Solvency and Financial Condition Report

31 December 2016

SLF OF CANADA UK LIMITED GROUP OF COMPANIES IN THE EUROPEAN ECONOMIC AREA (THE “EEA GROUP”)

INCORPORATING SUN LIFE ASSURANCE COMPANY OF CANADA (U.K.) LIMITED (“SLOC UK” OR “THE COMPANY”)

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Directors' statement

The directors are responsible for ensuring that the Solvency and Financial Condition Report has been properly prepared in all material respects in accordance with the Prudential Regulation Authority ("PRA") rules and Solvency II Regulations.

The directors are satisfied that, throughout the year, the EEA Group and SLOC UK have complied in all material respects with the applicable requirements of the PRA rules and Solvency II Regulations, and that it is reasonable to believe that compliance has continued since the reporting date and will continue in the future.

By order of the Board,

Donald Stewart

Chair of the Board

27 March 2017

Report of the external independent auditor to the directors of SLF of Canada UK Limited and to the directors of Sun Life Assurance Company of Canada (U.K.) Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook applicable to Solvency II firms

Report on the audit of the relevant elements of the Solvency and Financial Condition Report of the SLF of Canada UK Limited Group of Companies in the European Economic Area incorporating the Company for the year ended December 31, 2016 (the "SFCR")

Opinion

Except as stated below, we have audited the following documents prepared by the Company as at December 31, 2016:

- The 'Valuation for solvency purposes' and 'Capital management' sections of the SFCR as at December 31, 2016 ('the Narrative Disclosures subject to audit');
- Group templates S02.01.02, S23.01.22, S.25.01.22, S32.01.22 ('the Templates subject to audit'); and
- Solo templates S02.01.02, S12.01.01, S23.01.01, S25.01.21, 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 SFCR'.

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

- the 'Summary', 'Business and performance', 'System of governance' and 'Risk profile' sections of the SFCR;
- Group templates S05.01.02, S05.02.01;
- Solo templates S05.01.02, S05.02.01;
- the written acknowledgement by management of their responsibilities, including for the preparation of the SFCR (the 'Directors' statement'); and
- information which pertains to an undertaking that is not a Solvency II undertaking and has been prepared in accordance with PRA rules other than those implementing the Solvency II Directive or in accordance with a European Union instrument other than the Solvency II regulations ('the sectoral information').

To the extent the information subject to audit in the relevant elements of the SFCR 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 SFCR as at December 31, 2016 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 and Ireland)) and 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 SFCR section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the SFCR in the UK, including the Auditing Practices Board's ethical standards 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 are required to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in the preparation of the SFCR is not appropriate; or
- the directors have not disclosed in the SFCR 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 SFCR is authorised for issue.

We have nothing to report in relation to these matters.

Emphasis of matter - basis of accounting

We draw attention to the 'Valuation for solvency purposes' and 'Capital management' sections of the SFCR, which describe the basis of accounting. The SFCR is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The SFCR is required to be published, and intended users include but are not limited to the PRA. As a result, the SFCR may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Other Information

The directors are responsible for the Other Information.

Our opinion on the relevant elements of the SFCR does not cover the Other Information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the SFCR, 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 SFCR, 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 SFCR or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors for the SFCR

The directors are responsible for the preparation of the SFCR in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations.

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of a SFCR that is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the relevant elements of the SFCR

It is our responsibility to form an independent opinion as to whether the relevant elements of the SFCR 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 SFCR 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 and Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the SFCR.

A description of our responsibilities for the audit of the statutory 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 SFCR.

This report is made solely to the directors of SLF of Canada UK Limited and the directors of the Company in accordance with Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook for Solvency II firms. We acknowledge that our report will be provided to the PRA for the use of the PRA solely for the purposes set down by statute and the PRA's rules. Our audit work has been undertaken so that we might state to the directors of SLF of Canada UK Limited and the directors of the Company matters we are required to state to them in an auditor's report on the relevant elements of the SFCR and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the PRA, for our audit work, for this report or for the opinions we have formed.

Relevant elements of the SFCR that are not subject to audit

The relevant elements of the SFCR that are not subject to audit comprise:

- Rows R0110 to R0130 of template S.12.01.02 – Amount of transitional measure on technical provisions.

Report on other legal and regulatory requirements

Sectoral information

In our opinion, in accordance with Rule 4.2 of the External Audit Chapter of the PRA Rulebook, the sectoral information has been properly compiled in accordance with the PRA rules and European Union instruments relating to that undertaking from information provided by members of the group and the relevant insurance group undertaking.

Other Information

In accordance with Rule 4.1 (3) of the External Audit Chapter 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 the Company's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact.

We have nothing to report in this regard.

Paul Stephenson BA FCA (Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

London, UK

27 March 2017

Summary

Sun Life Financial of Canada business in the UK

The EEA Group is a closed book life insurance business that has a portfolio of pension, life and protection products. It is wholly owned by Sun Life Assurance Company of Canada and the ultimate parent is Sun Life Financial Inc. both of which are Canadian companies. SLOC UK is the only regulated company within the EEA Group and is responsible for managing all insurance business. It gives rise to materially all risks and performance of the EEA Group.

The business is profitable (SLOC UK profit after tax per the financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") for 2016: £66 million).

Solvency and financial condition

The Pillar 1 solvency ratio of SLOC UK as at 31 December 2016 is 155%, with a Solvency Capital Requirement ("SCR") of £292 million and eligible own funds to cover it of £452 million. The majority is Tier 1 capital, the highest quality of capital in terms of permanence and ability to absorb losses should they arise. The total assets measured on a Solvency II basis amount to £15.7 billion. Dividends paid in 2016 totalled £110 million and it is expected that a dividend of £100 million will be paid in 2017.

The EEA Group containing SLOC UK has a solvency ratio of 156% as at 31 December 2016 with an SCR of £292 million and eligible own funds of £455 million which, as for SLOC UK, is mainly Tier 1 capital. The total assets on a Solvency II basis amount to £15.7 billion. £112 million was repatriated to the World-Wide Group of Sun Life Financial of Canada companies ("WWG") in 2016 by means of a £12 million dividend and the redemption of a £100 million loan from a WWG company. It is expected that a dividend of £100 million will be paid in 2017.

The capital requirements of SLOC UK and the EEA Group are calculated using the Solvency II standard formula methodology and the own funds are measured using Solvency II valuation principles.

System of governance

A strong system of governance is in place with clear responsibilities, authorities and delegations to operate it and manage the business in a robust manner.

The business operates a 'Three Lines of Defence' governance model, where business functions are responsible for day-to-day operations, Compliance and Risk functions provide oversight and challenge and the Internal Audit function provides independent assurance.

The Risk Management System ("RMS") has been developed in alignment with Solvency II guidelines and is actively used in managing the business. It informs management of the inherent risks in the business and thereby achievement of the strategy. Therefore its effective operation has benefits for both internal and external stakeholders.

Own Risk and Solvency Assessment ("ORSA") results

The 2016 ORSA process for the EEA Group and SLOC UK took into account all material risks inherent in the business. The 2016 ORSA showed that the company is expected to remain above its solvency risk appetite threshold and generate surplus throughout the five year ORSA projection period. In respect of sensitivities and scenario analyses, SLOC UK is well placed to withstand shocks over the five year ORSA period, remaining above regulatory solvency requirements and the internal risk appetite threshold, albeit with reduced dividend payments.

Environmental risk is the most significant risk facing the company. The top contributors to both Pillar 1 and Pillar 2 Risk Capital are expense, equity, operational and lapse risk, all of which are closely monitored and managed. Expense, equity and lapse risk are within risk appetite and are expected to remain so for at least the five year ORSA projection period. Process based operational risk is considered to be within risk appetite, whilst event driven operational risks are considered outside of threshold, primarily driven by product design and pricing risks. Whilst operational risk capital has decreased, it is noticeable that under both Pillar 1 and Pillar 2 calculations, operational risk declines more slowly than other risks when projected forward.

The ORSA concludes that there are no material risks arising from the WWG that are not mitigated by treaty, governance, contract or capital where applicable.

A. Business and Performance

A.1 Business

A.1.1 Introduction

The SLOC UK business is a closed book life insurance business consisting of a portfolio of pension, life and protection products materially all of which are in the UK. The business most recently closed to new business from 2010, except for issuing annuity contracts arising from the vesting of individual pension plans already within the business, and in 2013 the majority of this activity also ceased. Management is therefore focused on running off the existing inforce business in a well-managed and controlled way.

The EEA Group is a group of UK companies as described in *Section A.1.2 Subsidiaries and branches*, which is wholly owned by Sun Life Assurance Company of Canada, the Canadian immediate parent company. The EEA Group contains one regulated company: SLOC UK, a life insurance company. The performance and risks of the EEA Group are not materially different from those of SLOC UK. All other companies are holding companies or provide services ancillary to SLOC UK.

The EEA Group provides its parent with access to a mature market that generates capital, the surplus of which can be repatriated to Sun Life Assurance Company of Canada and upwards to the ultimate parent Sun Life Financial Inc., subject to local regulatory constraints. In return the business is supported operationally by and is ultimately underpinned by the solid foundation of the WWG although it is not the EEA Group's intention to rely on capital from its parent company.

The EEA Group operates an outsourced business model having outsourced its investment management in 2001 and the administration of its run off business in 2002.

A.1.2 Subsidiaries and branches

The EEA Group consists of a number of wholly owned subsidiaries. SLF of Canada UK Limited is the top EEA Group holding company and is a wholly owned subsidiary of Sun Life Assurance Company of Canada, which is a wholly owned subsidiary of Sun Life Financial Inc. (also a Canadian company).

The EEA Group consists of the following subsidiary undertakings:

Name of subsidiary undertaking	**Principal activity**
SLF of Canada UK Limited	Top holding company of various wholly owned subsidiary undertakings in the EEA Group
Sun Life Assurance Company of Canada (U.K) Limited	Insurance company which manages individual life, pension and annuity policies
Sun Life of Canada UK Holdings Limited	Intermediate holding company of various wholly owned subsidiary undertakings
SLFC Assurance (UK) Limited (Placed into Members Voluntary Liquidation 2 August 2016)	Previously regulated as an insurance company. Permissions have been removed
SLFC Services Company (UK) Limited	Provision of management and administrative services to the EEA Group
Laurtrust Limited	Pension Trustee company
Barnwood Properties Limited	Property investment

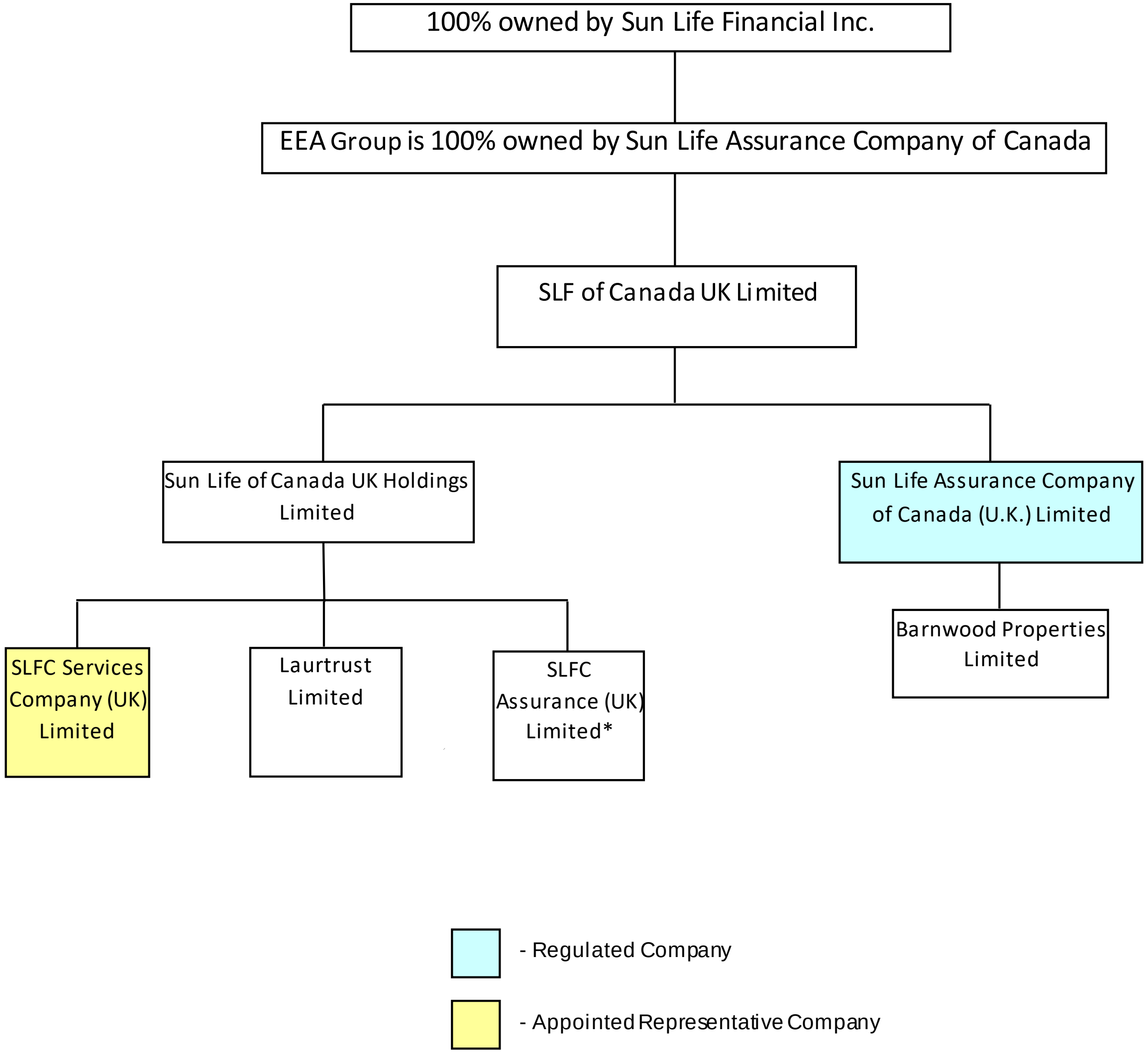
All companies in the EEA Group are limited by shares.

SLOC UK is authorised by the PRA, Threadneedle Street, London EC2R 8AH and regulated by the Financial Conduct Authority ("FCA"), 25, The North Colonnade, London E14 5HS and the PRA. The EEA Group supervisors are the FCA and the PRA.

The auditor of all companies in the EEA Group that are subject to audit is Deloitte LLP, 2 New Street Square, London EC4A 3BZ.

No consolidated financial statements for the EEA Group are prepared on the basis of the exemption provided by Section 401 of the Companies Act 2006 and IFRS 10, Consolidated Financial Statements, paragraph 4(a). The EEA Group is ultimately owned by Sun Life Financial Inc., a company incorporated in Canada, and the accounts are consolidated in the financial statements of Sun Life Financial Inc.

EEA GROUP STRUCTURE AND OWNERSHIP
AS AT 31 DECEMBER 2016



* Placed into Members Voluntary Liquidation 2 August 2016

During 2016 the EEA Group was restructured so that SLOC UK became a direct subsidiary of SLF of Canada UK Limited. SLFC Assurance (UK) Limited was placed into member's voluntary liquidation. No companies were liquidated during 2016 or subsequently.

It is expected that a dividend of £100 million will be paid during 2017.

A.1.3 Distributions to shareholders

During 2016 SLOC UK paid £110 million dividend to SLFC Assurance (UK) Limited, its then parent.

The funds were paid upwards through the EEA Group structure to SLF of Canada UK Limited which redeemed a £100 million loan from Sun Life (Luxembourg) Finance No.2 SARL, an entity in the WWG. In addition, SLF of Canada UK Limited paid a dividend of £12 million to Sun Life Assurance Company of Canada, its parent.

A.2 Underwriting performance as per the financial statements

As a closed book life insurer, the underwriting performance as per the financial statements is described below in terms of premiums claims and expenses.

Underwriting performance for the year ended 31 December 2016

£ million	**SLOC UK TOTAL**	Linked	With-profits	Non-linked, non-profit
Earned premiums, net of reinsurance	70	57	12	1
Net claims and benefits paid	(436)	(333)	(100)	(3)
Administrative and other expenses (excluding investment management expenses)	(51)	(37)	(5)	(9)

The change in insurance and investment contract liabilities in the year was £623 million. Their value is sensitive to changes in market factors, policyholder activity and changes in the methodologies and assumptions used in their calculation.

Underwriting performance for the year ended 31 December 2015

£ million	**SLOC UK TOTAL**	Linked	With-Profits	Non-linked, non-profit
Earned premiums, net of reinsurance	83	68	14	1
Net claims and benefits paid	(469)	(347)	(120)	(2)
Administrative and other expenses (excluding investment management expenses)	(50)	(35)	(6)	(9)

Premiums have decreased in the period, consistent with the run off of the business. Claims and benefits were higher in 2015 compared to 2016 predominantly due to new pension freedoms that came into effect in 2015 leading to an increased outflow in that year.

