-free interest rate term structure. However, where it is not practicable to determine an estimate of the financial effect of a contingent liability under IFRS disclosure requirements, it follows that is not possible to quantify a liability for Solvency II purposes. At 31 December 2018, it has not been possible to estimate the financial effect of contingent liabilities and there is therefore no valuation difference between the Solvency II and IFRS statutory accounts values. Further details of contingent liabilities are provided in note 39 on pages 107 and 108 of the Company's Annual financial statements 2018.
14	**Provisions (other than technical provisions)**	Consistent with IFRS, under Solvency II, a provision is recognised when the Company has a present legal or constructive obligation, as a result of a past event, which is likely to result in an outflow of resources and where a reliable estimate of the amount of the obligation can be made. If the effect is material, the provision is determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability.

D.1 ASSETS CONTINUED

D.1.2 Asset and liability valuation bases, methods and main assumptions continued

Note	Balance sheet item	Valuation principles
15	**Deposits from reinsurers**	It is the Company's practice to obtain collateral to cover certain reinsurance transactions, usually in the form of cash or marketable securities. The main liability of this kind recognised by the Company relates to a deposit-backed arrangement relating to a portfolio of annuity contracts which the Company's HWPF reinsured to Canada Life International Re Designated Activity Company in 2008. Where such cash collateral is available to the Company for investment purposes, it is recognised as a 'financial asset' and the collateral repayable is recognised as 'deposits received from reinsurers'. These are valued in line with IFRS, using a discounted cash flow methodology.
16	**Derivatives**	In the Company's IFRS statutory accounts and under Solvency II, the fair values of OTC derivative liabilities are estimated using pricing models, with inputs based on market-related data at the period end. The fair value of exchange-traded securities is based on quoted market prices at the period end provided by recognised pricing services.
17	**Debts owed to credit institutions**	Debts owed to credit institutions consist of the bank overdraft liabilities. These are short term in nature and are valued at fair value, i.e. amounts payable on the balance sheet date.
18	**Financial liabilities other than debts owed to credit institutions**	Financial liabilities other than debts owed to credit institutions are valued consistently with IFRS, at amortised cost. This approximates the fair value valuation basis under Solvency II for these liabilities.
19	**Insurance and intermediaries payables Reinsurance payables**	These are short term in nature and are valued at amortised cost. This approximates the fair value valuation basis under Solvency II for these liabilities.
20	**Payables (trade not insurance)**	In the Company's IFRS statutory accounts, trade payables are recorded at amortised cost. This approximates the fair value valuation basis under Solvency II for these liabilities. Accordingly, there are no valuation differences between the IFRS statutory accounts and the Solvency II balance sheet.
21	**Any other liabilities not elsewhere shown**	This balance sheet caption relates to deferred income balances. In the Company's IFRS statutory accounts, front-end fees on certain service contracts, including investment management service contracts, are deferred as a liability and amortised. In accordance with the Solvency II valuation rules, nil value has been allocated to deferred income balances.

D.1 ASSETS CONTINUED

D.1.3 Analysis of deferred tax

Deferred tax on the Solvency II balance sheet is recognised by reference to expected future taxable profits and valued based on the differences between the carrying value in the balance sheet and its tax base. It is comprised as shown in the table below. Deferred tax is treated as Tier 3 capital in Basic Own Funds for Company. Further details are set out in section E.1.

The Finance Act 2016 reduced the rates of corporation tax from 20% to 19% in April 2017 and to 17% from April 2020. Consequently, a blended rate of tax has been used for the purposes of providing for deferred tax in these financial statements.

D.1.3.1 Analysis of deferred tax

The table below summarises the Solvency II deferred tax assets and liabilities compared to the statutory accounts column, for the year ended 31 December 2018.

Item	2018 £m
Expense and deferred acquisition costs carried forward	20
Total Solvency II deferred tax assets	**20**
Valuation adjustments	(19)
Total statutory accounts column deferred tax assets	1

Item	2018 £m
Technical provisions	59
Future profits	284
Transitional adjustments	210
Unrealised gains on investments	51
Other	12
Total Solvency II deferred tax liabilities	**616**
Technical provisions	(59)
Future profits	(284)
Transitional adjustments	(210)
Intangible assets	90
Other temporary differences	(22)
Total statutory accounts column deferred tax liabilities	131

D.1 ASSETS CONTINUED

D.1.3.1 Analysis of deferred tax continued

SLAL had excess tax losses in 2018 of £5 million on which a deferred tax asset of £1 million (included as part of 'trade losses carried forward' in the above table) is recognised in both IFRS and Solvency II. In Solvency II, the losses are netted against the deferred tax liability ('DTL') on VIF.

Deferred tax is recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable.

SLAL deferred tax assets have not been recognised in respect of:	2018 £m
Tax losses carried forward	105
Deferred tax assets not recognised on capital losses	–

There are no unrecognised deferred tax liabilities at 31 December 2018 for the Company.

D.2 TECHNICAL PROVISIONS

This section provides separately for each line of business ('LoB') the value of technical provisions, including the amount of the Best Estimate Liability ('BEL'), Technical Provisions as a Whole and the risk margin, as well as a description of the bases, methods and main assumptions used in the valuation of technical provisions.

This section also includes a quantitative and qualitative explanation of material differences between the bases, methods and main assumptions used by the Company for the valuation of technical provisions for solvency purposes and those used for their valuation in IFRS.

D.2.1 Introduction

The Company has PRA approval to apply a Matching Adjustment in the valuation of UK immediate annuity liabilities and a Volatility Adjustment in the valuation of liabilities of all contract types where a matching adjustment is not used, except for unit-linked business and best estimate expense provisions described in section D.2.5.4. Further information on the matching and volatility adjustments is available in section D.2.7.1.

The Company has PRA approval to recognise a deduction from Technical Provisions by applying a Transitional Measure for Technical Provisions ('TMTP'). Transitional measures are aimed at providing a smooth transition between the technical provisions under the previous solvency 1 regulatory regime and the technical provisions under the solvency 2 regulatory regime, in order to enhance stability in the insurance sector. The initial calculation was at 1 January 2016, but recalculation is expected every two years or where material changes in the risk profile of the business have occurred. An application to recalculate has been approved by the PRA and a recalculation performed as at 31 December 2018.

The transitional risk-free interest rate term structure referred to in Article 308c of Directive 2009/138/EC is not applied by the Company.

D.2.2 Technical provisions by Line of Business

Table D.2.2.1 Technical provisions by Line of Business

This section provides technical provisions split by Solvency II LoB as at 31 December 2018, including the amount of BEL, TP as a whole and risk margin. The TMTP recalculated as at 31 December 2018 (see section D.2.7.2) is also shown separately.

Table D.2.2.1a Technical provisions by Line of Business

For the purpose of Solvency II reporting, lines of business are as follows:

- Insurance with profit participation – includes all conventional and unitised with profits business
- Index-linked and unit-linked insurance – unit-linked business, including the present value of future profits
- Health insurance – including permanent health insurance and income protection
- Other life insurance – immediate and deferred annuities; protection; other non-with profits business; also includes the non-investment component of with profits business written since demutualisation

D.2 TECHNICAL PROVISIONS CONTINUED

D.2.2 Technical provisions by Line of Business continued

Table D.2.2.1a Technical provisions by Line of Business continued

At 31 December 2018, the contribution to technical provisions from the each line of business was as follows:

31 December 2018 Technical provisions by Line of Business	Insurance with-profit participation £m	Index-linked and unit linked insurance £m	Health insurance £m	Other life insurance £m	Total technical provisions £m
Best Estimate Liabilities	26,457	(2,349)	151	12,835	**37,094**
Risk margin*	14	530	–	770	**1,314**
Technical provisions as a whole	–	92,208	–	–	**92,208**
Gross technical provisions pre TMTP	**26,471**	**90,389**	**151**	**13,604**	**130,615**
TMTP adjustment*	89	(657)	–	(532)	**(1,101)**
Gross technical provisions post TMTP	**26,560**	**89,731**	**151**	**13,072**	**129,514**

* Unaudited.

Within each of these groups, the valuation of cash flows is determined at policy level, except that similar policies are grouped together when appropriate for the purposes of the stochastic modelling of with-profits liabilities.

This business is written in the UK, Ireland and Germany, with cash flows denominated in sterling for UK and Euro for Ireland and Germany (converted to sterling).

D.2 TECHNICAL PROVISIONS CONTINUED

D.2.2 Technical provisions by Line of Business continued

Table D.2.2.1b Material differences between IFRS and Solvency II technical provisions

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.

Technical provisions – IFRS to Solvency II reconciliation	Note	Insurance with-profit participation £m	Index-linked and unit-linked insurance £m	Health insurance £m	Other life insurance £m	Total technical provisions £m
Statutory accounts value technical provisions – gross		**28,975**	**92,240**	**149**	**12,998**	**134,362**
Statutory accounts value reinsurance		82	(2,914)	(103)	(4,120)	(7,055)
Statutory accounts value technical provisions – net		29,057	89,326	46	8,878	127,307
Change to discount curve	1	(27)	–	0	0	(27)
Change in restriction for negative sterling reserves	2	(250)	(2,428)	–	46	(2,633)
Demographic margin	3	–	–	–	(351)	(351)
Policyholders' share of estate	4	(1,792)	–	–	–	(1,792)
Unallocated Surplus	5	(451)	–	–	–	(451)
Other	6	1	53	2	122	177
Solvency II Best Estimate Liabilities – net		26,539	86,950	49	8,694	122,232
Add risk margin		14	530	–	770	1,314
Deduct transitional adjustments		89	(657)	–	(532)	(1,101)
Solvency II technical provisions – net		**26,641**	**86,823**	**49**	**8,932**	**122,445**
Solvency II reinsurance		(81)	2,909	102	4,140	7,069
Solvency II technical provisions – gross		**26,560**	**89,731**	**151**	**13,072**	**129,514**

D.2 TECHNICAL PROVISIONS CONTINUED

D.2.2 Technical provisions by Line of Business continued

Table D.2.2.1b Material differences between IFRS and Solvency II technical provisions continued

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

Note	Item	Description
1	**Change to discount curve**	Liabilities are valued using a discount rate derived from the EIOPA swap curve less a credit risk adjustment of 10bps under Solvency II. For IFRS they are valued using a discount rate from the EIOPA swap curve plus an illiquidity adjustment of 10bps.
2	**Change in restriction for negative sterling reserves**	The term 'sterling reserves' represents reserves set aside to cover future cash flow obligations on unit-linked policies, over and above the value of units held. For Solvency II, negative sterling reserves are allowed as a reduction to technical provisions. For IFRS, negative sterling reserves are disallowed and set to zero.
3	**Demographic margin**	A margin for demographic risk is included within the IFRS technical provisions. This item is based on a percentage of undiversified demographic risk capital, relating to longevity, persistency and expenses. Solvency II does not require this margin to be held over and above best estimate.
4	**Policyholders' share of estate**	The Heritage With-Profits Fund estate, which is fully distributed to policyholders, is included within technical provisions on the IFRS basis. For Solvency II, it is recognised as surplus funds and is not recognised within technical provisions, but instead as an item of Own Funds. Further details are included in section E.1.
5	**Unallocated surplus**	This comprises the difference between the assets and all other recognised liabilities in the with-profits funds for IFRS reporting.
6	**Other**	The 'other' line contains provisions for: • the costs for any known mandatory requirements; • product development and exceptional costs that the Company has committed to incur in the year after the valuation date; and • ex-gratia payments if additional costs (e.g. legal) would be expected if the payments were not made. This line also includes the effects of minor provisions held in only one of the two bases, plus minor differences in the allocation of liabilities to lines of business.

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 typically calculated separately. The exception is 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), in which case the value of technical provisions equals the market value of those financial instruments (technical provisions as a whole).

The Company's Solvency II technical provisions comprise the following three components, depending on the line of business:

- Technical provisions as a whole.
- Best estimate liabilities.
- Risk margin.

The valuation approach is summarised in subsequent sections.

D.2 TECHNICAL PROVISIONS CONTINUED

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

D.2.3.1 Best Estimate Liability

BEL is calculated gross, without deduction for amounts recoverable on reinsurance contracts. Reinsurance recoverable are valued separately, recognised as a reinsurance asset and calculated in the same manner as the BEL (see section D.2.8 for further details).

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.

For the majority of policies which have rider contracts (an additional provision attached to an insurance policy), the rider is separated from the main contract for valuation purposes. For example, a term assurance rider contract attached to a unit-linked pension policy is treated as a separate stand-alone term assurance contract. This ensures appropriate assumptions are used to value the rider contract.

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, longevity, lapse rates and option take-up 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). The assessment of the expected cash flows underlying the BEL takes into account any taxation payments which are charged to policyholders, or which would be required to be made to settle the insurance obligations.

In certain specific circumstances, the best estimate may be negative (e.g. for some protection business where the value of future premiums exceeds the value of future claims and expenses). A negative BEL is permitted under the regulations.