A.3 Investment performance as per the financial statements

Investment performance for the year ended 31 December 2016 by line of business

£ million	**SLOC UK TOTAL**	Linked	With-Profits	Non-linked, non-profit
Investment return, net of reinsurance	1,134	1,046	89	(1)
Investment management expenses	(23)	(19)	(1)	(3)

Investment performance for the year ended 31 December 2016 by asset class, including performance ceded to reinsurers

£ million	**Income**	**Gains/(losses)**
Asset Class		
Bonds	173	443
Equities	166	804
Property	13	5
Other	8	66
TOTAL Investment Performance	**360**	**1,318**

Investment performance for the year ended 31 December 2015 by line of business

£ million	**SLOC UK TOTAL**	Linked	With-Profits	Non-linked, non-profit
Investment return, net of reinsurance	272	263	18	(9)
Investment management expenses	(23)	(19)	(1)	(3)

Investment performance for the year ended 31 December 2015 by asset class, including performance ceded to reinsurers

£ million	**Income**	**Gains/(losses)**
Asset Class		
Bonds	192	(163)
Equities	166	55
Property	13	35
Other	5	(8)
TOTAL Investment Performance	**376**	**(81)**

Investment income by asset class is similar in 2016 to 2015, reflecting the stability of the investment portfolios which is consistent with the stability of the run off business. Gains and losses are driven by markets and the differences between gains and losses on bonds, equities and property in 2016 compared with those of 2015 reflect the performance of the bond, equities and property markets in 2016 and 2015.

Securitisations

Following the introduction of the Solvency II regime, SLOC UK's investment manager guidelines do not allow new purchases in securitisations. However, a small amount of legacy holdings (£128 million as at 31 December 2016) remains. Trading is monitored for any breach of the guidelines.

A.4 Performance of other activities as per the financial statements

Tax

In 2016 the tax charge was £49 million. This compares with a tax charge of £11 million in 2015. The higher tax charge incurred in the year was due to a combination of factors as follows:

- Significant taxable pensions business profits arising in the year, which included the impact of the renegotiation of the reinsurance treaties and subsequent reserve release.
- High levels of taxable income with large gains arising on both interest based assets and equities as a direct result of the volatile markets following the UK vote to leave the European Union.

Lease arrangements

SLOC UK leases its premises from Threadneedle Pensions Limited and sublets part of the premises to a third party.

The rent paid by SLOC UK in 2016 was £0.5 million and the rent received was £0.2 million.

Fees and commission income

Fees from non-profit investment contracts, commissions and other income from arrangements with reinsurers and introduction fees from a third party annuity provider were £45 million (2015: £46 million).

A.5 Any other information

Related party transactions

SLOC UK has an agreement with SLFC Services Company (UK) Ltd to pay any management and administration expenses incurred on its behalf on a monthly basis.

In 2016 the value of services provided by SLFC Services Company (UK) Ltd was £25 million. The outstanding balance at 31 December 2016 was £4 million.

B. System of governance

B.1 General information on the system of governance

B.1.1 The Board and delegations of authority

The Board of Directors ("the Board") of SLOC UK has responsibility for oversight of operations to ensure, amongst other matters, competent and prudent management, sound planning, an adequate and effective system of risk management, an adequate and effective system of internal control, adequate accounting and other records and compliance with statutory and regulatory obligations. The system of governance is appropriate to the nature, scale and complexity of the business.

The Board is authorised, pursuant to its Articles of Association, to delegate certain of its powers to either the Chief Executive Officer ("CEO") or to a Board Committee. The extent of the delegated authority is limited by:

- Matters with which the Board may not delegate authority as stipulated in the Terms of Reference of the Board, including the approval of material transactions;
- Matters where the Board has elected to designate specific authority to another individual or committee; and
- Any policies, standards or operating guidelines approved or adopted by the Board or a Policy Review Committee.

Currently the Board has delegated certain matters to the Risk Committee and the Audit and Compliance Committee ("ACC"). The Board also obtains advice on its With-Profits business from its independent With-Profits Committee ("WPC"). The Board Committees perform the following tasks on its behalf:

- Risk Committee: The primary functions of the Risk Committee are to oversee, monitor and review, and advise the Board on current and potential risk exposures and future risk strategy. In particular, the Risk Committee ensures that major downside risks facing the business are identified, policies and controls are in place for management to ensure that those risks are effectively managed, and oversee compliance with risk management policies and controls.
- ACC: The primary functions of the ACC are to assist the Board with its oversight role in relation to the integrity of the financial statements, financial reporting processes and regulatory filings, in particular the adequacy and effectiveness of internal controls, compliance with regulatory requirements, and the relationship with, and the performance of, the external auditor.
- WPC: Provides independent advice to the Board in respect of matters which affect the With-Profits Funds.

The Board delegates the day-to-day operational management to the CEO. In turn, the CEO delegates some of their authority to each direct report and this delegation is set out in each of their respective role profiles. Collectively these individuals and the Head of Legal form the UK Management Committee ("UKMC"), which meets fortnightly. Its main function is the oversight of the delegated responsibilities of the CEO's direct reports.

To assist the CEO's direct reports in discharging their responsibilities (pursuant to their role profiles) the direct reports may onwards delegate a responsibility either through line management (to their direct reports) or to a group of individuals (a management group or working group).

The CEO has also delegated authority, through the Chief Operating Officer ("COO"), to the Investment Management Committee ("IMC"), to implement and monitor the investment strategies approved by the Board and to the Risk and Compliance Management Committee ("RCMC"), chaired by the Chief Risk Officer ("CRO"), to review and challenge the appropriateness and effectiveness of:

- The risk management undertaken by business management;
- Compliance, conduct and financial risk management within the business; and

- The RMS.

The risk management, finance, compliance and actuarial functions are granted authority to carry out their tasks through their role profiles. They ultimately report into their line manager, a member of the UK Leadership Team, who in turn reports to the UKMC. These functions may also directly report into various Management Committees, for example the IMC or RCMC, for onwards reporting to the Board or one of its Committees.

The internal audit function is granted authority to carry out its tasks through the WWG Chief Internal Auditor's mandate.

B.1.2 Risk management

The risks that the business encounters are largely a consequence of the business that it is in and of the direction that the Board sets in its strategy. This in turn takes account of the Board's appetite for risk taking. The "Three Lines of Defence" model is used to assign specific risk management responsibilities across the business and this is described more in *Section B.4 Internal control system*.

Each year the Board sets a risk appetite within which management is required to manage risk. Collectively the three lines of defence are responsible for identifying, measuring, managing, monitoring and reporting risk to the RCMC, Risk Committee and the Board so that it remains within that appetite.

The RMS is discussed further in *Section B.3 Risk management system including the own risk and solvency assessment.*

B.1.3 Internal audit

The Board is ultimately responsible for the system of internal controls and reviewing its effectiveness. Acting as the third line of defence, the Internal Audit function provides assurance over the operation of the system of internal controls and that the risk management, governance and internal control processes are operating effectively. Specifically it:

- Provides independent assurance to the ACC, the Board and to Sun Life Financial Inc. as to the effectiveness and adequacy of the internal control system;
- Operates under the WWG Chief Internal Auditor's mandate that is reviewed and approved annually; and
- Is responsible for assessing whether an effective and adequate internal control framework is adopted by management. In carrying out this mandate, Internal Audit has the authority to audit and investigate any activity, with unrestricted access to records, information and personnel throughout the organisation relevant to the performance of the audit function.

Independence of the Internal Audit function is further assured by features of the role of Head of Internal Audit including:

- The role profile of the Head of Internal Audit must be approved by the ACC;
- Removal and appointment of the Head of Internal Audit requires review and recommendation by the ACC to the Board; and
- The Head of Internal Audit has unrestricted access to the Chair of the Board, to the Chair of the ACC and to the ACC itself, with and without the presence of executive management.

B.1.4 Compliance

The Compliance function is responsible for ensuring that regulatory requirements are understood and implemented within the business and for operating a risk-based compliance monitoring programme. This includes the provision of compliance advice and assistance to the business, performing risk-based compliance monitoring to assess and report on the effectiveness of the measures and procedures in place to detect and minimise compliance risk, management of the relationship with the PRA and the FCA, including specific aspects of regulatory reporting (some of this responsibility is held by the Chief Financial Officer "CFO"), ensuring compliance with money laundering regulations, and the oversight of compliance by outsourced service providers. The Compliance function is described in more detail in *Section B.4.2 The Compliance function*.

Independence of the Compliance function is further assured by features of the role of Head of Compliance including:

- The role profile of the Head of Compliance must be approved by the ACC;
- Removal and appointment of the Head of Compliance requires review and recommendation by the ACC to the Board; and
- The Head of Compliance has unrestricted access to the Chair of the Board, the Chair of the ACC and to the ACC itself, with and without the presence of executive management.

B.1.5 Governance across the EEA Group

Governance, risk management and internal control is applied to each legal entity in the EEA Group proportionately in accordance to the activities of each entity.

The system of governance is periodically reviewed both internally and externally to ensure that it remains fit for purpose. Such reviews take into account the current strategy to ensure that the governance is proportionate to the strategy and the risks identified to that strategy.

B.1.6 Day to day management

The CEO has primary responsibility and accountability for day to day management. However, in order that operations run efficiently, the CEO delegates certain responsibilities to direct reports.

The CEO delegates authority to the CFO, CRO, COO, and Chief Actuary in order to facilitate the management of the company. In addition, the CEO delegates authority to these jobholders to enable them to act in their capacities as PRA Senior Insurance Manager Functionaries or FCA Significant Management Functionaries.

The directors of Sun Life Financial Inc. may delegate additional authority to these jobholders, to enable them to fulfil their responsibilities within the WWG.

Delegations of authority are made on consistent terms with those specified above to direct reports in order for them to properly fulfil their duties and responsibilities as specified in their role profiles. They may delegate authority to other individuals and committees on such terms as they deem appropriate. Any such delegation must be in writing and must specify the recipient, extent and any limitations, including the ability to onwards delegate. Delegations must be reviewed and confirmed no less frequently than annually. Copies of all delegations must be provided to the Company Secretary.

These jobholders may not delegate responsibilities held as a result of holding a PRA Senior Insurance Management Function or a FCA Significant Influence Function. *Sections B.1.7 – B.1.10* describe the key responsibilities of the CFO, CRO, COO and Chief Actuary with respect to day to day management. Prescribed responsibilities as a result of being Controlled Functions are not listed.

B.1.7 Key responsibilities of the CFO

- The CFO is responsible for presenting and analysing financial reports and performance at Board meetings and ensuring the maintenance of good corporate governance practices and a good control environment.

- The CFO ensures the sound financial management of the business, including the production and integrity of financial information and regulatory reporting and sign-off of tax controls.

- The CFO is responsible for the allocation and maintenance of the firm's capital and liquidity, and management of financial resources.

- The CFO provides leadership and direction to the Finance team.

- The CFO manages internal relationships and accountabilities required to integrate UK results and financial activity with the WWG financial statements and strategies and contributes to internal global forums.

B.1.8 Key responsibilities of the CRO

- The CRO is responsible for ensuring the risks faced by the businesses are transparent to those responsible for the management of those businesses.

- The CRO discharges this responsibility by establishing and leading the operation of a risk management system that enhances and protects the interests of shareholders, customers, regulators and employees in the activities of the business. "Risk" in this context includes compliance (or regulatory) risk, including conduct risk. The CRO leads the operation of the 2nd line of defence role (described in *Section B.4.1 Three Lines of Defence*)

- The CRO has unfettered access to the Board and its Committees to raise any concerns about the risk profile of the business that are not being adequately addressed by management.

- The CRO oversees data protection and records management.

- The CRO has responsibility for the performance of the annual ORSA.

B.1.9 Key responsibilities of the COO

- The COO manages the day to day operational matters of SLOC UK, and provides leadership and overall direction to staff in the operational departments. The role is responsible for the following: Outsource Management, Legal, Information Technology ("IT"), Investments, Change Management, Communications, Human Resources and Customer Advocacy.

B.1.10 Key responsibilities of the Chief Actuary

- The Chief Actuary manages the day to day operations of the Actuarial Department, including actuarial valuation, experience studies, assumption setting, asset liability management, in force product management, risk analytics, capital calculations and With-Profits management.

- The Chief Actuary provides actuarial perspective and reporting to management, the Board, and to other Board-level committees.

- The Chief Actuary manages internal relationships and accountabilities required to align actuarial activity with that of the WWG.

B.1.11 Remuneration

The primary compensation objectives are to align employee interests with the interests of customers and shareholders while attracting, retaining and rewarding employees. The compensation model rewards employees for achieving business goals, meeting expectations for individual performance and delivering business results.

Each element of compensation is generally targeted at the median pay level of peer companies, with the variable compensation amount adjusted based on achievement of both business and individual performance goals. This philosophy ensures superior performance drives reward that is above target, while poor performance results in reward that is below target.

Salary ranges for each job band are designed so the middle of the range aligns with median competitive salaries for similar roles at peer companies. Individual salaries are determined by the appropriate manager within these ranges based on an assessment of the scope and mandate of the role, internal equity and the individual's experience and performance.

Annual incentive and long-term incentive target award levels are based on median competitive practice. Based on plan design, the actual pay-out of incentives varies above and below target based on business results, including an overall measure of risk, and individual performance.

B.1.11.1 Pay mix

The mix of salary, annual incentives and long-term incentives is set annually by the WWG Board and is adopted by the UK Board and provides executive compensation frameworks for executive level positions.

Below the Exec 2 level, the mix of compensation is based on salary structures, target Annual Incentive Plan ("AIP") levels and Long-term Incentive Plan ("LTIP") participation rates and target award levels.

The executive compensation frameworks outline the portion of variable and deferred incentive compensation by position level based on target performance. More senior roles have more compensation that is at-risk, with greater weight placed on long-term incentives which are awarded in various share-based instruments, and promote effective risk management by incentivising sound decision making that is in the interests of the long term health of the organisation.

B.1.11.2 Pay for performance

Compensation programmes are designed to ensure positive customer outcomes, reflect our financial performance and do not encourage excessive risk taking. All incentive compensation plans are performance based and include appropriate measures of performance over different time horizons for different employee levels as follows:

- The AIP measures performance on an annual basis and reflects success in executing against annual financial and non-financial measures aligned to the annual business plan approved by the Board.

- Long-term incentives reflect various mid- and long-term performance measures and ensure a substantial portion of compensation is deferred over at least a three year period. Additional performance vesting criteria are used for more senior executives to align compensation with other measures of long-term value creation and to achieve a wider range of pay outcomes tied to performance.

The proportion of variable pay that is deferred for three years or more is greater for more senior roles.

B.2 Fit and proper requirements

B.2.1 Fitness and propriety

Individuals known as Approved Persons, Notified Non-Executive Directors (”Notified NEDs”) and Key Function Holders are ensured to be “fit and proper” by employment of the following processes and policies:

- Approved Persons must be approved by the FCA/PRA before they begin to perform a Controlled Function. Evidence of this is held in their employee file. The nominated Approved Person’s manager must satisfy themselves that the individual is a competent, fit and proper person to perform the role.
- Applicants for Controlled Functions are aware that the regulator may wish to interview them to satisfy themselves of the competency, fitness and propriety of the candidate. In addition, evidence is gathered that the Approved Person is aware and understands their responsibilities as an Approved Person. This includes understanding the FCA’s Conduct Standards and the PRA’s Conduct Rules applying to their role. If at any time, a breach of any of these Conduct Standards/Rules should apply, this would need to be reported to the FCA/PRA.
- On an annual basis all Approved Persons, Key Function Holders and Notified NEDs complete a statement of fitness and propriety. The completed statements are then reviewed and signed off by the Head of Human Resources and the Head of Compliance. Should there be any matters arising from any of the declarations then these will be discussed internally between the Head of Human Resources and the Head of Compliance, to establish if any specific action or reporting is necessary.

B.2.2 Role requirements

Throughout the organisation, including for Approved Persons, each role has a documented role profile outlining the purpose and key accountabilities of the role and the levels of knowledge, skill and competence required to perform the role, along with any professional examination requirements.

Any knowledge, skills or examination shortfalls, required in order to achieve competency for the role must be made clear to the individual at offer and appointment stage. Evidence that this has been actioned is retained in the employee file as appropriate. All offers to Approved Persons are subject to Regulatory pre-approval. Development needs may also need to be provided to the regulators as part of the Approved Persons application process.

B.2.3 Performance management

For all employees, excluding the Chair and Non-Executive Directors, on-going competency is evidenced through the annual performance review process, and recorded on a performance management system. For each job level there is a set of competency measures.

The Terms of Reference of the Board of Directors require that the contributions, effectiveness and performance of each Director, including the Chair of the Board, the Chair of each Board Committee and the Chair of the With-Profits Committee are reviewed annually.

B.2.4 Competencies

Competencies align with and support the vision, strategy and values.

During the recruitment process, we assess for evidence of the competencies that are considered to be critical for the particular role, in addition to functional knowledge, experience and skill. We aim to ensure that there is a good cultural fit between the candidate and our business by assessing the candidate against the company's values.

B.3 Risk management system including the own risk and solvency assessment

The RMS is an integral element of the System of Governance. The application of the framework set out in the RMS enables management of the inherent risks in our business and thereby achieve our business objectives. Its effective operation has benefits for both internal and external stakeholders.