D.2.3.3 Discount rates

For the purpose of calculating the Solvency II technical provisions, nominal discount rates, based on swap rates, prescribed by EIOPA are used. These rates vary by currency of liabilities. The Company's insurance obligations are denominated in either sterling or euros. The rates are based on market data for the first 50 years for sterling and 20 years for euro, after which they converge to the ultimate forward rate which is set by EIOPA and is currently 4.05%.

A deduction (also specified by EIOPA) is made to the swap curve for credit risk. At 31 December 2018, both the sterling and euro credit risk deduction was 10bps at each duration.

For certain liabilities, a matching adjustment or volatility adjustment is added to the basic risk-free yield curve (as described in section D.2.1).

D.2.3.4 Tax assumptions

The mainstream tax rate is 19% but will reduce to 17% from 1 April 2020.

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.

In general, future premiums on products with insurance cover and premiums invested into with-profits funds or into unit-linked funds with a contractual cap on annual management fees are included within the contract boundary. Future premiums into funds with no guarantees and no cap on charges are not included within the contract boundary, even where the policyholder has the right to invest future premiums into with-profits or a fund with a charge cap. In this case, the contract boundary is at the reporting date.

Contracts currently investing in a combination of with-profits funds, funds with a change cap and funds with no guarantee or charge cap are unbundled to allow for different contract boundaries on the different parts of the contract.

D.2 TECHNICAL PROVISIONS CONTINUED

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

D.2.3.6 Grouping of liability data

For stochastic modelling of options and guarantees on with-profits business, policies are grouped into model points to improve computational efficiency. Groups are selected so that the model points appropriately allow for the risk characteristics of the individual policies and do not distort the valuation of BEL.

D.2.4 Calculation

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

D.2.4.1 Insurance with-profit participation

The Company has written a number of contract variations on a with-profits basis – in the UK, Germany and Ireland. While these contracts may differ in certain aspects of the product features, they share the common feature that they offer a form of investment guarantee:

- UK and Ireland Conventional With Profits ('CWP') – generally, a guaranteed benefit is set at the time the policy is issued to be paid on a date or events specified. Regular bonuses may be added to the guaranteed benefit over the term of the policy. In addition, a final bonus may be paid.
- UK and Ireland Unitised With Profits ('UWP') – under this type of with-profits policy contractual benefits are determined by reference to the number of units allocated under the relevant UWP policy. The number of units allocated increases on payment of premiums. Typically, for this type of policy, unit prices grow at a guaranteed minimum growth rate (either 0%, 3% or 4% a year) plus any (additional) bonus growth rate. The unit value of a policy is normally guaranteed as a minimum payout in specific circumstances. In addition a final bonus may be payable when benefits are taken.
- Germany UWP contracts – a nominal value of units, which can grow with declared bonuses, is guaranteed on death, maturity and in some cases surrender. There are also guaranteed amounts (based on specified growth rates applied to all past and future premiums; depending on the contract, the rate is 1.2%, 2.375%, 2.875% or 4.875% a year) payable at maturity and, in some cases, surrender and selected other dates; in some cases these guaranteed amounts may be payable as an annuity.

The 'asset share' is a measure of the with-profits policy value at the valuation date.

In addition to the asset share, Best Estimate Liabilities include an allowance for the following cash flows:

- Future cost of guarantees: The cost of investment guarantees (which can apply on maturity, death or surrender depending on the contract) is assessed relative to the asset share.
- Guaranteed annuity rates and values: Costs can arise when the guaranteed annuity (available on some UK, Ireland and Germany contracts) is greater than the expected future market annuity rate.
- Future guarantee deductions: Deductions are made from the asset share in respect of the expected future cost of guarantees, and are charged for by a percentage deduction applied to asset shares. The deductions vary between policy groups and over time.
- Future profits: PVIF in respect of UWP and CWP contracts, calculated in a manner consistent with unit-linked contracts.

Additional liabilities arise in respect of the Company's treatment of smoothing on with-profits claims, with-profits payout practice in respect of unitised pension business ('vintage unit' approach) and the Mortgage Endowment Promise relating to minimum payouts on endowments backing house purchase.

D.2 TECHNICAL PROVISIONS CONTINUED

D.2.4 Calculation continued

D.2.4.1 Insurance with-profit participation continued

Valuation approach

The BEL corresponds to the probability weighted average of future cash flows, taking account of the time value of money (expected present value of future cash flows), using the relevant risk-free interest rate term structure and taking account of all uncertainties in the cash flows.

In practice, these requirements are interpreted as being equivalent to a current value of the policy at the valuation date (asset share) plus a valuation of future guarantee (and other) costs calculated on a stochastic basis.

Therefore, depending on the contract type, the BEL for with-profits contracts is made up of the following components:

- Asset share.

Less present value of:

- Deduction for guarantees.
- Future profits.

Plus present value of:

- Cost of guarantees.
- Guarantee annuity costs.
- Smoothing cost.
- Mortgage Endowment Promise.
- Vintage unit cost, and other non-contractual commitments.

Asset shares are derived from a policy by policy retrospective roll-up of premiums allowing for investment returns on with-profits assets backing this business, mortality charges, expenses and charges and tax. The Company adopts a range of methods to determine the asset share, as appropriate to the different types of contracts and the materiality, in a manner consistent with the approach used to determine asset shares for with-profits payout purposes. A projection of the future value of the asset share is used in the valuation of future modelled cash flows (for example in the valuation of future cost of guarantees and future profits).

For this class of business, the policyholder payout is a function of investment performance and is subject to a financial guarantee. The effect of the guarantee is to render the possible future outcomes 'asymmetrical', and so the approach adopted considers deviations of future events from their expected values. The Company uses a simulation technique to place a value on cash flows that are subject to financial guarantees. This considers a wide range of investment performance scenarios (produced by an economic scenario generator or 'ESG') and calculates the cash flow amounts payable in each scenario, having regard to the guarantees.

The stochastic method adopted is consistent with generally accepted actuarial practice and will most appropriately allow for the possibility of an asymmetrical outcome (uncertainty of cash flows). The nature of the approach is summarised below:

- Takes into account all cash flows, notably any guarantees and options on the contracts and the likelihood that policyholders may exercise these options.
- Costs calculated stochastically are: investment guarantees offered on contracts; annuity conversion offered on guaranteed terms; inability to recycle smoothing cost due to guarantees biting; minimum payouts in respect of endowments backing house purchase. These costs are offset by the value of: future deductions taken to cover investment guarantee costs; future contributions to capital (profits) accruing to the with-profits funds.
- A large number of simulated future investment returns are generated by the ESG, cash flows projected, guarantee (and other) costs emerging on the contracts calculated and costs discounted to the balance sheet. The final cost is taken as the average value across these simulations.
- Provided the scenarios produced by the ESG satisfy certain conditions, the average across the scenarios of the discounted value of the cash flows gives the value of the liabilities allowing for the guarantee.
- Policy data applied in the cash flow projection is derived from core policy systems. Similar policies are grouped together for practical modelling reasons.
- The key assumptions used in the projection are the simulated investment returns, charges, expenses, best estimate persistency and mortality rates. The approach to determining the simulated future investment returns ('ESG') and the best estimate persistency and mortality/longevity rates are covered in sections D.2.6.1 and D.2.5 respectively.

D.2 TECHNICAL PROVISIONS CONTINUED

D.2.4 Calculation continued

D.2.4.2 Other life insurance (including health)

Other life insurance – annuities

This category of business covers the following contract classes:

- Pensions Annuities – typically providing an income for life, with various policyholder options selected at outset (single/joint life, guaranteed period, escalation rate).
- Purchased Life Annuities – tax efficient lump sum investment contracts providing an income for life or over a selected period, again with policyholder options (guaranteed period, escalation rate).
- Deferred Annuities – pension savings products where the premiums paid purchase an annuity from a specified retirement date in the future.

Valuation approach

The BEL is derived using a deterministic discounted cash flow approach. The valuation approach projects the cash flows for each annuity contract and their underlying features, and the BEL is equal to the annuity payments and expenses discounted using the Solvency II sterling or euro yield curve (with a matching or volatility adjustment as appropriate). The projection is carried out using best estimate assumptions, allowing for the relevant survival probabilities. The best estimate assumptions and Solvency II yield curve are described within sections D.2.5 and D.2.3.3.

Annuity payments are calculated based on the specifics of each contract. The benefit payments projected reflect any guarantee period, whether the payment can step up or step down, the level of payment escalation (including RPI and LPI), payment frequency and dependant's benefits. Expenses include renewal, termination and investment expenses, allowing for expense inflation as appropriate.

Best Estimate Liabilities are calculated excluding any reinsurance cash flows, with a separate valuation of the reinsurance recoveries receivable performed on a consistent basis.

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

This category of business covers conventional non-participating savings, protection and health contracts. The protection products include term assurance, critical illness and protection riders on other policies such as pension policies. Savings products include endowment assurances, pension endowments and pure endowments. Health products include permanent health insurance and income protection.

The non-investment component of with-profits business written since demutualisation is included within this line of business and is valued in the same way as unit-linked PVIF (covered in section D.2.4.3).

Valuation approach

A cash flow approach is used to determine the best estimate liabilities as the expected present value of a contract, allowing for the following cash flows:

- Inflows (premiums, tax relief), less
- Outflows (claims, expenses, commission, investment expenses, tax payable)

Best Estimate Liabilities are calculated excluding any reinsurance cash flows, with a separate valuation of the reinsurance asset allowing for reinsurance recoveries receivable and reinsurance premiums payable.

These cash flows are discounted using the relevant Solvency II yield curve.

D.2.4.3 Index-linked and unit-linked business

The unitised contracts include the following policy types: UK unitised life, UK group unitised pensions, UK individual unitised pensions, UK Self Invested Personal Pensions ('SIPP'), Ireland unitised life, Ireland unitised pensions and Germany unit-linked.

The UK and Ireland life product types include bonds and endowments, and pension product types include group pensions, individual pensions, SIPP and stakeholder pensions.

Policies that have units in both unit-linked and UWP funds are referred to as 'hybrid' policies. The valuation of the UWP related cash flows are described in section D.2.4.1.

The unit-linked product in Germany is a deferred annuity contract with an option to take the benefits in cash at retirement. A loyalty bonus may be payable.

D.2 TECHNICAL PROVISIONS CONTINUED

D.2.4 Calculation continued

D.2.4.2 Other life insurance (including health) continued

Valuation approach

The non-with-profits unit-linked fund values meet the requirements to be a replicating portfolio. Therefore the gross unit fund value including any allowance for outstanding charges in respect of initial expenses, with no associated risk margin, is treated as 'technical provisions as a whole'.

The overall technical provision for a unit-linked contract then comprises 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. The Solvency II yield curve and other best estimate assumptions are described in Sections D.2.3.3 and D.2.5.

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

- Inflows: fund management charge (net of large fund discounts), unallocated premiums, surrender penalties, policy fees, tax relief (on expenses and commission).
- Outflows: commission, initial expenses, renewal expenses, termination expenses, investment expenses, adviser payments, member fees, external fund manager charges, loyalty bonus.

D.2.5 Demographic and expense assumptions

Non-economic assumptions are determined from annual experience investigations, are subject to detailed internal review and are approved by the Board. Best estimate assumptions are made in respect of future levels of longevity, mortality, surrenders, withdrawals, premium indexation and expenses. The assumptions vary depending on whether the business is written in the UK, Germany or Ireland. These assumptions reflect the Company's best estimates of likely future experience, based on recent experience and relevant industry data as appropriate. The approach is to treat the best estimate assumptions as the median of the range of possible assumptions.

Mortality/longevity assumptions are a combination of base mortality rates, which are set by reference to recent experience and, for annuities, expected future changes in mortality. The latter uses entity-specific considerations, along with data from external sources such as the Continuous Mortality Investigation Bureau ('CMI') in the UK, which produces standard mortality tables and projection bases for mortality improvements.

Assumptions regarding surrender and withdrawal reflect recent experience, but the modelling additionally takes into account the risk of selective behaviour by individual policyholders in determining whether to lapse or retain a policy.

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 Aberdeen Standard Investments, reflecting current investment management agreements, varying by the nature of assets backing technical provisions.

The main non-economic assumptions for each of the material lines of business are described below, with an indication of the factors that affect the assumption adopted.

Assumptions used in the valuation of technical provisions are reviewed regularly. The most significant changes during 2018 were as follows:

- reduction in persistency assumptions, updated to reflect recent experience and to more accurately reflect customer behaviour in drawdown, which reduced technical provisions;
- change in expense assumptions following the separation of the Company from Standard Life Aberdeen PLC, which now include VAT payable on some investment management agreement fees to Aberdeen Standard Investments, led to an increase in the technical provisions; and
- less material changes to the longevity basis, updated to reflect recent experience, which has led to a reduction in technical provisions.

D.2 TECHNICAL PROVISIONS CONTINUED

D.2.5 Demographic and expense assumptions continued

D.2.5.1 Mortality

Mortality

Insurance with profit participation	Varies by: age, gender and product.
Unit-linked	Varies by: age, gender and product.
Other life insurance	Varies by: age, gender, product and territory.

Longevity

Insurance with-profit participation	This assumption is used to value guaranteed annuity terms, and varies by: age, gender, territory.
Other life insurance	Varies by: age, gender, compulsory purchase or purchased life annuity, pre or post demutualisation, individual or group business, immediate or deferred annuity and territory (UK, Germany, Ireland).

Proportions married

Other life insurance	Varies by: individual or group business, immediate or deferred annuity.

D.2.5.2 Persistency

Insurance with-profit participation	These assumptions cover lapse, retirement, withdrawal and paid-up rates. Depending on the assumption, they vary by: product type, duration of business, policyholder age and territory. In addition, an allowance for dynamic policyholder behaviour is made.
Unit-linked	These assumptions cover lapse, retirement, pension transfer and paid-up rates. Depending on the assumption, they vary by: product type, duration of business, policyholder age and premium paying status.

Premium indexation

Insurance with profit participation	With profits contracts in Germany give the policyholder the option of increasing their premium each year, subject to limits. Assumptions are required for both the future eligibility to premium increases, and the take-up rate. The assumption varies by: product, policy term, and maximum indexation level selected at policy outset.

Drawdown and withdrawal rates

Unit-linked	Varies by: product and policyholder age.

D.2.5.3 Option take-up rates

Insurance with-profit participation	The valuation of guaranteed annuities requires assumptions about the future guaranteed annuity and tax free cash take-up rates. The assumption varies depending on country, product and the age at which the guarantee applies.

D.2.5.4 Expense assumptions

Insurance with-profit participation	Some with-profits contracts are written on an 'expense basis', where the asset share is determined with reference to incurred initial, renewal and termination expenses. Assumptions vary by: product and premium paying status.
Unit-linked	*Maintenance expenses* These include an allowance for both renewal and termination expenses, and vary by: product, premium paying status, drawdown status, and nature of investments (insured, self-invested and mutual funds). *Investment expenses* Varies by: product; long-term business fund, with profits or not.
Other life insurance	*Maintenance expenses* These include an allowance for both renewal and termination expenses. *Investment expenses* Varies by long-term business fund.

D.2 TECHNICAL PROVISIONS CONTINUED

D.2.5 Demographic and expense assumptions continued

D.2.5.4 Mortality continued

The following best estimate expense provisions are held within the "Other life insurance" technical provisions:

- Where there are known mandatory requirements (e.g. regulatory development costs), provisions are held to cover the costs at an aggregate level.
- Product development and exceptional costs that the Company has committed to incur in the year after the valuation date.
- Ex-gratia payments if additional costs (e.g. legal) would be expected if the payments were not made.
- Shared services costs which would fall to the Company if it operated as a standalone undertaking (excluding those costs currently recharged to the Company, as these are allowed for in the best estimate maintenance expense assumption).

D.2.6 Stochastic model

D.2.6.1 Economic Scenario Generators (audited)

An Economic Scenario Generator ('ESG') has been used to support the stochastic valuation of all material options and guarantees in the with-profit funds. A stochastic methodology is required for options and guarantees due to their potential volatility and asymmetric behaviour under different sets of future economic scenarios. The stochastic methodology involves valuing the options and guarantees under 2,000 different future economic scenarios and then averaging over all scenarios. The central scenario in the ESG is equal to the single deterministic scenario used to value all non-profit and unit-linked business.

The ESG generates projected asset returns consistent with asset prices observed in financial markets and assumes no arbitrage opportunities exist. The calibration of the parameters and scenarios is consistent with the relevant risk-free interest rate term structure used to calculate the BEL provided by EIOPA. Where possible the ESG has been calibrated to assets from deep, liquid and transparent markets which are appropriate to the nature of the funds' options and guarantees.

D.2.6.2 Management actions (audited)

For with-profits liabilities, the projections simulate the management actions that are applied in the respective with profits funds. This includes the regular review of deductions for guarantees, the application of smoothing on payouts, management of with profits assets and determination of regular bonus rates.

D.2.6.3 Policyholder actions (audited)

The projection makes an allowance for policyholder behaviour in light of the guarantees and options available.

D.2.7 Solvency II long-term guarantee and transitional measures

Regulatory approval has been received from the PRA for the application of:

- Matching Adjustment to liabilities in the Matching Adjustment portfolios within the Company;
- Volatility Adjustment to non-unit-linked, non-matching-adjustment business within the Company; and
- the TMTP which is applied to all liabilities within the Company.

D.2.7.1 Matching Adjustment and Volatility Adjustment (audited)

The application of the Matching Adjustment allows insurers to use a (typically) higher discount rate when valuing liabilities that meet strict eligibility criteria, with the effect of increasing Own Funds and reducing the SCR. The assets and liabilities in each of the Matching Adjustment portfolios meet the Matching Adjustment eligibility criteria as set out in the regulations.

The Matching Adjustment is based on the expected yield from eligible assets held to back eligible liabilities, less a margin for defaults and downgrades. It is applied as a flat increase to the Solvency II basic risk-free curve used to discount liabilities.

The calculation of the Matching Adjustment requires EIOPA specified assumptions for the basic risk-free curve and fundamental spreads. These assumptions are combined with asset and liability cash flows to generate the Matching Adjustment for each currency of liabilities.

The Company applies a matching adjustment when calculating technical provisions for UK immediate annuity liabilities. These include index-linked annuities and non-linked annuities. The MA for HWPF annuity liabilities is calculated separately from the MA for other annuity liabilities as they form separate MA portfolios.

D.2 TECHNICAL PROVISIONS CONTINUED

D.2.7 Solvency II long-term guarantee and transitional measures continued

D.2.7.1 Matching Adjustment and Volatility Adjustment (audited) continued

The assets assigned to the MA portfolios include corporate bonds, commercial real estate loans, gilts, infrastructure debt and cash. Fixed rate (non index linked) assets have been selected to match the fixed rate nature of the non index-linked liabilities of the MA portfolios. Index-linked (inflation linked) assets have been selected to match the index-linked nature of index-linked liabilities of the MA portfolios. Derivatives may be held in the MA portfolios for risk reduction and efficient portfolio management purposes. Derivatives may be held to hedge the following risks:

- Interest rate risk (e.g. an interest rate swap to swap floating rate notes/loans to fixed rate).
- Currency risk (e.g. currency derivatives to hedge asset cash flows back to the currency of those liabilities they are matching).
- Inflation risk (e.g. inflation swaps).

Volatility Adjustment (audited)

Having been granted approval by the PRA, the Company applies a volatility adjustment when calculating technical provisions for all contract types where a matching adjustment is not used, except for unit-linked business and the best estimate expense provisions described in Section D.2.5.4. The volatility adjustments used as at 31 December 2018 were 27bps for UK liabilities and 24bps for Euro liabilities.

The volatility adjustment is designed to protect insurers with long-term liabilities from the impact of market volatility, by reducing the likelihood that insurers sell their risky assets when markets are falling.

The volatility adjustment is a parallel increase in the market segment of the risk free curve. There is no change to the ultimate forward rate.

The impact of reducing the Matching Adjustment and Volatility Adjustment to zero on the Solvency II balance sheet (including technical provisions, Own Funds and SCR) is summarised below and shown in QRT S.22.01.21 in Appendix 1.

SLAL	Including Matching Adjustment and Volatility Adjustment £m (A)	Excluding Volatility Adjustment £m (B)	Impact of removing Volatility Adjustment £m (C) = (B) – (A)	Excluding Matching Adjustment and excluding Volatility Adjustment £m (D)	Impact of removing Matching Adjustment £m (D) – (B)
Technical provisions	129,514	129,824	309	130,660	836
Basic Own Funds	4,203	4,141	(61)	3,530	(612)
Eligible Own Funds to meet SCR	4,203	4,141	(61)	3,530	(612)
SCR	2,477	2,438	(40)	2,884	446

D.2 TECHNICAL PROVISIONS CONTINUED

D.2.7 Solvency II long-term guarantee and transitional measures continued

D.2.7.2 Transitional Measures for Technical Provisions (unaudited)

Transitional measures allow insurers to recognise the impact of increased technical provisions calculated under the Solvency II regime compared to the previous Solvency I regime (using the Pillar 2 Individual Capital Assessment ('ICA') basis) on a gradually reducing basis over 16 years. The Company's technical provisions calculated under Solvency II exceed those calculated under the Solvency I regime for two main reasons. Firstly, the regulations require inclusion of a risk margin within technical provisions which was not required under Solvency I. Secondly; the regulations require the use of a swap-based risk-free curve to discount liabilities whereas under Solvency I, the Company used a higher gilts-based risk-free curve to determine the discount rate.

The TMTP is a deduction from the amount of Solvency II technical provisions and is included as part of Tier 1 Basic Own Funds. In summary, the initial deduction is calculated as the difference between Solvency II technical provisions and Solvency I technical provisions as at 1 January 2016. The deduction runs off linearly to zero over the course of the 16-year transitional period unless a faster pace of run-off is required due to the actual run-off of the business being higher than 1/16 per annum.

The regulations require all firms to recalculate their TMTP every two years after 1 January 2016 or more frequently under circumstances where the risk profile of the business changes materially and to reflect this recalculation in the reported TMTP. An application to recalculate the TMTP has been approved by the PRA and a recalculation performed as at 31 December 2018.

The TMTP reported in this valuation allows for three years' run-off although the requirement to apply the third year's run-off did not strictly apply until 1 January 2019. However, applying the runoff at 31 December 2018 helps ensure that the overall technical provisions net of TMTP are appropriate, as required by the PRA.

For SLAL the TMTP has reduced from £1,292 million at the previous valuation on 1 January 2017 to £1,101 million for the current valuation. This reduction is primarily driven by:

- a reduction in the Risk Margin;
- changes resulting from the sale of the Company to the Phoenix Group; and
- run-off.

There is a requirement that the TMTP should not result in the financial resources (technical provisions plus other liabilities plus capital requirements) held under Solvency II to be less than those that would have been held under the Solvency I regime. The assessment on both bases as at 31 December 2018 demonstrated that no such restriction was required.

The impact of reducing the TMTP to zero on the Solvency II balance sheet (including technical provisions, Own Funds and SCR) is summarised below and shown in QRT S.22.01.21 in Appendix 1.

SLAL	Including transitionals £m (A)	Excluding transitionals £m (B)	Impact of removing transitionals £m (B) – (A)
Technical provisions	129,514	130,615	1,101
Basic Own Funds	4,203	3,213	(990)
Eligible Own Funds to meet SCR	4,203	3,213	(990)
SCR	2,477	2,477	0

D.2 TECHNICAL PROVISIONS CONTINUED

D.2.8 Recoverables on reinsurance contracts

Under Solvency II, reinsurance is defined as business where there is a transfer of risk.

The Company has entered into a number of external reinsurance arrangements set up by treaty or facultative agreements, covering UK, Ireland and Germany businesses. This includes external fund links ('EFL's) set up via reinsurance.

The most significant reinsurance treaty is an arrangement with Canada Life Re Ireland Designated Activity Company which covers the reinsurance of all UK single life annuities written prior to the demutualisation of the Company.

Reinsurance recoverables are calculated using the same models and assumptions as the corresponding Best Estimate Liabilities. The value of reinsurance recoverables is shown in QRT S.12.01.02 Life and health SLT technical provisions, a copy of which is included in Appendix 1.

The Company does not have any insurance special purpose vehicle arrangements.

The amounts recoverable on reinsurance contracts are recognised as a reinsurance asset on the Solvency II balance sheet.

D.2.8.1 Assessment of reinsurers' default risk (counterparty default adjustment)

The valuation of reinsurance recoverables allows for the possibility of counterparty default.

For each reinsurance counterparty, an adjustment is made to reinsurance recoverables for the best estimate of the expected losses due to default of the reinsurance counterparty over the lifetime of the liabilities. The adjustment is calculated for each counterparty exposure as:

- the cumulative expected probability of default over the lifetime of the reinsurance exposure; multiplied by
- an assumption for losses given default.

The probability of default assumption is determined from long-term average default rates for corporate bonds, adjusted for credit conditions as at the valuation date using corporate bond credit spreads (relative to swaps). Loss given default assumptions are specific to the nature of the exposure.

D.2.9 Simplifications

Where it is proportionate, the Company adopts various simplifications in the calculation of BEL. These simplifications may exist within the calculation methodology, or within the valuation models themselves.

Substantially all of the Company's BEL is calculated using probability weighted averages of future cash flows. However, simplified valuation techniques have been used in certain circumstances. These simplifications are typically used where material uncertainty exists around the size, incidence or timing of liability cash flows or, where further model development is required for a more robust assessment.

The Company uses the skills, knowledge and experience of actuaries, accountants and other subject matter experts to perform these assessments, which are carried out in accordance with the Company's internal framework on application of expert judgement.

The proportion of gross BEL calculated using simplified methods was 1.7%.