B.3.1 RMS and the ORSA

The RMS plays a key role in the ORSA process, which is detailed in *Section B.3.8 ORSA*. The RMS is broader in concept than the ORSA as it is the totality of the processes within the Operating Model which the business uses to assess its own view of its risk profile and capital needs on both a current and projected basis. The ORSA is an integral part of the risk management processes. The ORSA consists of the following elements:

- The Policy – this describes the commitments and standards of the company with respect to the ORSA.
- The Process – being the totality of the ORSA relevant RMS activities that are eventually reflected and summarised in the ORSA Report.
- The ORSA Report - the consolidated output of the ORSA process presented to the Risk Committee and the Board and which addresses the principal risks currently facing the organisation and the forward-looking analysis of how these and other risks may develop. This includes other outputs of the RMS which may be presented on a stand-alone basis throughout the year.
- The Record - this reconciles the process to the annual report through evidencing or signposting the underpinning risk management and controls documentation enabling the assessments and conclusions within the ORSA Report.

B.3.2 RMS and its components

The RMS consists of two main components: a Risk Framework and Risk Management Processes. The RMS informs and is directed by the strategy. Risk management considerations are integral to our strategy as we seek to optimise our level of risk-adjusted returns and create stakeholder value, while meeting the reasonable expectations of our customers. Independent assurance of the effectiveness and appropriateness of the RMS is provided by:

- Internal Audit, as part of its risk based audit approach; and
- Periodic external reviews.

Design of the RMS is the responsibility of the CRO and it is approved by the Board on the recommendation of its Risk Committee.

Implementation and operation of the RMS is the responsibility of the CEO and the UK Leadership Team.

Monitoring the application of the RMS is the responsibility of the CRO.

B.3.3 Risk framework

The Risk Framework consists of elements that together provide necessary direction to the risk management processes. These elements consist of risk strategy, risk appetite, governance, the risk universe, risk management policies and procedures, and risk culture.

- Our core risk philosophy is that, as an insurance company, SLOC UK is in the business of accepting selected risks provided there is an appropriate level of return. The types of risk we wish to accept need to inform and be aligned with our strategy.

- Our ***risk strategy*** defines our core, non-core, and collateral risks. Our risk strategy is expressed through our risk appetite which defines key capital, income and operational metrics whereby the business is run on a prudent and commercially successful basis. This is aligned with our strategy and our risk philosophy;

- Setting our ***risk appetite*** shows a clear link between risk and our business decisions and is a means by which we can direct activity to those areas that will most benefit from close management of both the opportunities and risks we face. Risk appetite is articulated in terms of statements, limits and early warning thresholds. When we compare our risk profile to them, we can see if we are within our appetite or not. If not, we take action to ensure we do not breach a limit. The point at which we take action is often when we reach a pre-determined threshold.

- Our RMS ***governance*** uses a 'Three Lines of Defence' model described in *Section B.4.1 Three Lines of Defence*. The ***risk universe*** provides us with a structure and common terminology for grouping and reporting on risk.

- ***Risk policies*** are an important part of the RMS. The Board adopts, on the recommendation of the Board sub committees, or in some limited cases Executive committees,[1] policies that govern the activity of the business. These are supplemented by Operating Guidelines and other procedures which explain how the relevant policy should be implemented.

- Our ***risk culture*** is a set of shared attitudes, values and practices that characterise how we manage risk from day-to-day. Key to our culture is accountability and the set of values passed to us as part of the WWG.

The Risk function is represented on all committees and on all material projects.

[1] Approval protocols are set by the Governance Framework.

B.3.4 Risk management processes

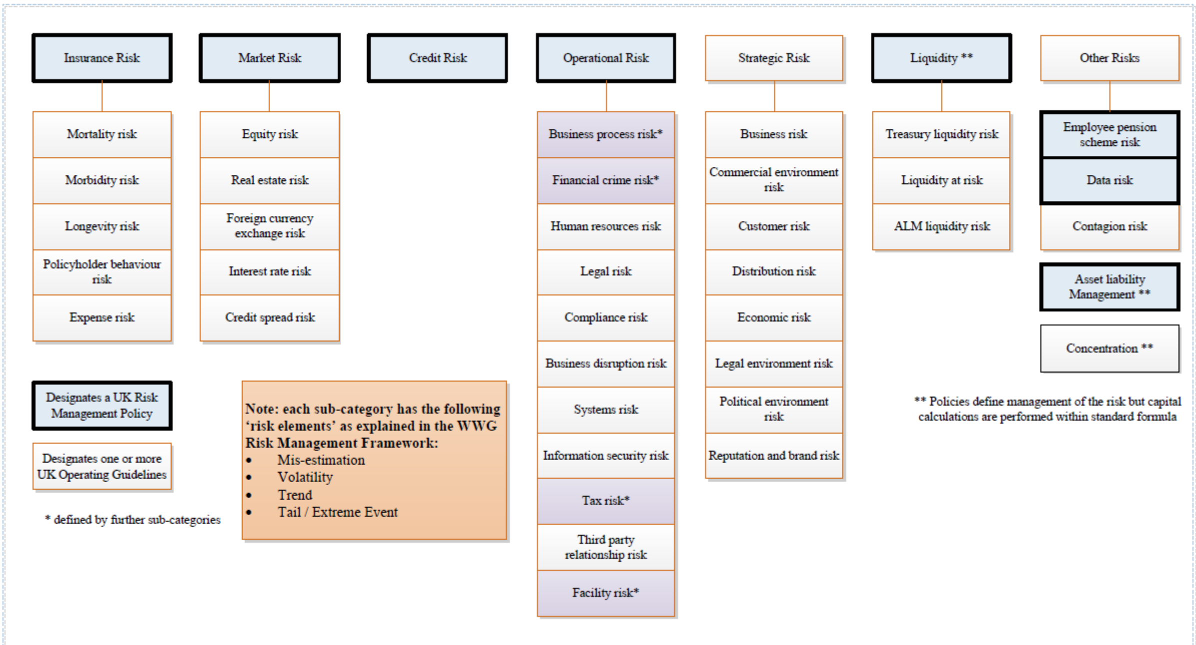
The RMS sets out a risk management cycle that consists of five stages and operates continuously, involving business management and the Risk and Compliance functions:

- **Identify** – business management is primarily responsible for identifying current and emerging risks and opportunities that could impact the business.
- **Measure** – each identified risk is assessed by business management for its likelihood of occurrence and potential impact on the business measured in financial or non-financial terms. The Risk function reviews and challenges the risk assessment, including the assessment methodologies and tools used, such as models, stress testing and scenario analysis.
- **Manage** – There are four options: avoid, transfer, control or accept. The first three require action to be taken, for example to improve a process control that requires improvement so it better mitigates a risk and keeps the business within its risk appetite.
- **Monitor** – having assessed and responded to our risks, we then monitor the risk and the actions we are taking, as well as possible "key risk indicators" that a risk may crystallise.
- **Report** – reporting is the final step in the risk management process. We present accurate, clear and timely reporting of current and emerging risks to those who need to know about them in the organisation. We provide sufficient detail in doing so to allow users to make risk-informed decisions.

Collectively, this is known as the IMMMR process.

B.3.5 Risk universe

In the application of the RMS, risks are considered under the categories set out below. The IMMMR concepts are applied to this risk universe.



Within Operational Risk, some categories of risk are further analysed in order to ensure risks are defined and managed at the correct level of granularity.

The management of the risks within the risk universe is defined by the application of a suite of Risk Management Policies.

B.3.6 Risk management policies

As part of the operation of the RMS, the Risk function defines individual risk policies that are required as part of the framework. The principles and governance of these is set out within an overarching Risk Management Policy ("RMP").

The risk policies of the business are aligned to the risk universe described in *Section B.3.5 Risk universe*. Policies are supported by operating guidelines and detailed processes as necessary. Outside of the risk management policies, other policies exist (for example, Internal Control, Internal Audit, Remuneration).

B.3.7 Prudent person principle in relation to investments

The investment strategy is set by the Board. The risk management aspect of the strategy is operationalised through application of the Prudent Person Principle. The Principle requires SLOC UK to demonstrate that it identifies, measures, monitors, manages, controls and reports on the risks arising from investments, as well as ensuring that assets are invested in a manner that is appropriate given the nature and duration of the liabilities.

SLOC UK has a number of investment policies in place, which contain details of the risk appetite requirements relevant to the investment portfolios. Measurement against key risks is undertaken quarterly as part of the risk control self-assessment process. Using this process the business (Line One functions) ranks itself against key risks. This ranking is then challenged by Line Two functions. See *Section B.4.1 Three Lines of Defence* for descriptions of Line One and Line Two.

To ensure the appropriate skill is used to manage the investments, day-to-day management is performed by specialist fund managers. These fund managers are appointed following a rigorous and thorough selection process, which is detailed in the Outsourcing Policy, *see Section B.4.6 Operational control*. This includes establishing the regulatory compliance regime that the fund manager has put in place, their "Approved Persons" structure, and their competencies framework that ensures staff are fully qualified for the roles they are executing.

An Investment Management Agreement is in place with each fund manager and these agreements reflect SLOC UK's strategy and risk appetite requirements.

Formal operational meetings take place with the fund manager at regular intervals as part of a rolling, continuous, programme of oversight. The oversight framework includes criteria to define and remediate issues with investment managers, including contract termination, if necessary.

All investments must meet the requirements of the investment guidelines contained within the Investment Management Agreement. These guidelines include a range of investment restrictions covering all aspects of investment including permitted asset classes, single name, and industry and rating band limits, designed to ensure diversification, as well as benchmarks and performance targets.

The use of derivatives is permitted but is restricted to efficient portfolio management and risk management.

Any investments that result in one or more of the investment guidelines not being met must be reported and classified as follows:

- Exception – where due to market factors such as mark to market movements, or downgrades, guidelines have been exceeded.

- Extension – where, following Board approval, a relaxation to the investment guidelines is granted for an agreed period of time e.g. to transition to updated guidelines.
- Breach - where an Investment mandate has gone outside the guidelines due to the deliberate actions taken by the Investment Manager.

The IMC, which forms part of the Governance framework, is responsible for authorising and monitoring remediation of any extension or exception and reporting and remediating any breach. All Investment Managers are required to maintain a Conflicts of Interest Policy to ensure that:

- The interests of SLOC UK will not take precedence over the interests of customers in making decisions;
- Managers ensure their staff's interests do not conflict with that of SLOC UK or its customers; and
- The interests of other clients of Managers do not take precedence over the interests of SLOC UK.

B.3.8 ORSA

The ORSA is the process of assessing all the risks inherent in the business of SLOC UK, the EEA Group and the material and relevant risks arising from membership of the WWG, refining or amending the strategy accordingly and determining the corresponding capital requirements on a Solvency II Pillar 2 basis.

To achieve this, the SLOC UK Board requires the CRO to maintain adequate, robust processes for assessing, monitoring and measuring the risks and the overall solvency needs of SLOC UK and the wider EEA Group, while ensuring that the output from the assessment is embedded into decision making processes. Conducting an assessment of the overall solvency needs properly involves input from all areas of the business.

The ORSA is produced at the level of the EEA Group. SLOC UK is the regulated entity of the EEA Group and is where the material risk exposure exists.

The ORSA must consider and document the approach taken to all risks considered within the EEA Group and must also consider and document any material and relevant risks that arise to the EEA Group from membership of the WWG.

As part of the ORSA, the Board will review and assess the overall ORSA Report and recommendations provided by the Risk function. The Board will comment on the suitability of the assessment, giving consideration to the manner in which the assessment of overall solvency needs reflects the management of risks through overall capital requirements or other mitigation techniques. This takes into consideration the risk profile, approved risk appetite and business and risk strategies.

The ORSA Capital Measure ("OCM") is distinct from the regulatory capital requirements. This assessment includes a comparison of SLOC UK's risk profile to the assumptions underlying the calculation of the regulatory capital requirement; whereby differences are highlighted, quantified and explained.

Based on the forward looking perspective of its operating environment, the business projects its own funds and capital requirements under both expected and stressed conditions. Through this projection the ORSA provides an assessment of SLOC UK's ability to execute its Long Term Business Plan while maintaining sufficient funds to cover both its regulatory capital requirements and its

OCM. Exposure against risk appetite statements and tolerances are also assessed as part of these projections.

The Board has reviewed and approved the ORSA process ensuring that techniques for assessing its overall solvency needs are commensurate with the nature, scale and complexity of the risks inherent in the business. The ORSA Report is reviewed by the Risk Committee (“Risk Committee”) and recommended for approval by the Board annually. During the year, should an internal or external event occur that significantly challenges the assumptions or findings of the last annual ORSA Report, then an updated ORSA Report will be produced and reviewed by the Board for approval outside of the annual process.

The operation of the ORSA process provides the Board with a vital tool for monitoring and keeping the business within risk appetite, through the operation of robust and transparent risk and capital management practices.

The extent and sophistication of the ORSA is proportionate to the nature, scale and complexity of the business.

B.4 Internal control system

It is the responsibility of every staff member to identify and manage risk. Our governance arrangements strengthen this principle by adding challenge, oversight and independent assurance of risk management in all our business operations. In addition to local regulatory obligations, staff must comply with the WWG corporate governance requirements. The Board Governance Manual reflects the Board’s responsibilities, including their obligations to the WWG.

The internal control requirements are set out in the SLOC UK Internal Controls Policy. The functions in scope for this policy are:

- Risk and Compliance
- Actuarial
- Finance
- Operations
- Internal Audit

The Internal Audit function is also governed by the Internal Audit Policy.

B.4.1 Three Lines of Defence

A ‘Three Lines of Defence’ governance model is adopted for risk management that provides a consistent, transparent and clearly documented allocation of accountability and segregation of functional responsibilities. It separates the organisation into three lines of defence against risk:

- 1st Line of Defence ("Line One") – responsible for managing risk in day-to-day business operations. Line One comprises Actuarial, Finance, Tax, Human Resources, Communications, IT, Change Management, Legal and Outsource Management.
- 2nd Line of Defence ("Line Two") – comprises the Compliance and Risk functions. The Compliance function oversees regulatory compliance. A summary of the Risk function's responsibilities are set out in *Section B.4.3 The Risk function.*
- 3rd Line of Defence ("Line Three") – independent assurance in respect of risk management controls is provided by Internal Audit. The Internal Audit function is described in *Section B.5 Internal Audit function.*

The CEO is responsible, under delegated authorities from the Board, for all Line One and Line Two activity, and for ensuring that Line One and Line Two adequately discharge all remediation requirements identified by Line Three. Additionally the CEO is responsible for ensuring there is an effective Internal Audit function in place to discharge Line Three responsibilities.

In the discharge of the Line Two roles, the Compliance and Risk functions undertake specific monitoring activity in addition to the oversight, challenge and advisory activities. This is supplemented by the work undertaken by the Internal Controls over Financial Reporting ("ICFR") team that is part of the Risk function.

B.4.2 The Compliance function

The Compliance function is responsible for:

- Supporting the business through regulatory analysis and advice;
- Working with management to establish and maintain an appropriate control environment to monitor compliance with the regulatory obligations;
- Working with management to counter the risk that the business might be used to further financial crime;
- Maintaining processes for adherence to the requirements of the Compliance Risk Management Policy;
- Reporting to the ACC of SLOC UK and, if appropriate, the Board, any concerns about compliance with regulatory requirements and anti-money laundering and financial crime systems and controls that are not being adequately addressed by management;

- Reporting to the ACC of SLOC UK on the effectiveness of compliance and financial crime controls and the activities of the Compliance Function;
- Oversight of adherence of the Business to the requirements of the WWG Fraud Risk Management Policy, Regulatory Compliance Management Policy, Anti-Money Laundering and Anti-Terrorist Financing Policy and Prevention of Bribery and Corruption Policy;
- Promotion of a compliance culture across the business; and
- Oversight of the compliance arrangements of outsourced partner companies

B.4.3 The Risk function

The Risk function sets the framework within which risks are identified and reported. The details of this framework are set out in the RMS.

The Risk function is responsible for:

- Reporting to the Risk Committee;
- Risk identification methodology;
- Operational risk framework;
- Second line of defence challenge of risk controls;
- The ICFR programme;
- Data protection responsibilities;
- The outsourcing framework;
- Appropriate reporting procedures and feedback loops that ensure that information on the RMS is actively monitored and managed by all relevant staff and the Board;
- Reports that are submitted to the Board by the Risk function on the material risks faced by the EEA Group and on the effectiveness of the RMS; and
- An appropriate ORSA process.

The Risk function must also maintain an entity-wide view of risk profile.

The Risk function will provide detailed reporting on risk exposures and advice on risk management matters including strategic affairs, strategy, mergers and acquisitions, major projects and investments.

A set of procedures has been fully developed for identifying, monitoring and reporting internal controls within its ICFR process.

B.4.4 ICFR

The ICFR is a fully developed set of procedures for identifying, monitoring and reporting internal controls within the financial reporting process. It supports the attestations that the UK CEO and UK CFO must provide for reporting to the WWG.

B.4.5 Ownership of processes

SLOC UK has processes and procedures for undertaking the required prudential solvency assessment (including regulatory reporting) and for financial reporting purposes. This includes a description and definition of roles and responsibilities of the people involved and the relevant models.

The Finance function, with support from the Actuarial and Tax functions, takes ownership of the processes and procedures needed to undertake financial reporting. The valuation of assets and liabilities for solvency reporting purposes is owned by the Actuarial function supported by the Finance and Tax functions.

B.4.6 Operational control

Operational controls cover a number of areas including Investments, Outsourcer Management, IT, Human Resources and Legal.

The controls around the investments processes are documented in the investment related policies (Credit Risk; Market Risk; Liquidity Risk and Asset Liability Management). The management of Operational Risk is governed by the Operational Risk Management Policy.

The SLOC UK business model places significant reliance on outsourcing and therefore the outsourcing processes and the governance and control of outsourcing risks are key components of the internal control system.

The SLOC UK Outsourcing Policy governs details of the activity to be undertaken prior to entering into an agreement, and the oversight and control activities required during the lifetime of an outsourcing arrangement. This dictates that SLOC UK must establish a contractual right to information about the outsourced activities and a contractual right to issue instructions concerning the outsourced activities.

B.4.7 System and data control

SLOC UK's systems take account of applicable data protection requirements, provide for appropriate security controls and define requirements in respect of access to hardware, systems and data, so as to maintain the integrity of records and information and thereby protect the interests of all stakeholders. This includes planning and controls designed to maintain business continuity.

System and data controls are addressed in the Data Policy and the Operational Risk Policy.

B.4.8 Control activities

Control activities are the policies and procedures that set out the rules, principles and requirements of the organisation. Control activities occur throughout the organisation, at all levels and in all functions.

The control activities in SLOC UK include approvals, authorisations, verifications, reconciliations, management reviews, appropriate measurements applicable to each business area, physical controls, checking for compliance with agreed exposure limits and operating guidelines and follow-ups on identified areas of non-compliance. The control activities are proportionate to the risks identified from the controlled activities and processes. Different levels of approval or authorisation are required for various business activities; these are documented in the procedures and guidelines covering each function or activity.

The internal control system ensures that any areas of potential conflicts of interest are identified and managed appropriately.

B.5 Internal Audit function

B.5.1 Internal audit implementation

The UK Internal Audit function is part of the WWG Internal Audit function and operates in accordance with the Statement of Mandate, Responsibility and Authority approved by the WWG Audit and Conduct Review Committee ("ACRC"). The mandate is reviewed and approved by the ACRC on an annual basis.

An Internal Audit Policy is established for the UK, annually reviewed, and approved by the Board. This incorporates the WWG mandate and specifically references the role and responsibilities, independence and scope of work of the UK Internal Audit function.

The Internal Audit function operates in accordance with the internationally recognised professional standards promulgated by the Institute of Internal Audit. The UK Internal Audit function also subscribes to the Chartered Institute of Internal Audit (UK)'s code of practice for internal audit in financial services.

A WWG audit manual governs the day to day working practices and methodology applied within Internal Audit. Methodology changes have been made during 2016 with additional focus on management control awareness, reviews by the second line of defence and root cause analysis. These changes are supported by a revised audit report format.

B.5.2 Internal audit independence

The independence of the UK Internal Audit function is achieved through organisational structure and reporting lines. The Head of Internal Audit reports to the Chair of the ACC (functionally) and to the WWG Chief Auditor (administratively).

B.6 Actuarial function

During the reporting period the actuarial function coordinated the calculation of technical provisions and capital requirements on both Pillar 1 and Pillar 2 bases. Various mechanisms were employed to ensure these were determined appropriately.

- A model risk management policy was followed under which material models are periodically independently reviewed to ensure both the appropriateness of the methodologies and assumptions used and the accuracy with which the calculations in the model apply the relevant methodology to the appropriate data and assumptions. More frequent reviews are carried out for models of greater materiality. Additionally, the material methodologies used in the determination of technical provisions were developed by the actuarial function and reviewed by a cross-functional technical steering group prior to their initial use. The function conducted appropriate experience investigations to develop proposals for non-economic assumptions, which were submitted to the Board for approval. The models used for these experience investigations are also subject to the model risk management policy described above. The actuarial function has applied appropriate methodologies and assumptions by line of business.

- A data policy was followed to ensure the data used to calculate technical provisions and capital requirements is appropriate, complete and accurate. For each quarterly Pillar 1 valuation, the policy data used by the actuarial models were reconciled to data extracts from the policy administration systems. Periodic checks of sample data have been carried out to verify the accuracy of data held by the policy administration systems and the policy data used by the actuarial models.

- Assumptions used in each quarterly Pillar 1 valuation and each Pillar 2 valuation were documented and appropriate checks were carried out to ensure these assumptions were correctly entered into the actuarial models.

- An analysis of change exercise was carried out at each quarterly Pillar 1 valuation and each Pillar 2 valuation to identify the causes and sources of profits and losses for each major line of business. Additionally, this exercise provided a further check on the accuracy of the calculations and the appropriateness of the assumptions and methodology used.

The actuarial function has monitoring systems in place to estimate the undertaking's Pillar 1 and Pillar 2 coverage in the intermediate period between full valuations. Various reporting and stress-testing exercises were also carried out on IFRS, Canadian Minimum Continuing Capital and Solvency Requirement and Embedded Value bases.

The function is responsible for the measurement and monitoring of insurance, market and credit risks. Quarterly risk data is captured as part of the undertaking's risk measurement process and draws upon the valuation and capital assessments described above. Additionally the operational risks inherent within the actuarial function are assessed on a quarterly basis as part of the same process.

To support the function's responsibility to contribute to effective risk management, the function also carried out the following other activities over the reporting period:

- Developing recommendations for bonus rates on the undertaking's with-profits business, as well as other aspects of with-profits management;
- Investigations into the undertaking's asset and liability matching position and other areas of investment risk such as credit exposure and concentration risk to help ensure investment risk exposures remained within defined risk appetite limits;
- Investigations into expenses, demographics and operational risk; and
- Investigations into the undertaking's reinsurance exposures to assess the adequacy of the reinsurance arrangements.

B.7 Outsourcing

B.7.1The outsourcing model

Certain activities are outsourced where customer or business needs can be better met, or provide improved financial results, in each case without exposure to unnecessary risk.

With this primary objective in mind, outsourcing will be considered for reasons such as:

- To realise cost savings;
- To enable management to concentrate on core activities;
- To allow management to concentrate on service (quality and cost) rather than the management of resources delivering the service;
- To provide access to the wider expertise and/or specialist knowledge of a service provider;
- To increase flexibility where there are fluctuations in demand, or the service is required on an irregular basis;
- To enable better access to technology without capital investment;
- To improve speed of delivery to market;
- To allow better control of costs by converting fixed costs into variable costs.

The Outsourcing Policy is described in *Section B.4.6 Operational control*.

B.7.2 Fund administration and global custody

Fund administration is primarily outsourced to State Street Bank & Trust Company Global Services - UKMEA Client Operations and global custody is outsourced to State Street Bank & Trust Company - Global Services. The fund administration for a small block of business, the private funds, is outsourced to Capita Life and Pensions, and property fund administration is outsourced to Aberdeen Asset Management.

B.7.3 Life, pension and annuity servicing outsourcing

All life, pensions and annuity servicing, plus the support-services and facilities required to perform the services are outsourced.

B.7.4 Asset liability matching services provided by the WWG

Asset liability matching services are categorised as outsourcing arrangements as these services are sourced under a formal contract. This includes service requirements, reporting requirements, and oversight and exit provisions. The service is provided mainly by UK based personnel who report to the WWG Asset Liability Management function and are supported by additional WWG personnel within the WWG Asset Liability Management function. The agreement stipulates that the UK regulatory regime will be complied with. The ultimate responsibility for service delivery is retained by the Chief Actuary of SLOC UK.

B.8 Any other information

In addition to our principal outsourcing arrangements discussed above, SLOC UK receives IT services under a WWG centralised IT service model. While this is recognised as an intra-group service provision, it is not regarded as an outsourced arrangement.

Under this arrangement, the WWG IT Team standardises all IT global infrastructure for all businesses within the WWG in line with WWG IT policies and standards. On a simplified basis, the model works, from the centre out, as follows:

- The WWG contracts with various third party suppliers for provision of core IT services being distributed to the UK office. The WWG centrally owns, manages and maintains these contracts. As an example, the WWG IT Team has contracted with IBM for the management, support and maintenance of the Global Lotus Notes platform which is a core service.
- Distribution to the UK of applications and software is undertaken by centrally managed distribution software and technology. Licencing to the UK is undertaken by a WWG centralised licencing team.
- Charges for the provision of IT services are charged to the UK based on volume, utilisation and licensing requirements.

These centrally distributed IT services are significant and therefore SLOC UK also retains a UK based IT team. This team is led by an IT manager of senior grade and is responsible for all UK based services, including disaster recovery arrangements.

C. Risk profile

The risk profile of the EEA Group is not materially different from that of SLOC UK.

C.1 Underwriting risk

For Solvency II Pillar 1 lapse risk and expense risk are the most significant underwriting risks making up £122 million and £88 million of the £239 million undiversified capital requirement for life underwriting risk.

C.1.1 Lapse risk

Lapse risk arises for profitable contracts – for example most unit-linked contracts without Guaranteed Annuity Options ("GAOs") – because higher lapses damages profitability. For with-profits contracts, lower lapses increase the exposure in scenarios where guarantees bite, and the impact of lower lapses generally increases with-profits capital requirements immediately.

Control and monitoring of lapse risk

Lapse experience is monitored regularly across the business, as are other metrics that could be considered early warning signals for a potential increase in lapse rates, e.g. customer service metrics. Retention levels have remained steady for a number of years.

C.1.2 Expense risk

Expense risk arises because the capitalised cost of any increased costs of policy administration (either outsourcer costs or internal governance expenses) or investment management expenses immediately affects excess capital, mitigated by the portion that can be met out of with-profits funds or charged to policyholders.

The expense risk on payout annuities and GAOs was not transferred under the reinsurance treaties described in *Section C.1.5 Material underwriting risk mitigation techniques*, instead being retained within SLOC UK, and increases in expenses attributed to these plans thus have a negative impact on excess capital.

Control and monitoring of expense risk

Internal governance expenses are carefully managed and expenses relating to outsourcing arrangements are set under the contractual arrangements in place. We monitor expense variances compared to plan each month.

Management and the Board are cognisant of the potential for increases in unit expenses when measured on a per in-force policy basis, particularly given the decision to exit new business and the resulting reduction of in-force policy count that will occur over time. The outsourcing contracts provide protection against this risk as they are variable in line with policy count, with an allowance for inflation, or assets under management as appropriate. Expense management is a key area of management attention.

C.1.3 Longevity risk

Longevity risk arises because after the reinsurance of the annuity and GAO business described in *Section C.1.5 Material underwriting risk mitigation techniques*, improved future longevity increases costs in relation to the Staff Pension Scheme and the pension policies within the SLOC With-Profits Fund that have GAOs.

Control and monitoring of longevity risk

Following the reinsurance of the annuity and GAO business, longevity risk is much reduced. However, trends in longevity are regularly monitored as we need to understand our risk before reinsurance and the value of the reinsurance.

C.1.4 Concentrations of underwriting risk

Underwriting risk comes from a wide variety of industry standard product types, which originated from several different insurance companies acquired in the past e.g. Lincoln National and Confederation Life Insurance Company ("CLIC"). These operated in several geographical areas and sold through different sales channels leading to a diverse underwriting risk portfolio.

Therefore, the populations covered are relatively diverse and there is little concentration of underwriting risk.

C.1.5 Material underwriting risk mitigation techniques

Material reinsurance treaties

There is a Payout Annuity treaty with the Bermuda Branch of Sun Life Assurance Company of Canada ("Sun Life Bermuda"), which transfers all risks other than the expense risk. The SLOC UK business incepted prior to 31 December 2008 is subject to a cap on payments, which is covered by a Stop Loss treaty with Sun Life Assurance Company of Canada.

A third treaty covers the GAOs of SLOC UK arising from unit linked pensions policies originally written by CLIC and is with Sun Life Bermuda.

Other reinsurance treaties

There are a total of 78 treaties with other reinsurers.

These treaties cover mortality, longevity, income protection, critical illness and various other smaller benefits.

The continued effectiveness of the reinsurance programme is ensured through the risk management activities described in *Section B.3.4 Risk management processes*, whereby retained risks (i.e. those not reinsured) are identified, measured, managed, monitored and reported.

C.1.6 Underwriting risk stresses

The standard formula approach is used for assessing all underwriting risks. The risks are quantified by stressing the liabilities for each stress. Lapse risk is assessed as the most onerous of allowing for lapses and surrenders to be 50% higher or lower than the best estimate assumptions and for a mass lapse event. The mass lapse result is currently the most onerous.

For with-profits funds, provided there are sufficiently large future discretionary benefits, it is assumed reductions in surplus from stresses will be offset by reductions in future discretionary bonuses (with no allowance for any timing effects from the delay in acting to reduce bonuses). This means that the stress net of management actions will be minimal on with-profits funds.

The underwriting risk stresses are as follows:

£ million	Net solvency capital requirement (including the loss-absorbing capacity of technical provisions)	Gross solvency capital requirement (excluding the loss-absorbing capacity of technical provisions)
Mortality risk	15	18
Longevity risk	-	7
Disability-morbidity risk	12	12
Life-expense risk	88	101
Lapse risk	122	122
Life catastrophe risk	2	2
Diversification within module	(50)	(56)
Total capital requirement for underwriting risk	**189**	**206**

C.2 Market risk

C.2.1 Background

Market risk arises from fluctuations in values of, or income from, assets, interest rates and exchange rates. The Board approves the strategy for how the business addresses this risk, which is implemented by the IMC.

Investment mandates are outsourced to third parties in order to realise cost savings and access wider expertise and the specialist knowledge of service providers. The asset managers are required to comply with the detailed investment guidelines and policies as defined in their respective Investment Management Agreements. See *Section B.7 Outsourcing* for more details of the outsourcing arrangements.

C.2.2 Equity risk

A material proportion of income is derived from fee income from unit-linked funds (primarily invested in equities). Although risks and rewards of equity performance in unit-linked funds are passed through to the customer, a change in value of equity markets will cause proportionate changes in fee income because it is linked to asset values under management, which also affect the cost of providing GAO guarantees and loyalty bonus units.

The SLOC With-Profits Fund holds equities in order to increase policyholder returns and meet any guaranteed returns.

C.2.3 Interest rate risk

Interest rate risk arises mainly from mismatches between the non-linked liabilities and the assets used to match those liabilities. Where possible, attempts are made to minimise this risk by matching the duration of liabilities as closely as possible across the interest rate curve. A range of matching approaches is used depending on the product and the size of liabilities.

The Investment Management Agreement's investment guidelines detail tolerances across the term structure of the liability profile that the manager is required to match. The investment guidelines comply with internal policies and operating guidelines and are reviewed annually.

GAO liabilities are a significant source of interest rate risk; however, the majority of this has been reinsured to Sun Life Bermuda as described in *Section C.1.5 Material underwriting risk mitigation techniques*. The derivatives strategy is managed on behalf of the reinsurers.

C.2.4 Currency risk

Where non-sterling assets are bought, their cash flows are hedged back into sterling within the non-linked business but not necessarily within the with-profits or unit-linked funds. Currency movements can therefore have an impact on fee income.

C.2.5 Property risk

A small proportion of the unit-linked funds invest in property, so fee income is exposed to fluctuations in the valuation of underlying properties. This is not material.

A proportion of the non-linked business is invested in property.

C.2.6 Concentration of risks

The largest market risks arise from risks to fee income from unit-linked funds. Unit-linked products are invested in a variety of funds within different sectors, geographical areas and managers. This diversification means it is believed there are no material concentrations of equity risk, apart from having exposure to the overall asset class.

Suitable diversification limits are maintained in investment guidelines and operating guidelines to ensure minimal concentration risk arising from single name, sector and/or rating exposure. A market risk concentration stress is performed as part of the Pillar 1 SCR and the low value for this confirms that there is no concentration to particular counterparties.

C.2.7 Market risk stress tests and scenario analysis

The standard formula approach is used for assessing market risk.

For with-profits funds, provided there are sufficiently large future discretionary benefits to cover this, it is assumed reductions in surplus from stresses will be offset by reductions in future discretionary bonuses (with no allowance for any timing effects from the delay in acting to reduce bonuses). This means that the stress net of management actions will be minimal on with-profits funds.

In the projection of liabilities, unit-linked liabilities and with-profits asset shares at outset are adjusted for changes in asset value from the scenario/stress.

The market risk stresses are as follows:

£ million	Net solvency capital requirement (including the loss-absorbing capacity of technical provisions)	Gross solvency capital requirement (excluding the loss-absorbing capacity of technical provisions)
Interest rate risk		
interest rate up shock	18	24
Equity risk		
type 1 equities	73	116
type 2 equities	25	26
Property risk	3	14
Spread risk		
bonds and loans	22	43
Market risk concentrations	3	5
Currency risk	26	34
Diversification within module	(45)	(62)
Total capital requirement for market risk	**125**	**200**

Interest rate risk

Interest rate shocks are specified by the standard formula.