D.2 TECHNICAL PROVISIONS CONTINUED

D.2.10 Uncertainty associated with the value of technical provisions

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. longevity/mortality, persistency, option take-up, expenses, economic conditions, management actions), which are inevitably the source of some uncertainty. While the approach adopted by the Company leads to its best estimate of future expected experience, there can be a number of alternative similarly justifiable assumptions. For example, a range of assumptions regarding the rate of future improvements in longevity could be considered reasonable. This is also particularly relevant to the treatment of future policyholder behaviour, where there is limited reliable data to support a scale of dynamic lapse rates which would allow for rates to vary depending on projected economic conditions. Given this lack of data, the complexity that a model for dynamic persistency would entail and the uncertainty in the related assumptions, a simpler approach to modelling lapse behaviour is adopted, which appropriately takes into account anti-selective behaviour.

The modelling of management actions (notably guarantee deductions) requires that at future time steps the model makes an assessment of the present value of future costs and guarantee deductions. It is not practical to perform a full stochastic calculation at every time step for this purpose and instead mathematical formulae are used to estimate the required present values. A calibration process derives scaling factors to apply to the formulaic results to best match an equivalent stochastic approach.

Overall, the vast majority of the Company's business is explicitly modelled in the way summarised in previous sections. There is a small proportion of business which is not explicitly modelled, either because a minority of policy data has not passed data quality controls or because explicit modelling of the business would not be proportionate to the contribution to the overall balance sheet; in this case, the contribution to Best Estimate Liabilities is derived by scaling from similar modelled business. In addition, a small proportion of liabilities are valued on a prudent basis consistent with the regulations in force prior to the commencement of Solvency II.

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.

When calculated separately, 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. A simplified approach to determining these SCRs is permitted by the regulations and this has been implemented using a risk driver-based approach. For each risk and product group, a risk driver is chosen that approximates the expected run-off pattern of the capital relating to that risk. For example, the present value of future expenses at each future date will drive the expense risk capital at that date so this is selected as the risk driver for expense risk. 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.

D.3 OTHER LIABILITIES

D.3.1 Introduction

The valuation of other liabilities on the Solvency II balance sheet is covered in section D.1. The valuation of technical provisions is covered in section D.2. Some of the Company's liabilities (mainly financial instruments) are determined using alternative valuation methods which use non-observable market inputs. Further details are included in section D.4.1.

D.3.2 Deferred tax liabilities

Further details regarding deferred tax liabilities are set out in section D.1.3.

D.3.3 Pension schemes

As detailed in section D.1.2, the Company ceased to be the sponsoring employer of the defined benefit plans on 31 August 2018. As a result, at 31 December 2018, the value of the SLAL Pension Scheme is £nil.

Further details regarding the Company's pension scheme are set out in note 30 of the SLAL Annual Report and Accounts for the year ended 31 December 2018 which can be found on the Company's website.

D.4 ALTERNATIVE METHODS FOR VALUATION

This section provides information on alternative valuation methods used by the Company. Sections D.1.2 and D.3.2 identified the assets and liabilities valued using this approach. Further information is provided below on the justification for the use of alternative valuation methods and the assumptions underlying this approach. An assessment of the valuation uncertainty is performed by management on a quarterly basis and the results of such analysis recommended by the Asset Valuation Governance Committee to the SLAL Board.

There have been no significant changes in the recognition, measurement or valuation base used for financial assets and liabilities during the reporting period.

D.4.1 Alternative valuation methods – assets

Investments carried at fair value in the Solvency II balance sheet are categorised based upon the valuation techniques used, as follows:

- QMP – quoted market price in active markets for the same assets.
- QMPS – quoted market price in active markets for similar assets.
- AVM – alternative valuation methods.

An active market exists where transactions take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Some of the Company's financial instruments are valued using alternative valuation methods, which utilise a combination of observable and non-observable market inputs. All of the alternative valuation methods described below follow accepted market practice. The methods are consistent with the permitted alternative valuation methods under SII as set out in Article 10(5) - 10(7) of the Solvency II Delegated Regulation.

	Solvency II value £m				
Asset	**QMP/ QMPS**	**AVM**	**Total**	**Alternative valuation method**	**Assumption**
Assets held for index-linked and unit-linked contracts	36,701	52,571	89,272	Market approach, which uses prices and other relevant information generated by market transactions involving identical or similar assets, liabilities or group of assets and liabilities. Valuation techniques are consistent with the market approach (for example, levels of fair value hierarchy).	Various assumptions depend on class of asset.
Property, plant and equipment held for own use	–	5	5	Royal Institution of Chartered Surveyors ('RICS') Appraisal and valuation methodology.	Refer to section D.4.4.
Property (other than for own use)	–	557	557	Royal Institution of Chartered Surveyors ('RICS') Appraisal and valuation methodology.	As per RICS valuation manual and based on professional judgement of independent valuers. Refer to section D.4.4.
Holdings in related undertakings including participations	69	18,405	18,474	Refer to section D.4.1.	Refer to section D.4.1.
Corporate bonds	9,056	509	9,565	Combination of observable and non-observable market inputs including modelling. Refer to section D.4.4.	Comparable gilt, and spread applied.

D.4 ALTERNATIVE METHODS FOR VALUATION CONTINUED

D.4.1 Alternative valuation methods – assets continued

	Solvency II value £m				
Asset	QMP/ QMPS	AVM	Total	Alternative valuation method	Assumption
Government bonds	10,302	30	10,332	Combination of observable and non-observable market inputs including modelling. Refer to section D.4.4.	Comparable gilt, and spread applied.
Collective Investment Undertakings	–	603	603	Prices are obtained from published information representing the value at which units could be redeemed via the investment manager.	None
Deposits other than cash equivalents	2	–	2	AVM not applicable.	None
Collateralised securities	124	–	124	AVM not applicable.	None
Equities	3,097	108	3,205	Non-observable market input, primarily net asset value statements.	Refer to section D.4.1.
Derivatives	282	1,483	1,765	Market approach, which uses prices and other relevant information generated by market transactions involving identical or similar assets, liabilities or group of assets and liabilities. Valuation techniques consistent with the market approach include matrix pricing. All observable market inputs	Various assumptions used depending on derivative, including interest rate curve, discount curve and implied volatility.
Loans and mortgages	–	794	794	Valuation models using discount rate determined by adding a spread to a risk-free rate of return. The spread is based on appropriate comparable securities or transactions.	Comparable gilt and spread applied.

Holdings in participations held at fair value relate to holdings in open-ended funds and holdings in closed-ended investment vehicles. Open-ended funds comprise holdings in indirect property funds and holdings in daily priced investment funds.

The fair value of daily priced pooled investment funds is calculated as equal to the observable unit price. This is obtained from published information where available, otherwise the fair values of underlying assets and liabilities held by the fund, divided by the total number of units at the valuation date is used to calculate the unit price. Unit pricing of managed pooled investment funds does not meet the Solvency II criteria for QMP or QMPS categorisation since prices are not listed on a regulated market or multilateral trading facility.

There is a limited market for units in indirect property funds. Most transactions are carried out by an investor contacting a fund manager to discuss and then agree a price on a deal by deal basis. Price discussions for prospective trades commence with net asset value ('NAV'). Where the Company considers that NAV does not represent fair value, an alternative valuation methodology is used, subject to internal governance.

Equity and Venture Capital ('IPEVC') valuation guidelines. The valuation of these securities is largely based on inputs that are not based on observable market data, and accordingly these instruments are categorised as AVM. Where appropriate, reference is made to observable market data.

D.4 ALTERNATIVE METHODS FOR VALUATION CONTINUED

D.4.1 Alternative valuation methods – assets continued

The majority of close-ended investments valued using AVM are private equity limited partnerships, which are non-listed investments. The majority of the Company's private equity investments are carried out through European fund of funds structures, where the Company receives valuations from the investment managers of the underlying funds on a quarterly basis. Governance is undertaken to gain assurance over the appropriate value, and adjustments are made where applicable to reflect the impact of changes in market conditions between the date of the valuation and the end of the reporting period. Valuations are prepared in accordance with International Private Equity and Venture Capital ('IPEVC') valuation guidelines. The valuation of these securities is largely based on inputs that are not based on observable market data, and accordingly these instruments are categorised as AVM. Where appropriate, reference is made to observable market data.

Securities that are valued using broker quotes, which cannot be corroborated across a sufficient range of quotes, are considered to be valued using non-observable market data.

For a small number of debt securities, standard valuation models are used, as due to their nature and complexity they have a limited external market. Inputs into such models are based on observable market data, where applicable.

Derivative positions are valued using observable market inputs and they are subject to price verification against independent sources which are used to determine plausible alternative valuation ranges.

D.4.2 Valuation uncertainty (unaudited)

Valuation uncertainty is the range of plausible values that could be attributed to an asset or liability at a point in time. Valuation uncertainty arises chiefly when using AVMs, i.e. when using models where market prices are not readily available, but valuation uncertainty arises for all classes of assets and liabilities that are measured at fair value.

At 31 December 2018, valuation uncertainty ranges resulting from unobservable inputs is most significant for valuations of directly held property and private equity investments. There were no significant unobservable inputs at 31 December 2018 in relation to the valuation of derivatives and daily priced open-ended funds.

The table below provides a range of plausible values at 31 December 2018 for AVM balances:

Asset	Base value £m	Valuation uncertainty £m
Property	563	536 – 609
Indirect property investments reported in 'Holdings in related undertakings, including participations'	603	535 – 694
Indirect property investments reported in 'Equities – unlisted'	85	77 – 98
Private equity investments holdings reported in 'Holdings in related undertakings, including participations'	252	233 – 293
Private equity investments holdings reported in 'Equities – unlisted'	23	21 – 29
Unquoted bonds	539	515 – 566
Commercial real estate loans	348	341 – 354
Infrastructure loans	96	87 – 105
OTC derivatives (assets)	1,483	1,464 – 1,488
Collectives Investment Undertakings	17,304	17,302 – 17,306
Assets held for index-linked and unit-linked contracts	52,571	52,275 – 53,146

For index-linked and unit-linked contracts, any change in the valuation of assets is offset by a corresponding change in the value of policyholder liabilities, with no material impact on Own Funds. Changing unobservable inputs in the measurement of the fair value of assets and liabilities to reasonably possible alternative assumptions would not have a significant impact on total Own Funds.

D.4 ALTERNATIVE METHODS FOR VALUATION CONTINUED

D.4.3 Alternative valuation techniques – liabilities

The company uses alternative valuation techniques using non-observable market inputs for certain financial liabilities. These are used to value refinancing loans, which are based on a combination of independent third party evidence and internally developed models. All of the alternative valuation methods described below follow accepted market practice.

	Solvency II value £m				
Liabilities	**QMP/ QMPS**	**AVM**	**Total**	**Alternative valuation method**	**Assumption**
Deposits from reinsurers	4,098	–	4,098	DCF approach, using a market observable discount rate.	Contractual cash flows discounted using a swaps-based risk-free curve.
Derivatives	–	125	125	Market approach, which uses prices and other relevant information generated by market transactions involving identical or similar assets, liabilities or group of assets and liabilities. Valuation techniques consistent with the market approach include matrix pricing. All observable market inputs.	Various assumptions used depending on derivative, including interest rate curve, discount curve and implied volatility.

D.4.4 Significant unobservable inputs for AVM instruments

The table below presents information about the significant unobservable model inputs used for valuing instruments categorised as AVM. For each type of asset, the valuation technique, the key unobservable model inputs, the range of model inputs and the weighted average for that class of asset at 31 December 2018 is given.

31 December 2018	**Fair value £m**	**Valuation technique**	**Unobservable input**	**Range (weighted average)**
Property	5,392	Income Capitalisation	Equivalent Yield	3.6% to 9.1% (5.0%)
			Estimated rental value per square metre	£40 to £1,429 (£338)
		Income Capitalisation	Equivalent Yield	4.2% to 5.6% (4.6%)
			Estimated rental value per hotel room	£4,789 to £13,800 (£8,948)
Income strips	653	Income Capitalisation	Equivalent Yield	4.1% to 6.8% (5.2%)
Property	56	Market Comparison	Estimated rental value per square metre	£1 to £11,711 (£3,722)
Indirect property	991	Adjusted net asset value	Adjustment to net asset value	N/A
Private equity investments	275	Adjusted net asset value	Adjustment to net asset value	N/A
Corporate bonds (unquoted bonds)	539	Discounted cash flow	Credit spread	0.8% to 4.0% (2.1%)
Loans and mortgages (commercial mortgages)	348	Discounted cash flow	Credit spread	1.5% to 2.9% (2.0%)
Loans and mortgages (infrastructure loans)	96	Discounted cash flow	Credit spread	1.1% to 3.4% (2.2%)

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

SECTION E

CAPITAL MANAGEMENT

E.1.1 Introduction

This section provides information on the Company's Own Funds and SCR, including changes over the reporting period, together with an explanation of the material differences between net assets under IFRS and the Solvency II excess of assets over liabilities.

A Solvency II capital assessment involves valuation of Own Funds in line with Solvency II regulations and a risk-based assessment of the SCR. Solvency II surplus is the excess of Eligible Own Funds over the SCR.