Analytic data from each bond (such as duration and convexity) is used to capture the response of the market value of the security to the underlying market variable of the stress.

The stressed yield/discount rate curves and (where relevant) post-shock unit prices are used to calculate the stressed value of assets.

Products modelled stochastically are revalued using an Economic Scenario Generator ("ESG") recalibrated to the stressed conditions.

For non-linked business modelled using the conventional models, flat yields are used for valuation. The stressed liabilities for these products are calculated by increasing (or decreasing) the base flat rate.

The interest rate stresses are calculated as the change in own funds.

Equity risk

The equity stress is calculated by aggregating together stresses on two types of equities.

Type 1 equities are equities listed in regulated markets in the countries which are members of the EEA or the Organisation for Economic Co-operation and Development ("OECD").

Type 2 equities are equities listed in stock exchanges in countries which are not members of the EEA or the OECD, equities which are not listed, private equities, hedge funds, commodities and other alternative investments.

As a simplification, the type 2 equity stress is also applied to all investments where a look-through approach is not possible and information is not available as to what stress should apply to the asset. For significant holdings in external collective investment funds, the investment mandates are used to derive the asset stresses.

Shocks are applied separately for the two types of equity. The value is calculated for the assets in both the non-linked and the unit-linked funds in the event of each shock.

The type 1 and type 2 equity stresses are calculated as the change in own funds. They are aggregated together using the standard formula's equity correlation matrix.

Property risk

A 25% shock is applied to the value of all property investments in both the non-linked and the unit-linked funds.

The property stress is calculated as the change in own funds.

Concentration risk

Concentration risk stress amounts are calculated using asset data only and (to avoid double counting) excludes assets covered by the counterparty default risk calculation.

A simplification is used for collective investment schemes where look-through is not possible. These are treated as a single counterparty in this calculation.
The calculation follows the standard formula in summing the value of assets in excess of a threshold multiplied by a risk factor.

Currency risk

The currency risk stress applied depends on the exposure to the foreign currency. The exposure of a foreign currency is equal to the market value of the assets denominated in the foreign currency less the best estimate of the liabilities denominated in the same foreign currency.

Exposure to Foreign Currency	Currency stress
Positive	25% decrease
Negative	25% increase

The main risk is due to the capitalised effect of lost management fees on policyholder unit funds invested in overseas currency. The business also has Euro-denominated liabilities and it has been calculated that overall solvency would be more adversely affected by a rise than a fall in the value of the Euro.

A 25% decrease in the value of assets is applied to the value of all investments in currencies other than sterling for currencies except the Euro with a 25% increase for Euro assets modelled.

Stresses to be applied to unit prices for the unit-linked funds (applying look-through as far as possible) are calculated and are used with the standard assumptions in order to calculate stressed values for the liabilities.

The currency stress is calculated as the change in own funds.

C.3 Credit risk

Credit risk profile

Credit risk includes the risk of losses arising from credit migrations, changes in credit spreads or default of counterparties. The key credit risk exposures are:

- Fixed income securities - Exposure to losses from credit migrations, changes in credit spreads or defaults

- Derivative trades - default of trade counterparties
- Reinsurance arrangements - default of reinsurance counterparties

The management of credit risk is governed by internal policies such as the Credit Risk Management Policy and the Asset Liability Management Policy. The Credit Risk Management Group ("CRMG") is responsible for overseeing and managing credit risk and credit exposures facing the company; and, ensuring that credit risk management policies and controls are in place. The CRMG meets at least four times a year.

Management of credit risk – fixed income securities

In order to benefit from their experience, resources and knowledge a number of investment managers are employed to invest in fixed income securities. As at 31 December 2016, £4.5 billion in fixed income securities were held in the non-linked business.

The appetite for credit risk and how it will be managed is articulated to the Investment Manager via the contractually binding investment guidelines. Investment guidelines are reviewed annually before being approved by the IMC and if, appropriate, the reinsurer. The appropriate level of credit risk for each type of product will vary depending upon the risk appetite and the nature of the product (e.g. with-profits, annuities).

The investment guidelines include the following restrictions relating to:

- The average credit rating of the portfolios.
- Exposures to lower rated credit exposures.
- Exposures to single counterparties and associated counterparty groupings.
- The origin of issuers.

Investment Managers are required to provide detailed reports at least quarterly to demonstrate compliance with the Investment Guidelines. These detailed reports are reviewed at regular operational governance meetings with the Managers and by the CRMG.

In order to identify and mitigate potential credit losses, the CRMG also records and reviews specific securities that are identified by bond analysts as having a higher risk of default. The CRMG approves any write down of the bonds and any mitigation necessary.

As described in *Section C.1 Underwriting risk* £3.2 billion, or 70%, of the total fixed income securities relate to reinsured business and therefore this business is only exposed to default of the reinsurance counterparty. This is discussed further in the section below *Management of reinsurance counterparty default risk.*

Management of credit risk – derivative trades

SLOC UK has a substantial derivative portfolio to hedge material economic risks, such as those relating to GAOs. Where business is reinsured with other companies in the WWG the derivative performance is passed on to the reinsurer. As at 31 December 2016, the derivatives in SLOC UK's non-linked business had a total market value of £103 million and a total notional value of £1.6 billion. SLOC UK is exposed to losses from the default of the derivative counterparty if the derivative has a positive market value to SLOC UK.

In order to mitigate this risk, SLOC UK exchanges collateral on a daily basis with all derivative counterparties. The exchange of collateral is governed by market standard International Swaps and Derivatives Association and Credit Support Annex agreements with each counterparty. Collateral is restricted to cash and high quality government bonds, with haircuts applied to the market values of the latter. The market value of derivatives and collateral is monitored monthly at the Asset Liability Management Group. As at 31 December 2016, SLOC UK's non-linked business held an aggregate collateral balance of £96 million in respect of the aforementioned derivatives with a £103 million total market value.

As derivatives are collateralised there is immaterial net credit risk remaining on the positions. This is expected to remain the case in the foreseeable future.

Derivatives where other WWG companies act as counterparty are not required to be collateralised.

Management of reinsurance counterparty default risk

As described in *Section C.1.5 Material underwriting risk mitigation techniques* SLOC UK has entered into reinsurance agreements with other entities in the WWG. In order to limit counterparty credit exposure, the reinsurer is required to deposit back investments approximating to the value of the reserves of the reinsured business. These deposited back investments are managed as ring-fenced pools of assets and are included as part of the relevant balance sheet line items. On a quarterly basis the value of these ring-fenced assets are compared to the reserves on both a Solvency II Pillar I and an IFRS basis. If the assets fall below prescribed limits the reinsurer is obliged to top up the funds to the required levels. The liability to repay the deposits is presented as 'deposits received from reinsurers' in the balance sheet, and amounted to £3,487 million as at 31 December 2016 (2015 £3,225 million).

Management information, including commentary on all reinsurance arrangements entered into is produced annually for submission and discussion at the Risk Committee. Should the credit rating of the reinsurer fall below certain limits, the deposit back limits are increased thus reducing the exposure. On further deterioration, the treaties have provisions for automatic recaptures.

There is significant counterparty exposure that SLOC UK has to Sun Life Assurance Company of Canada, and in particular, the reduction in SLOC UK's capital position that would occur should Sun Life Assurance Company of Canada become financially impaired, necessitating recapture of these agreements. Whilst substantial diminution of the financial capacity of Sun Life Assurance Company of Canada appears to be a remote possibility at present, should this not continue to be the case a number of actions are available to management:

- Negotiate an increase in Deposit Back Fund requirements to reduce counterparty exposure;
- Move to an alternative reinsurer;
- Keep the portfolio in house, i.e. recapture, but add additional risk mitigation measures; and
- Sell the block of reinsured business.

The optimal strategy depends on the market and regulatory environment as well as SLOC UK's longer term strategic objectives at the time such options were considered.

Material credit risk concentrations within SLOC UK and how they are managed

SLOC UK has no material credit risk concentrations.

Credit risk concentrations are assessed by allocating sector and single issuer names to fixed interest securities. This enables credit risk exposures to be aggregated across the lines of business. Restrictions are then placed on the exposures to single issuers and single sectors to ensure appropriate diversification. For example, Sun Life Global Investors which manages the majority of corporate bonds held in the non-linked business include the following restrictions in the Investment Guidelines:

- A maximum investment of 30% in any one sector
- A requirement to ensure exposure to five distinct sectors to ensure diversification
- A maximum investment in any one issuer name (varies between 3% - 5% across the business)
- A maximum exposure of 5% to sub investment grade debt (below BBB-). No new purchases permitted

The largest single issuer exposures and all sector exposures are reported in the quarterly investment reports which are reviewed by the CRMG.

SLOC UK executes derivative trades with a number of high quality derivative counterparties to ensure diversification and reduce credit risk concentration.

Credit risk mitigation techniques

SLOC UK invests in credit default swaps in order to mitigate credit risk in the non-linked business. As at 31 December 2016, the credit default swaps had a total market value of £0.5 million and a total notional value of £43 million. The credit default swaps are held for the purposes of hedging and efficient portfolio management only, as required by the Investment Management Agreement, and the positions are monitored for compliance with the Investment Management Agreement on a monthly basis.

Credit risk stress tests and scenario analysis

Spread risk

Under the Pillar 1 standard formula, the capital requirement for spread risk is the sum of three capital requirements with no allowance for diversification between them: the capital requirement for the spread risk of bonds and loans other than mortgage loans, the capital requirement for the spread risk on securitisations and the capital requirement for credit derivatives.

The spread risk sub-module covers credit derivatives that are not held as part of a recognised risk mitigation policy. The only credit derivatives held in SLOC UK are the derivatives that are held in the SLOC With-Profits Fund to reduce credit spread risk. As these are held as part of a risk-mitigation policy these are not stressed here.

The stresses applied to each security are dependent on the asset's credit rating.

The spread stress figures are calculated from the change in own funds.

The impact of this stress was £22 million net of the loss absorbing capacity of the technical provisions. Under Pillar 1 standard formula, spread risk is included with the market risks not within counterparty default risk.

Counterparty risk

Reinsurance, derivative and deposit counterparty risk is stressed in this module. Other counterparties are stressed with the market concentration calculation. It is calculated using the standard formula.

For with-profits funds, provided there are sufficiently large future discretionary benefits to absorb the risk, it is assumed reductions in surplus from stresses will be offset by reductions in bonuses (with no allowance for any timing effects from the delay in acting to reduce bonuses). This means that the stress net of management actions will be zero on with-profits funds.

No unrated exposures or type 2 exposures due for more than 3 months currently appear in the counterparty default risk calculation for SLOC UK.

C.4 Liquidity risk

Liquidity risk is the risk that a given security or asset cannot be traded quickly without incurring a loss.

C.4.1 Liquidity profile

SLOC UK is shown to have sufficient liquidity to be able to meet all of its obligations under reasonably foreseeable conditions, and in modelled extreme adverse circumstances.

C.4.2 Objectives of liquidity management

Liquidity is managed to achieve the following goals:

- All cash outflow commitments should be honoured as they fall due
- The forced sale of assets, the need to borrow funds at high rates, and excess liquidity should be avoided

C.4.3 Liquidity/cash management at the fund level

In normal circumstances, the basic measure of liquidity risk - the 'liquidity ratio' - is the total value of the immediately available cash inflows receivable from assets (and from policyholders where relevant) divided by the total value of the immediate outflows arising from liabilities and other commitments.

Under these circumstances, we would expect to have extremely secure cover for cashflow commitments. This is because expected outflows are matched to a large extent by expected income. Additionally, it should be possible to sell a reasonable proportion of the investments at market value (or close to) to raise additional cash at any time.

Safeguards are in place to ensure that the liquidity position under normal conditions remains satisfactory. These include regular monitoring of the cash positions and cash flow requirements. The level of cash requirements required for each fund is set by reference to a liquidity ratio, which is monitored on an on-going basis by the Asset Liability Management Group.

C.4.4 Liquidity risk appetite

SLOC UK liquidity risk appetite thresholds and limits are designed to support the liquidity needs of the SLOC UK business and ensure it can withstand a market liquidity crisis. A prudent liquidity requirement is calculated to cover claims (net of premiums) and expenses due over the next three months and one year in normal and stressed conditions, and dividends expected to be paid to the shareholder. Cash and cash equivalents are held to cover three month liquidity requirements. One year liquidity requirements are covered by cash, cash equivalents and UK government bonds.

The table includes the liquidity ratios calculated at 31 December 2016:

	Threshold	Limit	2016
Liquidity ratio:			
- one year (non-profit business)	110%	105%	176%
- one year (with profits business)*	110%	105%	278%
- three months (non-profit business)	110%	105%	155%
- three months (with profits business)*	110%	105%	248%

* The With-Profits ratios only include the SLOC With-Profits Fund

C.4.5 Unit-linked funds

Cash balances are maintained and monitored to meet policyholder flows as they arise. This is overseen by the Asset Allocation Management Group.

C.4.6 Liquidity contingency plan ("LCP")

SLOC UK has formulated an LCP in order to assist it in managing a liquidity crisis event should one occur. If the calculated ratios were to approach a liquidity threshold point, the contingency plan would be put into action. The LCP covers policy on customer services, public relations, investment and liquidation of assets. The LCP is reviewed, updated and approved by the IMC annually.

Currently there are no areas of material liquidity risk concentration within SLOC UK. Sufficiently high liquidity ratios are maintained to ensure SLOC UK has sufficient assets available to pay claims as and when they fall due.

Solvency II Pillar 1 results confirm liquidity risk is very low within SLOC UK and no capital is required to meet this risk.

C.4.7 Controlling and monitoring liquidity risk

The nature of the business and the assets being held means liquidity risk has not been a major concern for SLOC UK. Nonetheless, SLOC UK monitors 3 month and 12 month liquidity ratios quarterly against risk appetite.

C.4.8 Expected profit included in future premiums

As the business is substantially single premium business (recurrent single premium pensions business) and premium paying business that has already become paid up, the expected profit included in future premiums is not significant as a proportion of the total reserves.

The figure for 31 December 2016 was £66 million.

C.4.9 Pillar 2 liquidity risk

Sufficiently high liquidity ratios are maintained to ensure that there are sufficient assets available to pay claims as and when they fall due. An extreme adverse scenario test is undertaken being an instantaneous 'point-in-time' test of an immediate panic or run-on-the-bank at the valuation date. Results confirm that liquidity risk is very low within the company and that no capital is required to meet this risk.

C.4.10 Liquidity risk stresses

The liquidity risk appetites specified above allow for liquidity requirements in stressed conditions and avoid reliance on selling potentially illiquid assets in the event of a market liquidity crisis.

C.5 Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, or from personnel and systems, or from external events. SLOC UK has identified material operational risk exposures in the following areas:

- Outsourcing risk – life and pensions
- Outsourcing risks – fund administration, fund managers, unit pricing
- Product design and pricing risk[2]
- Model risk
- Taxation risk
- Key people risk
- Governance, systems and controls risk
- Cyber risk

The only significant area of risk concentration is in respect of outsourcing risk (as described in *Section B.7 Outsourcing,* we rely on material outsourcing arrangements with a small number of outsource providers). SLOC UK has an outsourced business model which will remain in place over the term of the first 5 years of the Long Term Business Plan. The Long Term Business Plan includes adjustment to the outsourcing structure over the lifetime of the run off period.

These risks are reported to the Risk Committee of the Board as part of the key risk reporting pack.

C.5.1 Operational risk calculations

C.5.1.1 Pillar 1 operational risk

Pillar 1 operational risk is calculated as per the standard formula with the immaterial exception that technical provisions and earned premiums on health business are combined with those for life business for the calculations.

The Pillar 1 capital requirement for operational risk is £34 million.

C.5.1.2 Pillar 2 operational risk

Under the standard formula used for Pillar 1, operational risk capital is based on gross non-linked liabilities and the net administration expenses for unit-linked business. For SLOC UK, approximately half of the current operational risk is derived from each item.

Pillar 2 operational risk is based on an internal risk assessment of the risks listed above and is diversified in the same way as other risks. The calculation at the valuation date uses a stochastic process to determine the number of risk events crystallising and another to determine the financial impact of each risk event. Inputs are derived from both scenario analysis, and the risk control self-assessment.

To further assist the business in the analysis of the derived capital requirements for operational risk, the risks used in the calculation of capital are allocated to broader risk events that are widely recognised within the business.

The capital requirement for each of the risk events is calculated by allowing for diversification benefits between the individual risks within each event. The overall capital requirement for

[2] Materially reduced by third party supplier transaction effective 4th November 2013 that removes annuity pricing risk.

operational risk is then calculated by aggregating the capital requirements under Solvency II operational risk taxonomy using a further correlation matrix.

Management of operational risk

The overall aim of management of operational risk is to reduce it. This recognises that initiatives may require a short term increase in operational risk, to deliver longer term benefits. Any action or initiative undertaken by management should not increase the long term operational risk profile of the organisation.

All operational risks have in place mitigating controls that reduce the level of residual risk. In the case of those operational risks that are regarded as outside of risk appetite (where the level of residual risk is regarded as too high as currently measured), additional actions have been identified to further reduce the level of residual operational risk.

C.5.2 Pillar 2 operational risk stress testing

Operational risk capital calculations are supplemented by stress testing scenarios to examine possible causes of business model failure. The purpose of these is to examine scenarios, other than solvency challenges, that could cause the business to fail.

The process concluded that there were no operational risks deemed likely to fulfil the business model failure criteria.

C.6 Other material risks

The use of derivatives

The investment authorisations granted by the Board of directors allow derivative instruments to be used for hedging purposes or for efficient portfolio management only, and their use is subject to the same standards of prudence, due diligence, management supervision, controls and reporting as apply to other investments. Derivative risk management guidelines are also incorporated in the Market Risk Policy and the Credit Risk Policy, which are reviewed annually.

Examples of the major hedges used by SLOC UK are as follows:

GAO hedge

The longevity and investment risk relating to GAO liabilities are reinsured to Sun Life Bermuda. SLOC UK manages the derivative strategy related to the GAO on behalf of Sun Life Bermuda. To hedge the interest rate risk of the GAO liabilities, the company holds a portfolio of interest rate derivatives and fixed income assets. The hedge is designed to mitigate increases in cost due to interest rates falling further by consideration of cash flows matching the liability profile. Derivatives are also used to manage swap spread risk.

Other

Some with-profits managers and some unit-linked asset managers also use derivatives for the purpose of hedging and efficient portfolio management, as outlined in the respective Investment Manager Agreements.

SLOC UK does not perform any securitised lending.

C.7 Any other information

C.7.1 Tax and risk profile

Financial tax risk

The valuation of deferred tax assets in the balance sheet is dependent on future taxable profits emerging in the same business categories as anticipated. Any changes to these profits, for example because of worsening market conditions, adverse experience against valuation assumptions, or a change in strategy may affect the valuation of these tax assets and have adverse tax and capital effects. *Section D.1 Valuation for solvency purposes – Assets* gives consideration of this risk in the recognition and valuation of these assets.

Legislative tax risk

We consider all possible legislative change but the current highest risk of adverse legislative change relates to the new loss utilisation rules which are due to be enacted in 2017. It is management's view that the risk is not material to the solvency of the company.

The potential risk associated with the application of Value Added Tax to outsourced management services has reduced to insignificant in the planning time frame following Her Majesty's Revenue and Customs ("HMRC")'s response to the UK vote to leave the European Union.

There is the generic risk that any transaction carried out may be subject to uncertainty regarding the interpretation of legislation by the tax authorities, or that there is uncertainty over tax issues currently under dispute with the tax authorities.

Transactional tax risk

This covers process management risks and includes examples where transactions are incorrectly undertaken leading to unintended adverse tax consequences. This also covers transactions which are not identified by the Tax function, not given tax consideration and also not notified to HMRC.

Reputational tax risk

It is important to maintain good relations with the tax authorities mainly by completing tax returns which are delivered, and paying tax due, in an accurate and timely fashion. Failure to do this could result in additional scrutiny over the tax affairs of the company, a higher overall risk rating and a higher risk that tax authority clearance, in advance of transactions, may not be received.

It is also important to maintain a good reputation with customers by not making errors with regards to policyholder taxes.

C.7.2 Scenario analyses

Scenario testing has been carried out using the scenarios listed below:

- Severe Economic Shock – beyond the 99.9th percentile
- Two credit and liquidity crises performed at different severity levels, with the more severe scenario incorporating de-risking activity
- A severe economic shock occurring in 2018, possibly triggered by the UK vote to leave the European Union
- A cyber-attack

- A tax scenario in which Value Added Tax becomes chargeable on outsourcer costs. This is an example of a potential impact of an externally driven event risk crystallising

The scenarios are judged to be reasonable situations that test the robustness of the business.

Scenario summary

None of the scenarios resulted in failure to meet regulatory solvency requirements. In all cases, capital resources exceeded risk appetite. The impact of the scenarios can therefore be fully offset by reducing future dividends.

Scenario stress testing against risk appetite

Scenarios are compared against risk appetite at current point in time and also over a five year projection period as part of the ORSA process. Management actions are considered for those scenarios where risk appetite thresholds or limits are potentially breached.

D. Valuation for solvency purposes

D.1 Assets

The value of each class of asset for SLOC UK and for the EEA Group is shown in the balance sheets included in the appended quantitative reporting templates. The valuation methods for assets held by the EEA Group are not materially different to those for assets held by SLOC UK.

D.1.1 SLOC UK deferred tax asset calculation

Deferred tax assets are recognised for Solvency II purposes using International Accounting Standard ("IAS") 12 Income Taxes principles, where SLOC UK has deductible temporary differences or accumulated losses for tax purposes. With respect to tax losses, the balances recognised represent the estimated future loss utilisation. The following table shows the drivers of the deferred tax calculation for SLOC UK.

Valuation differences between Solvency II and IFRS and other deferred tax items	Gross (taxable)/ deductible difference £ million	Associated deferred tax asset / (liability) £ million
Investment differences	(199)	(11)
Accounting differences	(25)	(4)
Actuarial differences – pension business reserves	32	5
Actuarial differences – life business reserves	(53)	2
New life tax regime transitional adjustments	(110)	(3)
Onerous contracts provision	(5)	(1)
Pension business losses carried forward	150	27
SLOC UK Deferred Tax Asset/(Liability)	**(210)**	**15**

In accordance with IAS 12, deferred tax assets are recognised only to the extent that it is probable that future profits will be available, against which carried forward trade losses can be offset. If deferred tax assets are not expected to be recovered, they are not recognised or a valuation allowance is recorded.

Recognition and measurement on the Solvency II balance sheet of the deferred tax asset of £28 million relating to unused tax losses are based on management projections of future profits disclosed in the Long Term Business Plan, which indicates that losses are able to be fully recovered.

Deferred tax assets have been set off against deferred tax liabilities to the extent allowable.

Deferred tax liabilities relate mainly to unrealised gains on investments which have not yet been included in the computation of taxable profit.

Reconciliation of deferred tax calculated on Solvency II and IFRS basis

Under IFRS, deferred tax is determined based on temporary differences between the carrying amounts of assets or liabilities on the IFRS balance sheet and the corresponding tax bases used in the computation of taxable profit. The tax rates used are those that have been enacted or substantively enacted by the balance sheet date.

Deferred tax for Solvency II valuation purposes is determined on temporary differences between the economic value of assets or liabilities on the Solvency II balance sheet and their tax base.

This gives rise to the following differences:

		Deferred tax asset £ million
Net deferred tax assets per Solvency II balance sheet		15
Net deferred tax liability per IFRS balance sheet	(18)	
Less deferred tax liability in the linked funds*	29	
		11
Difference		**4**

*For Solvency II balance sheet purposes, the deferred tax liability in linked funds is within the line Assets held for index-linked and unit-linked contracts and does not form part of the net deferred tax asset shown explicitly in the balance sheet. Under IFRS, the whole company deferred tax position is disclosed including the deferred tax liability relating to linked funds. To make a valid comparison, the deferred tax liability for linked funds is removed from the IFRS balance sheet figure.

The above difference is attributable to the different valuation methods applied to deferred income liability, deferred acquisition costs, onerous contract provision, mathematical reserves, and asset valuation differences.

The main difference is the recognition of a £5 million deferred tax asset on higher pension business reserves under Solvency II compared to IFRS.

Assessment of any additional deferred tax assets within the EEA Group

As detailed in the table below there are unrecognised deferred tax assets of £280 million (£264 million capital losses and £16 million trading losses) within the Non-Life subsidiaries, predominantly relating to capital losses in SLF of Canada UK Ltd, resulting from a corporate restructuring. A valuation allowance has been recorded against these losses as it is not anticipated that there will be any capacity for recovery in the foreseeable future.

	Gross (taxable)/ deductible difference £ million	Associated deferred tax asset/(liability) £ million
Non-Life subsidiaries		
Capital losses	264	-
Trading losses	16	-
Excess capital allowances	9	2
Non-Life company deferred tax asset/(liability)	**289**	**2**

D.1.2 Pensions benefit surplus and obligations

SLOC UK operates two pension schemes.

Main scheme (approved) – final salary section

The final salary section is a funded defined benefit plan, which closed to new entrants in March 2002 and closed to future accrual from 31 December 2011.

The most recent full actuarial valuation for funding purposes was carried out by Hymans Robertson LLP, independent actuarial advisers to the scheme, as at 31 December 2013 using the projected unit method. The surplus in the scheme is valued at £24 million.

Unfunded scheme (unapproved)

The company operates an unfunded plan to provide defined benefits to certain former employees.

Full actuarial valuations for funding purposes are not required for the unfunded plan. The most recent actuarial valuation for accounting purposes was carried out by Hymans Robertson LLP as at 31 December 2016. The market value of the scheme's assets at the valuation date was £nil (2015: £nil) and the value of the liabilities was £3.1 million (2015: £2.7 million).

D.1.3 Investments

For Solvency II and IFRS, the fair market values for liquid bonds, listed equities, exchange traded funds, unit trusts and derivatives are sourced on a daily basis from leading financial information services companies (Thomson Reuters, IBOXX, Bloomberg, Interactive Data & Markit) according to a waterfall approach that is detailed in a price source agreement with State Street, the fund administrator.

For bonds, if there is not enough current pricing information for State Street to supply a current price then a stale price is supplied and the fact that it is stale is highlighted. If the situation persists then the asset is valued using the illiquid bonds method described In *Section D.4 Alternative methods for valuation*.

Derivatives are priced daily by both the counterparty and an independent financial information services company. SLOC UK can close out a derivative at any time with the counterparty or a third party, and the quoted price provides a good indication of the close-out price that would be received. As such, this is used for valuation purposes.

SLOC UK retains overall responsibility for the prices provided to it and has oversight of them. Accordingly prices provided to SLOC UK are tested and any apparent anomalies are investigated.

D.1.4 Investment property

The valuation of properties held as investments is described in *Section D.4.3 Alternative methods for valuation - Property.*

D.1.5 Participations

SLOC UK holds one participation which is valued identically under IFRS and under Solvency II principles at fair value, which is its net asset value.

The EEA Group does not hold participations in companies outside of the EEA Group.

D.1.6 Cash, cash equivalents and deposits other than cash equivalents

Cash and cash equivalents are measured at market value in the Solvency II balance sheet and under IFRS.

Cash is held in various currencies and is converted to pounds sterling in the balance sheet at the foreign exchange rate as at the period end.

Cash equivalents and deposits other than cash equivalents are measured at market value using quoted prices in active markets for identical assets. The prices are provided by State Street and the price includes an allowance for the risk of future default on deposits other than cash equivalents.

D.1.7 Loans on policies

The valuation of policy loans is covered in *Section D.4.4 Policy facilities*.

D.1.8 Reinsurance recoverables

The valuation of reinsurance recoverables is described in *Section D.2 Technical provisions*.

D.1.9 Reinsurance and trade receivables

The reinsurance receivables are accruals for unpaid reinsurance premiums and claims and are valued under Solvency II and IFRS at amortised cost, with the carrying amount approximating to fair value.

D.2 Technical provisions

The choice of method used to calculate technical provisions for each product group is proportionate to the nature, scale and complexity of the risks underlying the insurance obligations.

Stochastic models are used for products that offer material guarantees or options, for example with-profits products. For other product groups deterministic models are used.

The technical provisions quantitative reporting template appended shows the value of best estimate liabilities ("BEL"), risk margins and technical provisions, as well as reinsurance recoverables.

The amounts recoverable from reinsurance contracts are calculated separately from technical provisions. The calculations are based on projected cashflows relating to the reinsurer, using the same boundaries as the relevant insurance contracts, with an adjustment to allow for expected losses due to default of a reinsurer, and with an allowance for expenses receivable from the reinsurer rather than the best estimate of SLOC UK costs used in calculation of the technical provisions.

D.2.1 Methods and simplifications

Unit-linked

Unit-linked products are modelled in a deterministic, cashflow model with reinsurance assets modelled explicitly. Assumptions are best-estimate and market-consistent term-dependent yields and inflation are used.

Calculations are performed at a policy level.

All expected cashflows are modelled for products within this model except for the simplifications noted below:

- The model does not allow for indexation of premiums and benefits. Future inflationary increases are not material.
- A single yield curve is used for all business including non-UK policies. Non-UK unit-linked business is not material.
- Incurred but not reported claims, claims in payment and certain rider benefits are calculated within other reserves.
- Some smaller reinsurance treaties are not modelled due to their low materiality.

Annuities

Annuities are modelled using a deterministic, cashflow model. The model uses market-consistent term-dependent assumptions for yields and inflation. Reinsurance assets are calculated separately.

Calculations are performed at policy level and cashflows are monthly.

All expected cashflows are modelled for products within this model except for the simplifications noted below:

- No allowance is made for the possibility that one of the two lives on a joint-life annuity may have died prior to the valuation date. For example if the spouse of the annuitant has died, the model assumes that individual is still alive to receive a spouse's pension on the death of the policyholder.
- A UK yield curve is used for all business including non-UK policies. Non-UK annuities are not material.

SLOC With-Profits Fund

The SLOC With-Profits Fund policies are modelled using a dynamic stochastic asset-liability model.

Future fund values, policy guarantees, asset shares and cashflows are projected using best-estimate assumptions and the returns from a market consistent ESG. They are then used in the calculation of the liabilities. The resulting strains from the cost of guarantees are captured under a stochastic valuation on the balance sheet.

The following simplifications are made:

- Policies are grouped using appropriate categories (policy term, calendar year of maturity, elapsed duration, age at inception).
- All plans are modelled on a single life basis with joint life cases assumed to be males with an equivalent single age.

- No allowance is made for policies becoming paid-up within the projection. Paid-up policy rates are very low in practice so this is not a significant approximation.
- The model has an annual time-step.
- The ESG is limited to modelling bonds, equities, property and cash. Any more complex instruments require approximations to be made. Any derivatives are therefore usually modelled as if they were of the class of their underlying asset.
- The model does not allow for indexation relief in the calculation of the tax on realised capital gains.

GAO model

GAO is an annuity option for some pension policyholders. The net impact on technical provisions is mitigated using reinsurance. The policies with GAO are modelled using a stochastic cashflow model.

The projections allow for cashflows such as premiums and expenses, the impact of investment and inflation and the assumptions for decrements such as death, surrender and retirement. At the assumed retirement age the value of the option is calculated. The model has an annual time-step.

The following simplifications are made:

- Policies are grouped in order to reduce the run-time of the model using the categories nearest age, gender, value of units in force and annual premium.
- Indexation is not modelled for the small number of plans that have indexation on grounds of materiality.

Health products

- SLOC UK Conventional Health products are modelled using a cashflow based multi-state model with explicit inception and recovery rates. This allows for lapsing plans (this product cannot be made paid-up).
- Reinsurance is not allowed for explicitly within the model. The reinsurance asset is calculated as the gross reserve multiplied by the proportion reinsured.

Term products

- SLOC UK Term products are modelled using a cashflow based gross premium method. This allows for lapses.
- Reinsurance assets and gross liabilities are calculated explicitly.
- Some acquisition expenses are not modelled. An additional reserve is held to account for this.
- Conversion options on the policies are not modelled.
- Policies administered by Capita are valued using a net premium method.

Conventional non-profit products

- SLOC UK Conventional non-profit products are modelled using a cashflow based gross premium method.
- Policies administered by Capita are valued using a net premium method.

Group pension products

- SLOC UK group pension products are modelled using a cashflow based gross premium method. This allows for lapses.

D.2.2 Level of uncertainty in value of technical provisions

The BEL is recalculated under significant stresses in order to calculate the SCR. These stresses provide information on the sensitivity of technical provisions to various risk factors.

The impact of stressing each of the major risk factors is shown in the table below:

Solvency II Pillar 1 (£ million)	**Non-Profit**
BEL at 31 December 2016 **(non-unit liabilities, net of reinsurance)**	**788**
Sensitivity of BEL to a change in the following risk factors (each change is shown in isolation), net of loss absorbency of technical provisions:	
Lapses One-off discontinuance of 40% of policies (for policies where this increases the BEL) with total overhead expenses kept unchanged	122
Equity market levels Instantaneous decrease of 37.6% for type 1 equities (listed in markets in EEA or OECD countries) and 47.6% for type 2 equities (other equities)	92
Expenses One-off increase of 10% in current expense levels and an addition of 1% point to future expense inflation	88
Risk-free interest rates Addition of 1.0% per annum at all terms	(10)
Mortality Permanent multiplicative increase of 15% in the mortality rates at all ages (for policies where this increases the BEL)	15

For interest rate risk, the change in technical provisions is accompanied by movements in the values of interest sensitive assets. These assets are chosen such that the movement in their value closely matches the change in technical provisions when interest rates change.

The risk margin is the present value of the cost of maintaining the non-hedgeable capital over the lifetime of the business. It is therefore sensitive to the level of non-hedgeable risk, the run off of that risk and changes in the discount rate. The cost of capital rate is fixed at 6.0% per annum.