The Company holds an amount of Eligible Own Funds that is greater than the SCR to allow for adverse events in the future that may reduce Own Funds and might otherwise cause failure to maintain the minimum level of regulatory capital, the Minimum Capital Requirement ('MCR').

KEY SOLVENCY METRICS

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

	31 December 2018	31 December 2017
Eligible Own Funds	4,203	6,449
SCR*	2,477	3,245
Solvency II surplus	**1,726**	**3,204**
Ratio of Eligible Own Funds to SCR	**170%**	**199%**
Shareholder capital coverage ratio*	**186%**	**191%**

* Unaudited.

As at 31 December 2018, the Company's Solvency II surplus over the Company SCR is £1,725million, with a ratio of Eligible Own Funds to SCR of 170%.

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. This includes Transitional Measures on Technical Provisions ('TMTP') which are included in the calculation of Basic Own Funds as Tier 1 capital.

The Company does not have any Ancillary Own Funds.

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.

SHAREHOLDER CAPITAL COVERAGE RATIO

Eligible Own Funds of the HWPF are surplus assets in the fund that are ultimately owed to policyholders under the HWPF Scheme of Transfer, and they are not available to cover the risks outside of the fund. As a result the Eligible Own Funds of the HWPF are recognised only to a maximum of the HWPF notional SCR (the element of the SLAL Entity SCR in relation to risks to the Eligible Own Funds of the HWPF).

The Company focuses on the metric of shareholder capital coverage ratio, as a more appropriate measure of the extent to which shareholders' Eligible Own Funds cover the associated risk capital. It is defined as the ratio of Eligible Own Funds to SCR, after adjustment to exclude amounts relating to unsupported with-profit funds (being the HWPF).

As at 31 December 2018, the shareholder capital coverage ratio for the Company is 186% (2017: 191%).

E.1 OWN FUNDS

E.1.2 Management of Own Funds

The Company adopted the liquidity and management policy of Standard Life Aberdeen in the period 1 January 2018 to 31 August 2018. Following the sale of the Company to PGH Group, the Company has continued to adopt its existing capital framework. Harmonisation with the PGH Group capital management framework is due to be completed during 2019.

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

The Company 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 at least tri-annually. 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.

Alongside the above, the HWPF Investment Risk Framework is used to determine appropriate levels of investment risk to be borne in the HWPF and investment risk levels in the GWPF are set consistently. The HWPF Investment Risk framework tests the capital coverage of the HWPF on defined absolute scenarios and where this is judged to be too low or too high under the framework, the Company would seek to reduce or increase investment risk in the funds as appropriate to deliver the best outcomes to policyholders.

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

E.1 OWN FUNDS CONTINUED

E.1.3 Structure and quality of Own Funds

Own Funds are split into Tiers in line with the regulations. There are three 'Tiers' based on both 'permanence' and 'loss absorbency' (Tier 1 being the highest quality). Tier 1 is further divided into 'unrestricted' and 'restricted' Tier 1.

Own Funds which are classified as 'unrestricted' Tier 1 include share capital, surplus funds and the reconciliation reserve.

The regulations impose limits on the amount of each Tier that can be held to cover capital requirements with the aim of ensuring that the items will be available if needed to absorb any losses that may arise. Own Funds items need to be sufficient in amount, quality and liquidity to be available when the liabilities they are to cover arise. Items with a fixed duration or a right to redeem early may not be available when needed. Similarly, obligations to pay distributions or interest will reduce the amount available. The rules on 'tiering' are designed to reflect the existence of such features.

E.1.4 Analysis of solvency position

The table below summarises the SLAL solvency position at 31 December 2018. The Own Funds QRT S.23.01.22 can also be found in Appendix 1.

Description	Section reference	Unrestricted Tier 1	Tier 2	Tier 3	31 December 2018 total	31 December 2017 total
		£m	£m	£m	£m	£m
Ordinary share capital	E.1.4.1	21	–	–	**21**	**21**
Share premium account related to ordinary share capital	E.1.4.1	118	–	–	**118**	**118**
Surplus funds	E.1.4.1	1,648	–	–	**1,648**	**1,322**
Reconciliation reserve (pre-availability restrictions)	E.1.4.1	3,585	–	–	**3,585**	**4,866**
Net Deferred tax assets	E.1.4.1		–	20	**20**	**20**
Excess of assets over liabilities		**5,372**	**–**	**20**	**5,392**	**6,347**
Subordinated liabilities	E.1.4.1	–	–	–	**–**	**1,023**
Total Basic and Available Own Funds		**5,372**	**–**	**20**	**5,392**	**7,370**
Ring-Fenced Fund restriction	E.1.4.2	(1,189)	–	–	**(1,189)**	**(921)**
Eligible Own Funds to meet SCR		**4,183**	**–**	**20**	**4,203**	**6,449**
SCR	E.2.1	(2,477)			**(2,477)**	**(3,245)**
Solvency II surplus					**1,726**	**3,204**
Ratio of Eligible Own Funds to SCR	E.1.1.1				**170%**	**196%**
Shareholder capital coverage ratio	E.1.1.1				**186%**	**191%**
Eligible Own Funds to meet MCR		**–**	**–**	**–**	**4,183**	**6,429**
MCR					**(1,115)**	**(1,288)**
Excess over MCR					**3,068**	**5,141**
Ratio of Eligible Own Funds to MCR					**375%**	**499%**

E.1 OWN FUNDS CONTINUED

E.1.4 Analysis of solvency position continued

E.1.4.1 Basic Own Funds

The Company's Basic Own Funds total £4,203 million (2017: £6,449 million) and comprise of ordinary share capital, share premium account related to ordinary share capital, surplus funds, a reconciliation reserve and deferred tax assets. 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 £21 million (2017: £21 million) and is treated as Tier 1 unrestricted Own Funds. The Articles of Association of SLAL 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.

Share premium account related to ordinary share capital

The share premium account related to ordinary share capital of £118 million (2017: £118 million) is treated as Tier 1 unrestricted Own Funds.

Surplus funds

Surplus funds represent accumulated profits within a with-profits fund which have not yet been made available for distribution to policyholders. They satisfy the characteristics of Tier 1 because they will only be distributed to policyholders in the future if it is appropriate to do so and are loss-absorbent because future distributions can be reduced if the amount of accumulated profits reduces due to future losses. They are generally only available to meet losses arising within the relevant with-profit fund and this is taken into account by restricting the Own Funds of each fund to the amount required to cover that fund's notional SCR.

The Company Basic Own Funds include surplus funds of £1,648 million (2017: £1,322 million) which are classified as Tier 1 unrestricted Own Funds. The regulations require certain elements of the Solvency II balance sheet to be ring fenced in order not to disadvantage policyholders in certain funds. Therefore, since the surplus funds exist in the with-profit funds, they are subject to Ring Fenced Fund ('RFF') restrictions. Surplus funds can only be included in Eligible Own Funds up to the value of the SCR they are used to support. A restriction is required to be made for any amount of surplus funds in excess of the relevant SCR by deduction from the reconciliation reserve (see section E.1.4.2).

The Company has reviewed all types of arrangement that may be classified as ring-fenced under Solvency II rules. The significant ring-fenced funds which were identified by the review are the Company's HWPF and GWPF. The excess of assets over liabilities of the HWPF and GWPF (excluding risk margin and burnthrough) are reported as surplus funds.

The HWPF and GWPF contribute to Own Funds through charges which the funds are required by the legal and contractual arrangements under which they are constituted to pass to shareholders, reduced to allow for the probability weighted value of any charges which may be withheld by the fund or additional assets which shareholder funds may be required to provide (burnthrough). Own funds representing the present value of future scheme charges net of burnthrough are not attributed to the HWPF or GWPF but are attributed to the shareholder. These items of Own Funds are available to absorb losses and are therefore not restricted.

Subordinated liabilities

In 2018 Tier 1 – restricted Own Funds total £nil (2017: £1,023m). The movement in restricted Own Funds for the year relates to the settlement of the subordinated liabilities balance with SLA plc.

Tier 2 capital

No amounts were held in relation to Tier 2 capital for the year to 31st December 2018 (2017: £nil)

Reconciliation reserve

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. The reconciliation reserve is calculated as follows:

E.1 OWN FUNDS CONTINUED

E.1.4 Analysis of solvency position continued

E.1.4.1 Basic Own Funds continued

	Reconciliation Reserve	31 December 2018 £m	31 December 2017 £m
Standard Life Assurance Limited	Excess of assets over liabilities	5,392	6,347
	Deduct other Basic Own Funds items		
	Ordinary share capital	(21)	(21)
	Share premium account related to ordinary share capital	(118)	(118)
	Surplus funds	(1,648)	(1,322)
	Net deferred tax asset – Tier 3	(20)	(20)
	Reconciliation reserve pre availability restrictions	**3,585**	**4,866**
	Ring Fenced Fund restriction	(1,189)	(921)
	Reconciliation reserve total (as shown on Own Funds QRT)	**2,396**	**3,945**

Availability restrictions applied to the reconciliation reserve above together with other relevant considerations made in assessing the availability of Company Own Funds are detailed in section E.1.4.2.

Deferred tax assets

A deferred tax asset of £20 million is included as Tier 3 Own Funds and further detail is included in section D.1.3. The table below sets out an analysis of movement in the deferred tax asset during the year.

Opening deferred tax assets (Tier 3) at 1 January 2018	20
Closing deferred tax assets (Tier 3) at 31 December 2018	20

E.1.4.2 Availability restrictions

As shown in the reconciliation reserve table above (see section E.1.3.1), the total non-available Company Own Funds are £1,189 million. Further details on each of the restrictions are included below.

Ring-Fenced Funds restriction

The regulations specify that certain Own Funds items in RFFs and Matching Adjustment portfolios should be restricted. This means they can only be included in the calculation of Company solvency at an amount less than or equal to the RFF and Matching Adjustment portfolios notional SCR.

The with-profit funds in the Company are treated as RFFs. The items of Own Funds within each with-profit RFF are the value of surplus funds, present value of expenses collected from the underlying policies, risk margin, TMPT, burnthrough asset and any shareholder capital support received. The Matching Adjustment portfolios are annuity funds and are also treated as RFFs. Any Own Funds above SCR in the Matching Adjustment portfolios are treated similarly and also shown as a deduction to the reconciliation reserve.

There are no restrictions for Matching Adjustment portfolios at 31 December 2018.

The excess of assets over liabilities for SLAL for the RFF and Matching Adjustment portfolios are £1,689 million.

Foreseeable dividends

There was no final dividend for the year ended 31 December 2018, and therefore no deduction has been made from the reconciliation reserve in respect of foreseeable dividends.

E.1 OWN FUNDS CONTINUED

E.1.4 Analysis of solvency position continued

E.1.4.3 Analysis of movement in capital position

The table below provides an analysis of significant changes in the capital position during the year, including Own Funds, SCR and Solvency II surplus.

Analysis of movement in solvency position (£m)	Note	Own Funds £m	Eligible Own Funds after RFF Restriction £m	SCR (unaudited) £m	Solvency II surplus £m
Opening position at 1 January 2018		**7,370**	**6,449**	**(3,245)**	**3,204**
Expected run-off	1	19	19	160	179
New business	2	114	114	(127)	(13)
With-profit estate distribution	3	(52)	0	0	0
Management actions	4	(66)	(3)	392	389
Demographic experience variances (including changes to assumptions)	5	(3)	(61)	(118)	(179)
Economic variances on long-term business	6	465	45	199	243
Movement in risk margin and TMTP	7	(59)	(58)	0	(58)
Actions to facilitate sale to Phoenix	8	(2,397)	(2,397)	351	(2,046)
Other capital items	9	0	95	(89)	6
Closing position at 31 December 2018		**5,391**	**4,202**	**(2,477)**	**1,725**

E.1 OWN FUNDS CONTINUED

E.1.4 Analysis of solvency position continued

E.1.4.3 Analysis of movement in capital position continued

Note	Item	Information
1	**Expected run-off**	Policy run-off over the year resulted in the release of the related SCR requirements and increased the Solvency II surplus by £179 million.
2	**New business**	Increase in the value of future charges less future expenses as a result of writing new business, offset by the acquisition costs and increase in capital requirements. Note the value of expected future premiums is not included on the Solvency II balance sheet, and the movement in the risk margin due to new business is not included in this item.
3	**With-profit estate distribution**	Distribution of the HWPF estate to policyholders reducing Own Funds within the HWPF. This has no material effect on the shareholder position.
4	**Management actions**	Management actions throughout the year have increased the Solvency II surplus by £389 million. This principally comprised a reduction in the SCR due to the implementation of an equity hedge to provide protection against the impact of a fall in equities on the value of future management charges upon policyholder business, and a reduction in the SCR due to an indemnity provided by SLA plc to protect the Company from the risk of higher than expected costs in respect of historic annuity sales practices.
5	**Demographic experience variances (including changes to assumptions)**	Assumption changes to more accurately reflect customer behaviours in drawdown for self invested personal pensions ('SIPP') have increased Own Funds and the SCR, while long-term expense assumption changes to reflect the position of the Company following the sale to PGH have reduced Own Funds and the SCR. The Solvency II surplus has also increased due to a change in annuity mortality assumptions to reflect the heavier mortality experience observed in recent years. In addition, Own Funds have decreased due to the recognition of a further year of expected project costs and policyholders moving into funds with lower management charges.
6	**Economic variances on long-term business**	Economic variances on long-term business increased the Solvency II surplus by £243 million over the year. The movement in Own Funds in the shareholder environment was relatively small as assets are matched to the annuity liability cash flows and gains in the equity hedge offset the reduction in the value of future management charges. Economic variances reduced the SCR by reducing the exposure to further reductions in the value of future management charges and to reductions in the value of the annuity portfolio. There has also been a significant increase in Own Funds within the HWPF due to gains on the assets backing guarantees relative to the value of the guarantees on a Solvency II basis. This has no material effect on the shareholder position.
7	**Movement in risk margin and TMTP**	Changes in risk margin of £105 million and TMTP of £(162) million decreased the overall Solvency II surplus by £(58) million. The TMTP recalculation is detailed in section D.2.7.2.
8	**Actions to facilitate sale to Phoenix**	The actions taken to facilitate the sale of the Company to Phoenix reduced the Solvency II surplus by £2,046 million through the removal of the defined benefit pension schemes from the SLAL balance sheet, repayment of the subordinated debt and the transfer of SLSL to SLA.
9	**Other capital items**	This mostly relates to changes in diversification between risks within the HWPF and does not materially affect the shareholder position.