The sensitivity of risk margin to these factors is shown in the table below:

£ million	Risk Margin
At 31 December 2016	**117**
Sensitivity of risk margin to a change in the following factors (each change is shown in isolation):	
Level of non-hedgeable risk (increase of 10%)	12
Change in discount rate (0.5%)	10

The risk margin is very sensitive to changes in the discount rate. This is because changes in the discount rate result in both changes to the capital requirements for non-hedgeable risks and changes to the discounted value of these capital requirements over the lifetime of the obligations.

D.2.3 Assumptions

Changes in assumptions

Each year investigations are completed into expenses and annuitant mortality. GAO take up rate investigations are currently also being carried out annually following the introduction of pensions freedom legislation in April 2015. On a rolling two year basis investigations are completed into longevity improvement factors and underlying experience, assured lives mortality, surrender and paid up and retirement experience. The investigations are used to set the assumptions used in valuation and these are approved by the Board. Economic assumptions are based on observed market rates at the valuation date.

Economic

The risk-free base curve published by the European Insurance and Occupational Pensions Authority ("EIOPA") is used.

No credit is taken for a volatility or matching adjustment.

For business using term-dependent yields, a term dependent inflation rate is also used.

Flat yields and inflation rates are used for less material business.

Base expenses

The liability models project outsourced and governance expenses separately. The base levels for these are taken from contractual agreements with outsourcers and expense analyses respectively.

Investment expenses are also taken from expense analysis and are calculated in basis points.

Policyholder options

Decrement assumptions and GAO take-up rates are set at grouped product level at best estimate rates following an experience investigation. The following assumptions are set separately:

- Lapse/transfer from premium paying
- Lapse/transfer from paid-up

- Paid-up policy from premium paying
- Retirement rates
- Take-up rate assumption for plans with GAOs

Mortality/morbidity

Mortality rates are generally set at best-estimate following a mortality investigation. The base table and proportion used are set so as to reflect best-estimate assumptions.

For certain products where experience data is limited mortality / morbidity rates are set equal to the rates underlying policy deductions or using reinsurer's rates.

D.2.4 ESG

SLOC UK uses risk-neutral ESG scenarios to value its two major stochastically modelled lines of business (with-profits and GAO).

SLOC UK's choices of sub-models can be summarised as follows:

Category	Model
Nominal interest rates	Extended two-factor Black-Karasinski model
Real interest rates	Two-factor Vasicek model
Equity returns	Time-varying deterministic volatility model
Property returns	Equity returns model, calibrated for property
Foreign exchange rates	Not modelled stochastically
Credit spreads	Cox-Ingersoll-Ross model

D.2.5 Risk margin

The risk margin forms a part of the technical provisions under Solvency II, and is a cost of capital calculation.

The individual undiversified risk components contributing to the risk margin in any future year are approximated. The degree of approximation in the projection of each stress amount depends on the nature, scale and complexity of both the risk and of the business being modelled. The significant non-hedgeable risks are lapse risk, expense risk and operational risk. These are run off in line with the exposure to mass lapse, total expenses and reserves respectively. The projected risk capital amounts are then aggregated at each future time period to derive the projected SCRs.

D.2.6 EIOPA requirements inapplicable to SLOC UK

- BEL and risk margin are calculated separately for all business and so there is no section on technical provisions calculated as a whole.
- SLOC UK is not using transitional provisions.

SLOC UK is not allowing for any volatility or matching adjustment in the calculation of technical provisions. The transitional risk-free interest rate-term structure is not applied and the transitional deduction to technical provisions is not applied.

D.2.7 Differences between valuation for solvency purposes and valuation under IFRS

The IFRS reserves are different from Solvency II technical provisions, with Solvency II being £36 million lower. The main reasons are (net of reinsurance):

- Solvency II uses a risk margin which is an addition to the BEL. IFRS does not use a risk margin. Solvency II technical provisions are £117 million higher for this reason.
- Under Solvency II the insurance and investments contract definitions and valuation restrictions do not apply. The Solvency II technical provisions are £164 million lower for this reason.

The IFRS reinsurance recoverables are different from Solvency II reinsurance recoverables due to the differences described above and also because IFRS valuation includes no counterparty default adjustment.

D.3 Other liabilities

The value of each class of other liability, for SLOC UK and for the EEA Group, is given in the quantitative reporting templates in *Appendices 1 and 2*.

D.3.1 Deposits from reinsurers

The deposits from reinsurers are detailed in *Section C.3 Credit risk*. The deposits from reinsurers are valued for Solvency II and IFRS at fair value through profit or loss.

D.3.2 Insurance and intermediaries payables

The amounts due to policyholders and other policy benefits payable are valued according to the policies and are held at amortised cost, with the carrying amount approximating to fair value, which is consistent with the valuation under IFRS.

D.3.3 Payables (trade, not Insurance)

Other liabilities are measured at amortised cost, which is consistent with the valuation under IFRS.

SLOC UK has a leasing arrangement with the owner of the building it occupies and has future aggregate minimum lease payments under non-cancellable operating leases that all fall due within the year.

D.4 Alternative methods for valuation

D.4.1 Illiquid bonds

At 31 December 2016, SLOC UK held £77 million of bonds where the fund administrator has been unable to source an updated market price for more than 5 continuous business days.

A discounted cash flow approach is used to place a mark-to-model value on these bonds.
The significant assumptions in the model are:

- The risk free rates of interest;
- The credit spreads; and
- An illiquidity/modelling parameter to reflect the fact that the bonds are illiquid.

D.4.2 Venture capital

SLOC UK has a small amount of legacy venture capital holdings in the SLOC With-Profits Fund.

The proportion of equity method is used and is a generally accepted accounting method which provides a recent valuation based on published financial statements, with no valuation assumptions required.

The reliability of the proportion of equity method is determined by the quality of the published accounts of the venture capital firm.

D.4.3 Property

The property portfolio is managed by a specialist fund manager who uses independent specialist valuation agents. Regular meetings with the fund manager keep SLOC UK informed of the level of market activity.

The unique nature of properties and infrequent sales make property valuations subjective. Independent property valuations are specific to a property and take account of the circumstances of the property e.g. state of repair, quality of tenants, length of outstanding leases. Property valuations also take account of regional factors, such as a scarcity of certain types of properties, and national trends, such as an increase in demand for retail properties. Experienced valuation agents can accurately value properties allowing for these factors.

The economic value of a property is determined from the expected rental income and the expected sale value. The rental income stream depends on future assumptions of occupancy rates, lease extensions and rental growth. The sale value is assessed from comparable sales and expected market trends.

Each property is visited in-person and valued once a year by an independent valuations agent. The valuation is reviewed when significant events occur e.g. the amendment of a lease, change of tenants or the refurbishment of a property. The value of a property would also be reviewed in the light of other similar sales in the region.

D.4.4 Policy facilities

SLOC UK has a small amount of policy facilities which are mainly in the SLOC With-Profits Fund.

Policy facilities are advances that policyholders have taken against the value of their policies. They are valued at the face value of the amounts that were borrowed, since this reflects the amount that customers will repay, or the amount that redemption amounts will be reduced by.

No valuation assumptions are required.

D.5 Any other information

None

E. Capital management

E.1 Own funds

Information on the structure, amount, quality and eligibility of own funds at the end of the year and at the end of the previous year, for SLOC UK and for the EEA Group, is given in the quantitative reporting templates in *Appendices 1 and 2*.

E.1.1 SLOC UK

Capital instruments

The ordinary share capital is fully paid up and is fully available for the absorption of losses. It is the most deeply subordinated in the event of a winding up and is free from all requirements or incentives to redeem, mandatory fixed charges and encumbrances.

All paid up ordinary share capital is classified as tier 1 capital.

The 8% non-cumulative perpetual preference shares are redeemable at par, in whole or in part at the company's option at any time on giving one month's notice.

On winding up of the company or other repayment of capital (otherwise than by way of redemption), the preference shareholders are entitled to have the distributable assets of the company applied first in paying them the capital paid up on the preference shares.

The preference shares are classified as tier 1 (restricted) own funds. Whilst they do not meet the tier 1 classification requirements due to their terms they do meet the requirements to be classified as tier 1 (restricted) under Solvency II transitional measures and must be classified as such for up to 10 years from 1 January 2016. No plans are made for their replacement in or after this period.

No capital instruments were issued or redeemed in the year.

Movement of own funds in the year

The following movements have occurred in available own funds for the year:

	£ million
Available own funds at 1 January 2016	**486**
Impact of operating assumption changes	43
Foreseeable dividend	(100)
Other movements in own funds	23
Available own funds at 31 December 2016	**452**

The structure of own funds at 1 January 2016 is identical to that at 31 December 2016. The value of share capital did not change in the year. The net deferred tax asset decreased from £31 million to £15 million. The reconciliation reserve decreased from £503 million to £407 million.

Reconciliation of Net Assets calculated for solvency purposes and Financial Statements' Equity

£million

Financial Statements Equity	Reserves Difference	Deferred Acquisition Costs	Deferred Income Liability	Onerous Contracts Provision	Valuation Adjustment for Private Debt Securities	Deferred Tax Difference	Solvency II Net Assets
509	36	(4)	8	5	4	5	**562**

The valuation of reserves and reinsurance recoverables for solvency purposes uses different methods, bases and assumptions from the valuation for the financial statements, as discussed in *Section D.2 Technical provisions*.

Deferred acquisition costs, deferred income liability, onerous contracts provisions and intangible assets (representing capitalised development costs) are all excluded for solvency purposes.

Private debt securities are measured at amortised cost in the financial statements, but are measured at fair value for solvency purposes.

A deferred tax difference arises due to the differences in valuation of assets and liabilities between the bases.

E.1.2 The EEA Group

The EEA Group own funds have been calculated on an accounting consolidation basis, net of all intra-group transactions.

Capital instruments

The ordinary share capital is fully paid up and is fully available for the absorption of losses. It is the most deeply subordinated in the event of a winding up and is free from all requirements or incentives to redeem, mandatory fixed charges and encumbrances.

£999 of unpaid ordinary share capital has not been included in the own funds of the EEA Group because, in light of its immateriality, approval to do so has not been sought from the regulator.

All paid up ordinary share capital is classified as tier 1 capital.

The 7.1% non-cumulative, perpetual preference shares are redeemable, in whole or in part, at par at the company's option at any time on giving one month's notice. The preference shares are classified as tier 1 (restricted) own funds. Whilst they do not meet the tier 1 classification requirements due to their terms they do meet the requirements to be classified as tier 1 (restricted) under Solvency II transitional measures and must be classified as such for up to 10 years from 1 January 2016. No plans are made for their replacement in or after this period.

On winding up of the company or other repayment of capital (otherwise than by way of redemption), the preference shareholders have the right to have the distributable assets of the company applied first in paying them the capital paid up on the preference shares.

During the year the EEA Group redeemed a £100 million subordinated debt instrument which had been classified as tier 2 own funds. The value of share capital did not change in the year. The net deferred tax asset decreased from £33 million to £17 million. The reconciliation reserve decreased from £196 million to £163 million.

Movement of EEA Group own funds in the year

The following movements have occurred in available own funds for the year:

	£ million
Available own funds at 1 January 2016	**603**
Impact of operating assumption changes	43
Distributions made in 2016	(112)
Foreseeable dividend	(100)
Other movements in own funds	21
Available own funds at 31 December 2016	**455**

Reconciliation of net assets calculated for solvency purposes and financial statements' equity

The items causing differences between net assets calculated for solvency purposes and financial statements' equity are identical to those for SLOC UK.

E.1.3 Deferred tax assets

Net deferred tax assets are classified as tier 3 capital, as required by the classification rules.

E.1.4 Reconciliation reserve

The reconciliation reserve represents retained earnings net of adjustments for own shares, restrictions to excess surplus in with-profits funds and foreseeable dividends and distributions. The reconciliation reserve is classified as tier 1 capital.

E.1.5 Restrictions to own funds

Any excess surplus in the with-profits funds is not available to meet the capital requirements of SLOC UK or the EEA Group, and the own funds is accordingly reduced. The total amount of excess of assets over liabilities is equal to the value of the restriction which reduces the available own funds to zero. The amount is given in the quantitative reporting templates in *Appendices 1 and 2*.

The prescribed limits on restricted tier 1 capital, eligible tier 2 capital and eligible tier 3 capital have no impact.

There are no restrictions affecting transferability, fungibility or availability of own funds items.

E.1.6 Objectives, policies and processes for capital management

Capital management, maintenance of a suitable capital structure and capital monitoring work is undertaken by the Capital Management Group ("CMG"), working closely with the RCMC, in accordance with the Capital Management Policy. On a day to day basis, the Head of Business

Planning and Capital Management is responsible for ensuring that matters affecting capital are identified and addressed on a timely basis and that capital is considered in all significant business decisions.

The Capital Management Policy defines the approach to management of capital adequacy risk, which is defined as the risk that capital is not or will not be sufficient to withstand adverse conditions and to meet regulatory requirements. The Policy is reviewed and approved by the Board on at least an annual basis.

The policy sets out the capital management principles including:

- Setting the level of capital adequacy risk to be prudent and consistent with the principles outlined in the WWG and UK risk management framework documents and risk appetite policies and processes;
- A commitment to maintaining financial strength in order for the organisation to meet its obligations to policyholders and investors as they fall due;
- Maintenance of preferential access to the capital markets for the WWG by maintaining appropriate financial ratings, reflecting strong financial strength and quality;
- Maintenance of a high quality capital structure to ensure compliance with capital adequacy and tiering requirements;
- Aim to, within the level of risk it deems appropriate, maximise the rate of return on its capital;
- The need to provide an appropriate return on capital to the parent via repatriation.

The policy also sets out:

- Reporting and monitoring to be undertaken in respect of UK regulations, Canadian regulations and the SLOC UK risk appetite statements in relation to Capital.
- Capital planning requirements and consideration of capital impacts in all significant business decisions.
- The governance approach and the responsibilities in respect of capital management.
- Details of previous and potential future initiatives available to management to manage capital effectively and mitigate capital risks.

Capital planning and the overall strategy

Capital management is a core driver for strategic considerations. In order to properly assess any strategic change, the capital implications are considered, documented and challenged. The requirement for an understanding of capital implications is embedded throughout the business, and particularly in all change initiatives and projects. Any business cases to support initiatives include commentary on capital or evaluation of capital implications. The CMG reviews the projected capital impacts of business initiatives that would materially affect the capital position.

E.2 Solvency capital requirement and minimum capital requirement

Information on the amount of the capital requirements at the end of the year, and their splits by risk module, for SLOC UK and for the EEA Group, is given in the quantitative reporting templates in *Appendices 1 and 2*.

E.2.1 Minimum capital requirement

The Linear Minimum Capital Requirement (“MCR_L”) is calculated using the prescribed formula.

The MCR floor of 25% of the SCR bites. Changes in MCR are therefore driven by changes to SCR in the year.

E.2.2 Solvency capital requirement

SLOC UK uses the standard formula approach to calculate capital requirements, so the inputs used to calculate the SCR are provided by the standard formula. The table below shows how the SCR has changed over the period by risk module:

£ million	**2016**		**2015**		**Change**	
	Gross	**Net**	**Gross**	**Net**	**Gross**	**Net**
Before Diversification						
Market	200	125	179	110	21	15
Default	16	16	15	15	1	1
Life	206	189	209	198	(3)	(9)
Health	4	4	6	6	(2)	(2)
Non-Life	-	-	-	-	-	-
Diversification	(87)	(76)	(80)	(73)	(7)	(3)
Basic SCR	339	258	329	256	10	2
Operational Risk	34	34	32	32	2	2
Adjustment included for loss absorbing capacity of technical provisions	-	(81)	-	(73)	-	(8)
Adjustment for deferred tax	-	-	-	-		-
SCR - Modular	**373**	**292**	**361**	**288**	**12**	**4**

The SCR increased over 2016. The main reasons for the increase were higher market values of assets and interest rate risk from the staff pension scheme. This increase in SCR was largely offset by a new approach on mass lapse, changes in demographic assumptions and run off of the business.

E.2.3 Undertaking specific parameters, transitional measures and capital add-ons

Undertaking-specific parameters are not used in the SLOC UK standard formula calculation.

No transitional measures have been used.

The supervisor has not specified a capital add-on.

E.2.4 Simplifications used in calculation of the SCR

No material simplifications are used in the calculation of the SCR.

E.2.5 Allowance for reinsurance

Reinsurance arrangements are allowed for within BEL and SCR. The overall impact of reinsurance is to reduce BEL (net of reinsurance) by £3.7 billion. It also significantly reduces the impact of some of the SCR stresses.

The nature of the reinsurance treaties with Sun Life Bermuda are such that:

Reinsurance cashflows = (gross cashflows excluding expense cashflows) + (fixed allowance from reinsurer for expenses).

These are allowed for within the SCR calculation by calculating a reinsurance asset using the same modelling (including stresses applied) as for the gross reserve but with expenses appropriate to the reinsurer and allowing for this reinsurance asset within the SCR calculation.