E.1 OWN FUNDS CONTINUED

E.1.4 Analysis of solvency position continued

E.1.4.4 Reconciliation of IFRS equity to excess of assets over liabilities

The table below provides an analysis of the key differences between the Company's net assets under IFRS and the excess of assets over liabilities under Solvency II.

SLAL

	Section	31 December 18 £m	31 December 17 £m
Total equity per IFRS		**1,496**	**3,274**
Valuation differences:			
Assets increase/(decrease):			
Intangible assets/Deferred Acquisition Costs	D.1.2	(580)	(653)
Reinsurance recoverables	D.1.2	14	(239)
Holdings in related parties, including participations	D.1.2	(50)	(242)
Deferred tax assets	D.1.2	19	13
Total asset valuation differences		**(597)**	**(1,121)**
Liabilities (increase)/decrease:			
Technical provisions	D.2.2	4,848	5,328
Deferred tax liabilities	D.1.2	(485)	(586)
Subordinated liabilities	D.1.2	–	(705)
Any other liabilities not elsewhere shown	D.1.2	130	157
Total liability valuation differences		**4,493**	**4,194**
Excess of assets over liabilities	D.1.2	**5,392**	**6,347**

E.2 SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT

E.2.1 Solvency Capital Requirement

Note that the SCR has not been subject to external audit at 31 December 2018.

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

Capital requirements for the Company are determined using SLAL's Partial Internal Model. The contribution of SL Intl is determined on a standard formula basis. The results of the Partial Internal Model for the Company are combined with the standard formula results for SL Intl by adding the two capital requirements together. This approach does not make any allowance for the effects of diversification between the Company and SL Intl.

Analysis of SCR – 31 December 2018	Note	SLAL Partial Internal Model £m
Risk categories		
Undiversified SL Intl capital requirements	1	107
Underwriting risk (i.e. insurance risk)	2	1,267
Market and credit risk	3	1,982
Liquidity risk	4	–
Operational risk	5	431
Other risks	6	0
Total undiversified SCR		**3,788**
Diversification benefits	7	(1,311)
Total SCR		**2,477**

The final SCR is not subject to supervisory assessment. There are no capital add-ons and SL Intl has not applied to use undertaking specific parameters when calculating the Standard Formula SCR.

E.2 SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT CONTINUED

E.2.1 Solvency Capital Requirement continued

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	**Undiversified SL Intl capital requirements**	This is the total capital requirements in respect of SL Intl before allowing for diversification between the risks within SL Intl.
2	**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, longevity risk and expense risk. More details on these risks are included in section C.1.
3	**Market and credit 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. 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	**Liquidity risk**	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. More details on these risks are provided in section C.4.
5	**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.
6	**Other risks**	There are no other material risks to which SLAL is exposed.
7	**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 full risk distribution approach.

E.2 SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT CONTINUED

E.2.2 Changes in SCR

The material changes in the SCR and reasons thereof are set out in section E.1.4.3.

E.2.3 Minimum Capital Requirement

As set out in section E.1.4, SLAL's MCR at 31 December 2018 is £1,115 million (2017: £1,288 million).

The MCR for the Company is calculated according to a formula prescribed by the regulations and is subject to a floor of 25% of the SCR or EUR 3.7 million, whichever is higher, and a cap of 45% of the SCR. The MCR, formula is based on factors applied to the technical provisions and capital at risk as at 31 December 2018.

The components of the overall calculation of the MCR as at 31 December 2018 are:

Calculation of MCR – 31-Dec-18	SLAL £m
MCR before the application of floors and caps	1,213
MCR cap (45% of SCR)	1,115
MCR floor (higher of 25% of SCR or EUR 3.7m)	619
MCR (post application of floors and caps)	**1,114**

The changes in MCR during the reporting period are set out below:

Analysis of change in MCR	SLAL £m
1 January 2018	1,288
31 December 2018	1,115
Movement in MCR	**(173)**

The MCR at the previous reporting period was based on the MCR before the application of the floors and caps. The reduction in the SCR over the period has led to the MCR cap constraining the MCR, so the MCR at the current reporting date is driven by the SCR.

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

The UK has not implemented the member state option in the regulations to permit the use of this sub-module for the Standard Formula calculation (or in the Partial Internal Model), and therefore the Company does not use the duration-based equity risk sub-module in the calculation of the SCR.

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

E.4.1 Purposes for which SLAL is using its internal model

The Internal Model output is used in the following Own Risk and Solvency Assessment processes:

- **Insight and Reporting** – regular monitoring of key risk and capital metrics.
- **Business cycle decision-making** – supports key business decisions through our stress and scenario testing programme and the setting of quantitative risk limits and investment benchmarks.
- **Strategic decision-making** – supports the longer terms strategic decisions in running our business, including customer proposition development.
- **Business planning support** – assists in developing our annual business plan by analysing the resilience of our balance sheet to economic scenarios and point in time stresses.

E.4.2 Scope of the internal model in terms of business units and risk categories

See Section A.1 for a diagram showing the structure of the Company broken down by entities, with each business unit colour coded depending on their treatment under Solvency II.

The coverage of the internal model risk categories is based on the risks included in the Company's Enterprise Risk Management framework (ERM framework). SLAL's Partial Internal Model covers the subset of risks identified in the ERM framework which are quantifiable and material.

In addition to the risks covered by the ERM framework, sovereign debt basis risk is also included in the Internal Model as required by the Prudential Regulation Authority's Supervisory Statement SS30/15.

The risk categories used in the Internal Model include:

- equity (including equity implied volatility);
- basis risk;
- property (including property implied volatility);
- currency;
- interest rates;
- swaption implied volatility;
- credit (spread, counterparty);
- gilt swap spread risk;
- longevity (including proportions married for joint-life annuities);
- persistency mis-estimation and dependent persistency;
- expense risk (including inflation risk not allowed for within the interest rates risk category);
- mortality mis-estimation and mortality catastrophe;
- morbidity mis-estimation and catastrophe;
- operational risk; and
- new business risk (adverse variation in business mix or volume over the next year).

A fuller description of material risks is included in section C. The Internal Model does not include liquidity risk, as described in Section C.4, given that this risk is more appropriately considered using qualitative techniques.

E.4.3 Integration of the internal model into the standard formula

As described in section E.2.1, the results of the Partial Internal Model for the Company are combined with the standard formula results for SL Intl by adding the two capital requirements together. This approach does not make any allowance for the effects of diversification between the Company and SL Intl.

E.4.4 Calculation of Probability Distribution Forecast

The Company's approach is to calculate the SCR directly from the probability distribution forecast as the value at risk of Own Funds at a 99.5% confidence level over a one-year time horizon, in line with Solvency II requirements.

The probability distribution forecast of changes in value of Own Funds is determined by simulating the joint distribution of changes in the individual risk factors and calculating the change in Own Funds in each simulation. The model consists of a set of functions which describe changes in Own Funds as a function of changes in risk factors. These functions are calibrated using changes in the values of assets and liabilities obtained by modelling a large number of scenarios using the full actuarial model suite.

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

E.4.5 Methodology and assumption differences between Standard Formula and Internal Model

The key differences between the methodologies and underlying assumptions used in the standard formula and in the internal model are as follows for the key features and risk modules:

Feature or Risk Module	Key Differences
Methods used to calibrate the distributions	The methods used to calibrate the distributions for the Internal Model have been developed independently from the standard formula. As a result there are differences in each of these from the standard formula, in terms of both the granularity of the stress and the level of the stress.
Risk categorisation and granularity	As an Internal Model firm, we have designed our model around the risks to which we are exposed, ensuring that each risk module is constructed with these exposures in mind. This will therefore include risks that are not included in the Standard Formula (see section E.4.9) and the data used to calibrate our stresses (and to help set our correlations) is in line with risks we are exposed to. The granularity of each of the risk modules has also been chosen considering our risk exposures and therefore in many instances the granularity of our stresses is different to that of the standard formula.
Aggregation	Our overall approach to aggregating the risk modules to calculate our capital requirements is also different to that used by the standard formula; where the Standard Formula approach uses a correlation matrix approach, our Internal Model uses a simulation approach which is described further in sections E.4.6 and E.4.8.
Equity risk	The Internal Model equity stress is calibrated at a more granular level, using market data. Standard Formula equity stress includes a dampener to reduce pro-cyclicality.
Credit (spread) risk	Internal model stresses are calibrated using market data, and include a split by sector (financial/non-financial) which is not included in Standard Formula stresses.
Longevity risk	The standard formula longevity stress is a 20% reduction in mortality rates. Our Internal Model stress is calibrated using relevant experience and explicitly allows for future mortality improvements.
Fixed interest risk	Standard formula stresses are a proportion of the base yield curve. Internal Model stresses are absolute stresses which capture changes in level, shape and curvature of the yield curve.
Lapse risk	The Standard Formula mass lapse stress reflects an instantaneous lapse rate of either 40% or 70%, depending on the nature of the product. The Internal Model dependent persistency stress incorporates market and operational risk elements and is applied as a multiple of base persistency rates.
Operational risk	The Standard Formula uses a factor based approach, with weightings applied to different metrics, such as expenses on unit-linked business. The Internal Model capital requirement is derived using input from business subject matter experts to determine the frequency and severity of operational risk events.

E.4.6 Internal Model approach

The Company's approach is to calculate the SCR as the Value-at-Risk of its own funds subject to a confidence level of 99.5% over a one-year period. This is the same as the risk measure and time period required in Solvency II regulations. To calculate this, we use a simulation approach and look at each of the individual risks and combinations of the risks at multiple probability levels.

E.4.7 Nature and appropriateness of data

A range of information is used within the Internal Model; this includes the relevant market data (both current for the valuation date, and the historic data to calibrate stresses), and internal policyholder data used to calculate our liabilities as well as historic policyholder experience to calibrate our underwriting risk stresses. The sources used in each instance have been chosen considering the range of options available and the appropriateness of the data sets for the purpose for which they're used. Where external data is used, this is sourced from reputable suppliers (e.g. Office for National Statistics, Bank of England, Continuous Mortality Investigation). We also have an internal data governance framework, which sets the standard to which the data we use must meet, and is used as a means to escalate any issues appropriately.

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

E.4.8 Aggregation methodologies and diversification effects used in the Internal Model

Under several hundred scenarios selected from the risk categories and key combination of risk categories, the balance sheet is stressed using our detailed 'heavy models' of the business. Mathematical formulae called loss functions are then fitted to the balance sheet impact of these selected stresses which allows us to describe the behaviour of the balance sheet under a wide range of scenarios.

We then simulate millions of possible future scenarios from our risk distributions – allowing for the diversification between risks – and assess the impact on the balance sheet using the loss functions. The balance sheet losses for each simulated scenario are then ranked and the SCR is the 99.5th percentile balance sheet loss.

The correlations between risks are set using a combination of analysis of historic data (using consistent datasets to that used to calibrate the individual risk distributions) and expert judgement.

E.4.9 Risks not covered by the standard formula but covered by the internal model

The additional risks that are covered by the Company's Internal Model, but not by the standard formula are:

Risk	Description
Equity implied volatility risk	The risk that the expected volatility of equity markets increases.
Property implied volatility risk	The risk that the expected volatility of property markets increases.
Swaption implied volatility risk	The risk that the expected volatility of interest rates increases.
Sovereign spread risk	The risk that AAA rated government bonds fall in value without a corresponding change in swap rates.
Equity basis risk	The risk that the value of our equity investments move out of line with the equity indices used to price the equity derivatives that we have in place (in particular to hedge the equity risk on with-profits policyholder guarantees).
Proportion married risk	The risk of mis-estimating the proportion of reversionary annuities where there is a spouse who would be eligible to receive an annuity (if the main life died).
New business risk	The risk that adverse deviations in volume and mix of new business impact the capital position over the one-year time horizon of the capital assessment.

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 Own Funds and SCR.

GLOSSARY

ABERDEEN ASSET MANAGEMENT OR ABERDEEN	Aberdeen Asset Management PLC, or Aberdeen Asset Management PLC and its subsidiaries.
ANNUITY	A periodic payment made for an agreed period of time (usually up to the death of the recipient) in return for a cash sum. The cash sum can be paid as one amount or as a series of premiums. If the annuity commences immediately after the payment of the sum, it is called an immediate annuity. If it commences at some future date, it is called a deferred annuity.
ASSET SHARES	The asset share of a policy is the accumulation of premiums (less any amounts in respect of withdrawals) at the rate of investment return earned on the with-profits assets, less deductions for expenses and charges (including any deductions for guarantees or contributions to the capital of the HWPF), tax and any other experience adjustments.
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 Assurance Limited (the Company).
BURNTHROUGH	According to the Scheme of Demutualisation, in certain circumstances the HWPF may withhold transfers to shareholders and requires that, in extremis, shareholders contribute additional assets if the fund is unable to meet its obligations to policyholders. This is known as burnthrough.
CAPITAL RESOURCES	Capital resources include the assets in excess of liabilities, valued on a regulatory basis, and certain other components of capital.
COMPANY	Standard Life Assurance Limited.
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.
CONVENTIONAL WITH PROFITS (CWP)	A form of with-profits contract where the benefit is expressed in terms of sum assured, regular (or reversionary) bonuses and final (or terminal) bonus.
COST OF GUARANTEES	This is the expected cost of providing investment guarantees (e.g. guaranteed minimum level of unit growth) to with-profits policyholders. A guarantee has a cost if the guaranteed amount is greater than the pay out (which is generally based on asset share) would otherwise have been.
DETERMINISTIC MODEL	An actuarial projection model in which the input variables are defined in terms of a single best estimate value leading to a point estimate of the value of future cash flows. In comparison, stochastic models use a range of input variables (e.g. future investment returns) in the form of probability distributions leading to a number of modelled outcomes.
DIRECTOR	A Director of the Company.
DISCOUNTING	The reduction to present value at a given date of a future cash transaction at an assumed rate, using a discount factor reflecting the time value of money. The choice of a discount rate will usually greatly influence the value of insurance provisions, and may give indications on the conservatism of provisioning methods.
ECONOMIC ASSUMPTIONS	Assumptions in relation to future interest rates, investment returns, inflation and tax.
ECONOMIC SCENARIO GENERATOR (ESG)	An ESG generates a large number of economic scenarios which are used to value insurance liabilities.
EIOPA	European Insurance and Occupational Pensions Authority.
ESTATE OR RESIDUAL ESTATE	The excess of assets available to the with-profits fund over the value of liabilities.

EXECUTIVE MANAGEMENT	The executive management team is responsible for the day-to-day running of the business of the Group and the Company.
EXTERNAL FUND LINKS (EFL)	These are unit-linked fund options on Standard Life Aberdeen products, where the funds are not managed by Standard Life Aberdeen.
FCA	Financial Conduct Authority.
GERMAN WITH PROFITS FUND (GWPF)	This fund contains the investment element of the post-demutualisation German with-profits business written in the Proprietary Business Fund (PBF).
GROUP BOARD	The Board of Directors of Phoenix Group Plc.
GUARANTEED BENEFITS	Any minimum benefits guaranteed to be paid on dates or events specified under the relevant policy.
HERITAGE WITH PROFITS FUND (HWPF)	The Heritage With-Profits Fund contains all business – both with profits and non-profit – written before demutualisation in the UK, Irish or German Standard Life branches, with the exception of the classes of business which the Scheme of Demutualisation allocated to funds outside the HWPF. The HWPF also contains increments to this business.
IMPLIED VOLATILITY	Reflects the financial market's view of the probabilities of a range of future market scenarios. It is a key assumption in a market consistent valuation.
INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)	International Financial Reporting Standards are accounting standards issued by the International Accounting Standards Board (IASB).
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 Liabilities 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.
MATURE BOOKS/BUSINESS	Mature books are expected to provide a stable and consistent contribution to our profit. This includes UK mature Retail books and spread/risk based business. It also includes the with profits business in Germany which closed to new business in April 2015.
MERGER	The merger of Standard Life plc and Aberdeen Asset Management PLC through the acquisition by Standard Life plc of the entire issued ordinary share capital of Aberdeen Asset Management PLC on 14 August 2017.
MINIMUM CAPITAL REQUIREMENT (MCR)	The MCR represents an absolute floor to the level of Eligible Own Funds that the insurance undertaking is required to hold under Solvency II.
NON ECONOMIC ASSUMPTIONS	Assumptions in relation to future expenses and future lapses, withdrawal, retirement, mortality and morbidity rates.
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.
OWN FUNDS	Under Solvency II, the capital resources available to meet solvency capital requirements are called own funds.
PRA	Prudential Regulation Authority.

PRESENT VALUE OF FUTURE SCHEME CHANGES	A balance sheet liability to transfer the profits arising from the PVIF of some business to shareholders when it has arisen. The products this relates to were specified in the Scheme of Demutualisation. It is largely unitised with profits and unit-linked business (so excludes immediate annuities and conventional with-profits business).
PRESENT VALUE OF IN-FORCE BUSINESS (PVIF)	The expected future profits (usually excess of charges over expenses) on existing business.
PRINCIPLES AND PRACTICES OF FINANCIAL MANAGEMENT	Public document that sets out the basis on which with-profits business will be managed. As part of demonstrating that customers are treated fairly, the Board certifies that the PPFM has been complied with.
QUANTITATIVE REPORTING TEMPLATE (QRT)	Templates used for the supervisory reporting and public disclosure of quantitative data under Solvency II.
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.
RING-FENCED FUNDS	Ring-fenced funds are arrangements as a result of which certain items of Own Funds have a reduced capacity to fully absorb losses on a going concern basis due to their lack of transferability within the undertaking.
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.
SCHEME OF DEMUTUALISATION OR THE SCHEME	The scheme pursuant to Part VII of, and Schedule 12 to, the Financial Services and Markets Act 2000, under which substantially all of the long-term business of SLAC was transferred to Standard Life Assurance Limited on 10 July 2006.
SLAL	Standard Life Assurance Limited.
SLCM	Standard Life Client Management Limited.
SLI	Standard Life Investments Limited.
SL INTL	Standard Life International Designated Activity Company.
SMOOTHING	The practice of smoothing can help to reduce the effects of fluctuations in investment returns on with-profits payouts. SLAL aims to operate smoothing of payouts in such a way as to be neutral for with profits policyholders as a whole over time. This practice can lead to a balance sheet smoothing cost where it is expected that past smoothing losses cannot be recovered due to guarantees biting.
SOLVENCY II	Solvency II is an EU-wide initiative that brings consistency to how EU insurers manage capital and risk. Solvency II was implemented on 1 January 2016.
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 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).
SOLVENCY COVER	Solvency II Own funds divided by the Solvency capital requirement.

SPREAD/RISK BUSINESS	Spread/risk business mainly comprises products where we provide a guaranteed level of income for our customers in return for an investment, for example, annuities. The 'spread' referred to in the title primarily relates to the difference between the guaranteed amount we pay to customers and the actual return on the assets over the period of the contract.
STANDARD LIFE	The brand name for our Pensions and Savings business, operating in the UK and Europe.
STANDARD LIFE GROUP	Prior to demutualisation on 10 July 2006, SLAC and its subsidiaries and, from demutualisation on 10 July 2006 to 13 August 2017, Standard Life plc and its subsidiaries.
STOCHASTIC MODELLING	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.
SUBORDINATED LIABILITIES	Subordinated liabilities are debts of a company which, in the event of liquidation, rank below its other debts but above share capital.
TECHNICAL PROVISIONS	The best estimate market consistent value of our policyholder liabilities is referred to as technical provisions. The calculation is discounted to recognise the time value of money and includes a risk margin, calculated in accordance with Solvency II regulations.
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').
TRANSITIONAL MEASURE ON TECHNICAL PROVISIONS	Solvency II regulations allow insurers to smooth the introduction of new rules for calculating policyholder liabilities. This relief includes a deduction from the amount of Solvency II technical provisions, based on the difference between technical provisions under the previous regulatory framework and Solvency II. The deduction decreases over the course of 16 years from 1 January 2016.
UNIT-LINKED POLICY	A policy where the benefits are determined by reference to the investment performance of a specified pool of assets referred to as the unit-linked fund.
UNITISED WITH-PROFITS (UWP)	A form of with-profit contract where the benefit is expressed in terms of a unit fund (with a guaranteed minimum level of growth), and a final (or terminal) bonus.
VINTAGE UNITS	A vintage unit method is used in practice for calculating terminal bonus rates on policyholder payouts in respect of UWP pensions business. Regular premium policies are effectively considered as if they were a series of single premium policies, with a terminal bonus rate being calculated separately for each year of payment. The same terminal bonus rates are used for regular and single premium policies, and the terminal bonus rate cannot be negative.
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.
WITH-PROFITS ACTUARY	The With-Profits Actuary advises the Company (Standard Life Assurance Limited) on the management of the with profits business and in particular on the fair treatment of customers invested in with-profits.
WITH-PROFITS POLICY	A policy where, in addition to guaranteed benefits specified in the policy, additional bonuses may also be payable.

APPENDIX AND ADDITIONAL INFORMATION

IN THIS SECTION

APPENDIX AND ADDITIONAL INFORMATION

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2018)
Appendix 1.1 – S.02.01.02 balance sheet

		Solvency II value
		C0010
Assets		
Intangible assets	R0030	
Deferred tax assets	R0040	19,723
Pension benefit surplus	R0050	
Property, plant & equipment held for own use	R0060	5,403
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	44,628,739
Property (other than for own use)	R0080	557,323
Holdings in related undertakings, including participations	R0090	18,474,353
Equities	R0100	3,204,544
Equities – listed	R0110	3,096,545
Equities – unlisted	R0120	107,999
Bonds	R0130	20,021,823
Government Bonds	R0140	10,332,531
Corporate Bonds	R0150	9,565,240
Structured notes	R0160	
Collateralised securities	R0170	124,052
Collective Investments Undertakings	R0180	603,134
Derivatives	R0190	1,765,480
Deposits other than cash equivalents	R0200	2,082
Other investments	R0210	
Assets held for index-linked and unit-linked contracts	R0220	89,293,430
Loans and mortgages	R0230	794,308
Loans on policies	R0240	1,829
Loans and mortgages to individuals	R0250	27,284
Other loans and mortgages	R0260	765,195
Reinsurance recoverables from:	R0270	7,069,493
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	4,160,967
Health similar to life	R0320	102,100
Life excluding health and index-linked and unit-linked	R0330	4,058,867
Life index-linked and unit-linked	R0340	2,908,526
Deposits to cedants	R0350	
Insurance and intermediaries receivables	R0360	33,467
Reinsurance receivables	R0370	217
Receivables (trade, not insurance)	R0380	185,776
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	58,061
Any other assets, not elsewhere shown	R0420	
Total assets	R0500	142,088,617

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

Appendix 1.1 – S.02.01.02 balance sheet continued

		Solvency II value
		C0010
Liabilities		
Technical provisions – non-life	R0510	
Technical provisions – non-life (excluding health)	R0520	
TP calculated as a whole	R0530	
Best Estimate	R0540	
Risk margin	R0550	
Technical provisions – health (similar to non-life)	R0560	
TP calculated as a whole	R0570	
Best Estimate	R0580	
Risk margin	R0590	
Technical provisions – life (excluding index-linked and unit-linked)	R0600	39,783,108
Technical provisions – health (similar to life)	R0610	150,725
TP calculated as a whole	R0620	
Best Estimate	R0630	150,725
Risk margin	R0640	
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	39,632,383
TP calculated as a whole	R0660	
Best Estimate	R0670	39,571,967
Risk margin	R0680	60,416
Technical provisions – index-linked and unit-linked	R0690	89,731,307
TP calculated as a whole	R0700	92,207,610
Best Estimate	R0710	(2,558,525)
Risk margin	R0720	82,222
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	213,077
Pension benefit obligations	R0760	
Deposits from reinsurers	R0770	4,098,098
Deferred tax liabilities	R0780	616,002
Derivatives	R0790	71,927
Debts owed to credit institutions	R0800	955
Financial liabilities other than debts owed to credit institutions	R0810	23,554
Insurance & intermediaries payables	R0820	332,944
Reinsurance payables	R0830	4,431
Payables (trade, not insurance)	R0840	1,821,990
Subordinated liabilities	R0850	
Subordinated liabilities not in BOF	R0860	
Subordinated liabilities in BOF	R0870	
Any other liabilities, not elsewhere shown	R0880	
Total liabilities	R0900	136,697,393
Excess of assets over liabilities	R1000	5,391,224

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

Appendix 1.2 – S.05.01.02 Premiums, claims and expenses by line of business

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)								
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090
Premiums written										
Gross – Direct Business	R0110									
Gross – Proportional reinsurance accepted	R0120									
Gross – Non-proportional reinsurance accepted	R0130									
Reinsurers' share	R0140									
Net	R0200									
Premiums earned										
Gross – Direct Business	R0210									
Gross – Proportional reinsurance accepted	R0220									
Gross – Non-proportional reinsurance accepted	R0230									
Reinsurers' share	R0240									
Net	R0300									
Claims incurred										
Gross – Direct Business	R0310									
Gross – Proportional reinsurance accepted	R0320									
Gross – Non-proportional reinsurance accepted	R0330									
Reinsurers' share	R0340									
Net	R0400									
Changes in other technical provisions										
Gross – Direct Business	R0410									
Gross – Proportional reinsurance accepted	R0420									
Gross – Non-proportional reinsurance accepted	R0430									
Reinsurers'share	R0440									
Net	R0500									
Expenses incurred	R0550									
Other expenses	R1200									
Total expenses	R1300									

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

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

Appendix 1.2 – S.05.01.02 Premiums, claims and expenses by line of business continued

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)					Line of business for: accepted non-proportional reinsurance		
		Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	Total
		C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
Premiums written									
Gross – Direct Business	R0110								
Gross – Proportional reinsurance accepted	R0120								
Gross – Non-proportional reinsurance accepted	R0130								
Reinsurers' share	R0140								
Net	R0200								
Premiums earned									
Gross – Direct Business	R0210								
Gross – Proportional reinsurance accepted	R0220								
Gross – Non-proportional reinsurance accepted	R0230								
Reinsurers' share	R0240								
Net	R0300								
Claims incurred									
Gross – Direct Business	R0310								
Gross – Proportional reinsurance accepted	R0320								
Gross – Non-proportional reinsurance accepted	R0330								
Reinsurers' share	R0340								
Net	R0400								
Changes in other technical provisions									
Gross – Direct Business	R0410								
Gross – Proportional reinsurance accepted	R0420								
Gross – Non-proportional reinsurance accepted	R0430								
Reinsurers'share	R0440								
Net	R0500								
Expenses incurred	R0550								
Other expenses	R1200								
Total expenses	R1300								

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

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

Appendix 1.2 – S.05.01.02 Premiums, claims and expenses by line of business continued

		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	2,276	916,022	9,388,936	197,721					10,504,955
Reinsurers' share	R1420	1,662	13,521	19	20,948					36,150
Net	R1500	614	902,501	9,388,917	176,773					10,468,805
Premiums earned										
Gross	R1510	2,276	916,022	9,388,363	197,721					10,504,382
Reinsurers' share	R1520	1,662	13,521	19	20,948					36,150
Net	R1600	614	902,501	9,388,344	176,773					10,468,232
Claims incurred										
Gross	R1610	3,031	2,286,093	17,121,609	1,113,546					20,524,279
Reinsurers' share	R1620	844	9,929		443,812					454,585
Net	R1700	2,187	2,276,164	17,121,609	669,734					20,069,694
Changes in other technical provisions										
Gross	R1710	(22,037)	(2,020,952)	(12,671,845)	(1,798,416)					(16,513,250)
Reinsurers' share	R1720	(14,241)	1,073		(657,639)					(670,807)
Net	R1800	(7,796)	(2,022,025)	(12,671,845)	(1,140,777)					(15,842,443)
Expenses incurred	R1900	63	195,782	571,460	15,280					782,585
Other expenses	R2500									
Total expenses	R2600									782,585

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

Appendix 1.3 – S.05.02.01 Premiums, claims and expenses by country

		Home country	Top 5 countries (by amount of gross premiums written) – non-life obligations					Total Top 5 and home country
		C0010	C0020	C0030	C0040	C0050	C0060	C0070
	R0010		–	–	–	–	–	
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
Premiums written								
Gross – Direct Business	R0110							
Gross – Proportional reinsurance accepted	R0120							
Gross – Non-proportional reinsurance accepted	R0130							
Reinsurers' share	R0140							
Net	R0200							
Premiums earned								
Gross – Direct Business	R0210							
Gross – Proportional reinsurance accepted	R0220							
Gross – Non-proportional reinsurance accepted	R0230							
Reinsurers' share	R0240							
Net	R0300							
Claims incurred								
Gross – Direct Business	R0310							
Gross – Proportional reinsurance accepted	R0320							
Gross – Non-proportional reinsurance accepted	R0330							
Reinsurers' share	R0340							
Net	R0400							
Changes in other technical provisions								
Gross – Direct Business	R0410							
Gross – Proportional reinsurance accepted	R0420							
Gross – Non-proportional reinsurance accepted	R0430							
Reinsurers'share	R0440							
Net	R0500							
Expenses incurred	R0550							
Other expenses	R1200							
Total expenses	R1300							

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

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

Appendix 1.3 – S.05.02.01 Premiums, claims and expenses by country continued

		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		DE					
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
Premiums written								
Gross	R1410	9,006,933	868,988					9,875,921
Reinsurers' share	R1420	18,715	16,398					35,113
Net	R1500	8,988,218	852,590					9,840,808
Premiums earned								
Gross	R1510	9,006,933	868,415					9,875,348
Reinsurers' share	R1520	18,715	16,398					35,113
Net	R1600	8,988,218	852,017					9,840,235
Claims incurred								
Gross	R1610	18,322,946	628,481					18,951,427
Reinsurers' share	R1620	442,757	11,133					453,890
Net	R1700	17,880,189	617,348					18,497,537
Changes in other technical provisions								
Gross	R1710	(15,335,152)	246,659					(15,088,492)
Reinsurers' share	R1720	(660,029)	(7,507)					(667,536)
Net	R1800	(14,675,123)	254,166					(14,420,956)
Expenses incurred	R1900	556,648	123,145					679,793
Other expenses	R2500							
Total expenses	R2600							679,793

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

Appendix 1.3 – S.12.01.02 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, incl. unit-linked)
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150
Technical provisions calculated as a whole	R0010		90,255,575							1,952,032	92,207,607
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for the expected losses due to counterparty default associated to TP as a whole	R0020		2,908,526								2,908,526
Technical provisions calculated as a sum of BE and RM											
Best Estimate											
Gross Best Estimate	R0030	26,457,177			(2,349,001)			12,826,026		8,605	36,942,807
Total Recoverables from reinsurance/SPV and Finite Re after adjustment for expected losses due to counterparty default	R0080	(81,491)						4,140,358			4,058,867
Best estimate minus recoverables from reinsurance/SPV and Finite Re – total	R0090	26,538,669			(2,349,001)			8,685,667		8,605	32,883,940
Risk Margin	R0100	14,069	530,188			769,868					1,314,125
Amount of the transitional on Technical Provisions											
Technical provisions calculated as a whole	R0110										
Best estimate	R0120	102,145			(209,525)			178,015			70,635
Risk margin	R0130	(13,490)	(447,966)			(710,031)					(1,171,487)
Technical provisions – total	R0200	26,559,901	87,779,272			13,063,877				1,960,636	129,363,686

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

Appendix 1.3 – S.12.01.02 Life and health SLT Technical provisions continued

		Health insurance (direct business)					
			Contracts without options and guarantees	Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health re-insurance (re-insurance accepted)	Total (health similar to life insurance)
		C0160	C0170	C0180	C0190	C0200	C0210
Technical provisions calculated as a whole	R0010						
Total Recoverables from reinsurance/ SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0020						
Technical provisions calculated as a sum of BE and RM							
Best Estimate							
Gross Best Estimate	R0030			150,725			150,725
Total Recoverables from reinsurance/ SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080			102,100			102,100
Best estimate minus recoverables from reinsurance/SPV and Finte Re – total	R0090			48,625			48,625
Risk Margin	R0100						
Amount of the transitional on Technical Provisions							
Technical Provision calculated as a whole	R0110						
Best estimate	R0120						
Risk Margin	R0130						
Technical provisions – total	R0200	150,725					150,725

Appendix 1.4 – S.22.01.21 Impact of long-term guarantees and transitional measures

		Amount with LTG measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
Technical provisions	R0010	129,514,411	1,100,852		309,245	836,153
Basic own funds	R0020	4,202,528	(990,002)		(61,491)	(611,519)
Eligible own funds to meet SCR	R0050	4,202,528	(990,002)		(61,491)	(611,519)
SCR	R0090	2,477,114			(39,512)	445,924
Eligible own funds to meet MCR	R0100	4,182,805	(990,002)		(61,491)	(611,519)
Minimum capital requirement	R0110	1,114,701			(17,780)	173,342

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

Appendix 1.5– S.23.01.01 Own funds

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010 £000s	C0020 £000s	C0030 £000s	C0040 £000s	C0050 £000s
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	21,184	21,184			
Share premium account related to ordinary share capital	R0030	117,219	117,219			
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	1,647,614	1,647,614			
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	2,396,788	2,396,788			
Subordinated liabilities	R0140					
An amount equal to the value of net deferred tax assets	R0160	19,723				19,723
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 statements 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	4,202,528	4,182,805			19,723
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					
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	4,202,528	4,182,805			19,723
Total available own funds to meet the MCR	R0510	4,182,805	4,182,805			
Total eligible own funds to meet the SCR	R0540	4,202,528	4,182,805			19,723
Total eligible own funds to meet the MCR	R0550	4,182,805	4,182,805			
SCR	R0580	2,477,114				
MCR	R0600	1,114,701				
Ratio of eligible own funds to SCR	R0620	1.69654				
Ratio of eligible own funds to MCR	R0640	3.75240				

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

Appendix 1.5 – S.23.01.01 Own funds continued

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	5,391,227
Own shares (held directly and indirectly)	R0710	
Foreseeable dividends, distributions and charges	R0720	
Other basic own fund items	R0730	1,805,740
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring-fenced funds	R0740	1,188,699
Reconciliation reserve	R0760	2,396,788
Expected profits		
Expected profits included in future premiums (EPIFP) – Life business	R0770	850,255
Expected profits included in future premiums (EPIFP) – Non-life business	R0780	
Total EPIFP	R0790	850,255

Appendix 1.6 – S.25.02.21 Solvency capital requirement – using the standard formula and partial internal model

Unique number of component	Components description	Calculation of the solvency capital requirement	Amount modelled	USP	Simplifications
C0010	C0020	C0030	C0070	C0090	C0120
1	Market risk	48,652			
2	Counterparty default risk	2,087			
3	Life underwriting risk	55,145			
4	Health underwriting risk				
5	Non-life underwriting risk				
6	Intangible asset risk				
7	Operational risk	1,390			
8	Loss absorbing capacity of technical provisions				
9	Loss absorbing capacity of deferred taxes				
100	Partial Internal Model: Market Risk	1,981,904	1,981,904		
300	Partial Internal Model: Life underwriting risk	1,267,421	1,267,421		
701	Partial Internal Model: Operational risk	430,964	430,964		
801	Partial Internal Model: Other risks	237	237		
804	Partial Internal Model: Other adjustments				

Calculation of solvency capital requirement		C0100
Total undiversified components	R0110	3,787,800
Diversification	R0060	(1,310,687)
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency capital requirement excluding capital add-on	R0200	2,477,113
Capital add-ons already set	R0210	
Solvency capital requirement	R0220	2,477,113
Other information on SCR		
Amount/estimate of the overall loss-absorbing capacity of technical provisions	R0300	(753,500)
Amount/estimate of the overall loss-absorbing capacity of deferred taxes	R0310	(325,577)
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	1,537,120
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	462,064
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	477,929
Diversification effects due to RFF nSCR aggregation for article 304	R0440	

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

Appendix 1.7 – 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	Net (of reinsurance) written premiums in the last 12 months
		C0020 £000s	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 SLAL does not have any non-life insurance.

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

Appendix 1.7 – 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	1,212,806

		Net (of reinsurance/ SPV) best estimate and TP calculated as a whole	Net (of reinsurance/ SPV) total capital at risk
		C0050	C0060
Obligation with profit participation – guaranteed benefits	R0210	20,179,189	
Obligation with profit participation – future discretionary benefits	R0220	6,359,479	
Index-linked and unit-linked insurance obligations	R0230	86,724,008	
Other life (re)insurance and health (re)insurance obligations	R0240	8,784,432	
Total capital at risk for all life (re)insurance obligation	R0250		7,610,395

		Overall MCR calculation
		C0070
Linear MCR	R0300	1,212,806
SCR	R0310	2,477,114
MCR cap	R0320	1,114,701
MCR floor	R0330	619,278
Combined MCR	R0340	1,114,701
Absolute floor of the MCR	R0350	3,288

		C0070
Minimum Capital Requirement	R0400	1,114,701

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