E.2.6 Allowance for future management actions in SCR calculation

Future management actions are allowed for in calculating the technical provisions (these are covered in *Section D.2 Technical provisions*). The same approach is followed in the SCR calculation with the following additional features:

E.2.7.1 Varying of future bonus payments for With-Profits policies

Within the SCR calculation (aside from Operational Risk) it is assumed that in the event of a stressed scenario, bonuses can be adjusted to fully offset the cost of the stress (with no allowance made of the time taken to implement such a change).

E.2.7.2 SLOC With-Profits Fund investment strategy

Following a stress event, the Equity Backing Ratio is modelled to revert back to 30% after one year.

E.2.8 Allowance for financial risk mitigation techniques in SCR calculation

Significant financial risk mitigation techniques currently used by SLOC UK are:

- The holding of collateral in respect of annuities reinsured with Sun Life Bermuda and Sun Life Assurance Company of Canada. Credit is taken for this collateral in the counterparty default risk calculation;
- The use of derivatives.

The deposit back fund for the reinsurance collateral holds assets of £3,487 million at 31 December 2016. A 10% reduction in the value of that collateral would increase the undiversified counterparty default risk by £4 million. It is therefore a material arrangement. Derivative hedges for the SLOC UK GAO and annuity risk exist within this.

Although the deposit back fund is a financial risk mitigation technique used by SLOC UK, the hedges are not since the risks relating to the hedges are reinsured to Sun Life Assurance Company of Canada and Sun Life Bermuda. The investment management of the deposit back fund, of which derivatives form a part, is carried out by SLOC UK on behalf of the reinsurers and therefore the specifics relating to the hedges are included in all the management information and documentation.

In the SLOC With-Profits Fund there are currency forwards which aim to reduce currency exposure. £6 million of credit is taken for this in the currency risk calculation within the SCR. In the Annuities Fund there are currency swaps which aim to reduce currency exposure. £1 million of credit is taken for this in the currency risk calculation within the SCR.

E.3 Use of the duration-based equity risk sub-module in the calculation of the solvency capital requirement

The duration-based equity risk sub-module is not used in the calculation of the SCR.

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

An internal model is not used.

E.5 Non-compliance with the minimum capital requirement and non-compliance with the solvency capital requirement

During the period the SCR and the MCR were complied with at all times. There is no expectation of future non-compliance with SCR or MCR.

Should the SCR or MCR become under pressure then management actions would be taken to maintain the solvency position. The Capital Management Policy describes actions that could be considered.

E.6 Any other information

There is no other material information relevant to the capital management of the company or of the EEA Group that has not been disclosed above.

Appendices

Appendix 1 SLOC UK quantitative reporting templates (£ thousands)

S.02.01.02
Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	0
R0040	Deferred tax assets	28,028
R0050	Pension benefit surplus	25,253
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	4,860,119
R0080	*Property (other than for own use)*	44,353
R0090	*Holdings in related undertakings, including participations*	2,786
R0100	*Equities*	115,222
R0110	*Equities - listed*	115,222
R0120	*Equities - unlisted*	0
R0130	*Bonds*	4,510,109
R0140	*Government Bonds*	1,346,020
R0150	*Corporate Bonds*	3,036,036
R0160	*Structured notes*	0
R0170	*Collateralised securities*	128,053
R0180	*Collective Investments Undertakings*	67,052
R0190	*Derivatives*	120,597
R0200	*Deposits other than cash equivalents*	0
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	7,025,702
R0230	Loans and mortgages	19,882
R0240	*Loans on policies*	19,882
R0250	*Loans and mortgages to individuals*	0
R0260	*Other loans and mortgages*	0
R0270	Reinsurance recoverables from:	3,713,126
R0280	*Non-life and health similar to non-life*	0
R0290	*Non-life excluding health*	0
R0300	*Health similar to non-life*	0
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	3,705,381
R0320	*Health similar to life*	470
R0330	*Life excluding health and index-linked and unit-linked*	3,704,911
R0340	*Life index-linked and unit-linked*	7,745
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	131
R0370	Reinsurance receivables	1,983
R0380	Receivables (trade, not insurance)	31,400
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	9,493
R0420	Any other assets, not elsewhere shown	0
R0500	**Total assets**	15,715,117

S.02.01.02
Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	0
R0520	*Technical provisions - non-life (excluding health)*	0
R0530	*TP calculated as a whole*	
R0540	*Best Estimate*	
R0550	*Risk margin*	
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	
R0580	*Best Estimate*	
R0590	*Risk margin*	
R0600	Technical provisions - life (excluding index-linked and unit-linked)	4,539,839
R0610	*Technical provisions - health (similar to life)*	4,629
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	4,580
R0640	*Risk margin*	49
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	4,535,210
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	4,492,238
R0680	*Risk margin*	42,972
R0690	Technical provisions - index-linked and unit-linked	6,915,964
R0700	*TP calculated as a whole*	0
R0710	*Best Estimate*	6,841,780
R0720	*Risk margin*	74,184
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	1,127
R0760	Pension benefit obligations	3,099
R0770	Deposits from reinsurers	3,487,131
R0780	Deferred tax liabilities	12,532
R0790	Derivatives	18,004
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	86,736
R0830	Reinsurance payables	0
R0840	Payables (trade, not insurance)	88,468
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	0
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	0
R0900	**Total liabilities**	15,152,900
R1000	**Excess of assets over liabilities**	562,217

S.05.01.02

Premiums, claims and expenses by line of business

Life

		Line of Business for: life insurance obligations						Life reinsurance obligations		
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	Total
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
	Premiums written									
R1410	*Gross*	600	11,947	67,177	6,961					86,685
R1420	*Reinsurers' share*	496	45	9,193	6,453					16,187
R1500	*Net*	104	11,902	57,984	508					70,498
	Premiums earned									
R1510	*Gross*	600	11,947	67,177	6,961					86,685
R1520	*Reinsurers' share*	496	45	9,193	6,453					16,187
R1600	*Net*	104	11,902	57,984	508					70,498
	Claims incurred									
R1610	*Gross*	4,031	100,270	339,667	200,368					644,336
R1620	*Reinsurers' share*	1,512	0	6,943	200,368					208,823
R1700	*Net*	2,519	100,270	332,724	0					435,513
	Changes in other technical provisions									
R1710	*Gross*	0	0	0	0					0
R1720	*Reinsurers' share*	0	0	0	0					0
R1800	*Net*	0	0	0	0					0
R1900	**Expenses incurred**	0	6,289	54,637	11,696					72,622
R2500	**Other expenses**									0
R2600	**Total expenses**									72,622

S.05.02.01

Premiums, claims and expenses by country

Life

		C0150	C0160	C0170	C0180	C0190	C0200	C0210
		Home Country	Top 5 countries (by amount of gross premiums written) - life obligations					Total Top 5 and home country
R1400								
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
	Premiums written							
R1410	*Gross*	86,685	0	0				86,685
R1420	*Reinsurers' share*	16,187	0	0				16,187
R1500	*Net*	70,498	0	0	0	0	0	70,498
	Premiums earned							
R1510	*Gross*	86,685	0	0				86,685
R1520	*Reinsurers' share*	16,187	0	0				16,187
R1600	*Net*	70,498	0	0	0	0	0	70,498
	Claims incurred							
R1610	*Gross*	644,336	0	0				644,336
R1620	*Reinsurers' share*	208,823	0	0				208,823
R1700	*Net*	435,513	0	0	0	0	0	435,513
	Changes in other technical provisions							
R1710	*Gross*	0	0	0				0
R1720	*Reinsurers' share*	0	0	0				0
R1800	*Net*	0	0	0	0	0	0	0
R1900	**Expenses incurred**	0	0	0				0
R2500	**Other expenses**							72,622
R2600	**Total expenses**							72,622

S.12.01.02
Life and Health SLT Technical Provisions

		Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees	
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090
R0010	**Technical provisions calculated as a whole**								
R0020	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole								
	Technical provisions calculated as a sum of BE and RM								
	Best estimate								
R0030	**Gross Best Estimate**	746,273		5,431,390	1,410,390		3,221,187	523,312	
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	0		-323	8,068		3,476,277	228,634	
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re	746,273		5,431,713	1,402,322		-255,090	294,678	
R0100	**Risk margin**	2,355	74,184			40,601			
	Amount of the transitional on Technical Provisions								
R0110	Technical Provisions calculated as a whole	0	0			0			
R0120	Best estimate	0		0	0		0	0	
R0130	Risk margin	0	0			0			
R0200	**Technical provisions - total**	748,628	6,915,964			3,785,100			

S.12.01.02
Life and Health SLT Technical Provisions

		Accepted reinsurance	Total (Life other than health insurance, including Unit-Linked)	Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
					Contracts without options and guarantees	Contracts with options or guarantees			
		C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
R0010	**Technical provisions calculated as a whole**	0	0						0
R0020	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	0	0						0
	Technical provisions calculated as a sum of BE and RM								
	Best estimate								
R0030	**Gross Best Estimate**	1,466	11,334,018		0	4,580,000			4,580,000
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default		3,712,656		0	470,000			470,000
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re	1,466	7,621,362		0	4,110,000			4,110,000
R0100	**Risk margin**	16	117,156	49,000					49,000
	Amount of the transitional on Technical Provisions								
R0110	Technical Provisions calculated as a whole	0	0	0					0
R0120	Best estimate	0	0		0	0			0
R0130	Risk margin	0	0	0					0
R0200	**Technical provisions - total**	1,482	11,451,174	4,629,000					4,629,000

S.23.01.01

Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	**Total**	**Tier 1 unrestricted**	**Tier 1 restricted**	**Tier 2**	**Tier 3**
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	22,500	22,500		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	7,500		7,500	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	406,779	406,779			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	15,496				15,496
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
	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	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	0				
	Deductions					
R0230	Deductions for participations in financial and credit institutions	0	0	0	0	
R0290	**Total basic own funds after deductions**	452,275	429,279	7,500	0	15,496

S.23.01.01

Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	**Total**	**Tier 1 unrestricted**	**Tier 1 restricted**	**Tier 2**	**Tier 3**
		C0010	C0020	C0030	C0040	C0050
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	452,275	429,279	7,500	0	15,496
R0510	Total available own funds to meet the MCR	436,779	429,279	7,500	0	
R0540	Total eligible own funds to meet the SCR	452,275	429,279	7,500	0	15,496
R0550	Total eligible own funds to meet the MCR	436,779	429,279	7,500	0	

S.23.01.01
Own Funds

		Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	C0010	C0020	C0030	C0040	C0050
R0580	**SCR**	292,194				
R0600	**MCR**	73,049				
R0620	**Ratio of Eligible own funds to SCR**	154.79%				
R0640	**Ratio of Eligible own funds to MCR**	597.93%				

		C0060
	Reconcilliation reserve	
R0700	Excess of assets over liabilities	562,217
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	100,000
R0730	Other basic own fund items	45,496
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	9,942
R0760	**Reconciliation reserve**	406,779
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	66,226
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	
R0790	**Total Expected profits included in future premiums (EPIFP)**	66,226

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0080	C0090
R0010	Market risk	200,037		
R0020	Counterparty default risk	15,834		
R0030	Life underwriting risk	205,885		
R0040	Health underwriting risk	4,567		
R0050	Non-life underwriting risk	0		
R0060	Diversification	-87,140		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	339,183		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	33,667
R0140	Loss-absorbing capacity of technical provisions	-80,656
R0150	Loss-absorbing capacity of deferred taxes	0
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency Capital Requirement excluding capital add-on**	292,194
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	292,194
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	288,835
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	3,358
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

S.28.01.01

Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

Linear formula component for non-life insurance and reinsurance obligations

		C0010
R0010	MCR_{NL} Result	0

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0020	Medical expense insurance and proportional reinsurance	0	0
R0030	Income protection insurance and proportional reinsurance	0	0
R0040	Workers' compensation insurance and proportional reinsurance	0	0
R0050	Motor vehicle liability insurance and proportional reinsurance	0	0
R0060	Other motor insurance and proportional reinsurance	0	0
R0070	Marine, aviation and transport insurance and proportional reinsurance	0	0
R0080	Fire and other damage to property insurance and proportional reinsurance	0	0
R0090	General liability insurance and proportional reinsurance	0	0
R0100	Credit and suretyship insurance and proportional reinsurance	0	0
R0110	Legal expenses insurance and proportional reinsurance	0	0
R0120	Assistance and proportional reinsurance	0	0
R0130	Miscellaneous financial loss insurance and proportional reinsurance	0	0
R0140	Non-proportional health reinsurance	0	0
R0150	Non-proportional casualty reinsurance	0	0
R0160	Non-proportional marine, aviation and transport reinsurance	0	0
R0170	Non-proportional property reinsurance	0	0

S.28.01.01

Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCR_L Result	58,420

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits	532,048	
R0220	Obligations with profit participation - future discretionary benefits	214,225	
R0230	Index-linked and unit-linked insurance obligations	6,834,035	
R0240	Other life (re)insurance and health (re)insurance obligations	45,164	
R0250	Total capital at risk for all life (re)insurance obligations		1,553,732

	Overall MCR calculation	C0070
R0300	Linear MCR	58,420
R0310	SCR	292,194
R0320	MCR cap	131,487
R0330	MCR floor	73,049
R0340	Combined MCR	73,049
R0350	Absolute floor of the MCR	3,332
R0400	**Minimum Capital Requirement**	73,049

Appendix 2 EEA Group quantitative reporting templates (£ thousands)

S.02.01.02
Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	0
R0040	Deferred tax assets	29,500
R0050	Pension benefit surplus	25,253
R0060	Property, plant & equipment held for own use	506
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	4,857,508
R0080	*Property (other than for own use)*	44,528
R0090	*Holdings in related undertakings, including participations*	0
R0100	*Equities*	115,222
R0110	*Equities - listed*	115,222
R0120	*Equities - unlisted*	0
R0130	*Bonds*	4,510,109
R0140	*Government Bonds*	1,346,020
R0150	*Corporate Bonds*	3,036,036
R0160	*Structured notes*	0
R0170	*Collateralised securities*	128,053
R0180	*Collective Investments Undertakings*	67,052
R0190	*Derivatives*	120,597
R0200	*Deposits other than cash equivalents*	0
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	7,025,702
R0230	Loans and mortgages	19,882
R0240	*Loans on policies*	19,882
R0250	*Loans and mortgages to individuals*	0
R0260	*Other loans and mortgages*	0
R0270	Reinsurance recoverables from:	3,713,126
R0280	*Non-life and health similar to non-life*	0
R0290	*Non-life excluding health*	0
R0300	*Health similar to non-life*	0
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	3,705,381
R0320	*Health similar to life*	470
R0330	*Life excluding health and index-linked and unit-linked*	3,704,911
R0340	*Life index-linked and unit-linked*	7,745
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	131
R0370	Reinsurance receivables	1,983
R0380	Receivables (trade, not insurance)	31,891
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	13,728
R0420	Any other assets, not elsewhere shown	0
R0500	**Total assets**	15,719,210

S.02.01.02
Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	0
R0520	*Technical provisions - non-life (excluding health)*	0
R0530	*TP calculated as a whole*	
R0540	*Best Estimate*	
R0550	*Risk margin*	
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	
R0580	*Best Estimate*	
R0590	*Risk margin*	
R0600	Technical provisions - life (excluding index-linked and unit-linked)	4,539,839
R0610	*Technical provisions - health (similar to life)*	4,629
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	4,580
R0640	*Risk margin*	49
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	4,535,210
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	4,492,238
R0680	*Risk margin*	42,972
R0690	Technical provisions - index-linked and unit-linked	6,915,964
R0700	*TP calculated as a whole*	0
R0710	*Best Estimate*	6,841,780
R0720	*Risk margin*	74,184
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	1,913
R0760	Pension benefit obligations	3,099
R0770	Deposits from reinsurers	3,487,131
R0780	Deferred tax liabilities	12,532
R0790	Derivatives	18,004
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	86,736
R0830	Reinsurance payables	0
R0840	Payables (trade, not insurance)	89,129
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	0
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	0
R0900	**Total liabilities**	15,154,347
R1000	**Excess of assets over liabilities**	564,863

S.05.01.02

Premiums, claims and expenses by line of business

Life

		Line of Business for: life insurance obligations						Life reinsurance obligations		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
	Premiums written									
R1410	*Gross*	3,033	11,947	67,177	6,961					86,685
R1420	*Reinsurers' share*	496	45	9,193	6,453					16,187
R1500	*Net*	104	11,902	57,984	508					70,498
	Premiums earned									
R1510	*Gross*	600	11,947	67,177	6,961					86,685
R1520	*Reinsurers' share*	496	45	9,193	6,453					16,187
R1600	*Net*	104	11,902	57,984	508					70,498
	Claims incurred									
R1610	*Gross*	4,031	100,270	339,667	200,368					644,336
R1620	*Reinsurers' share*	1,512	0	6,943	200,368					208,823
R1700	*Net*	2,519	100,270	332,724	0					435,513
	Changes in other technical provisions									
R1710	*Gross*	0	0	0	0					0
R1720	*Reinsurers' share*	0	0	0	0					0
R1800	*Net*	0	0	0	0					0
R1900	**Expenses incurred**	0	6,289	54,637	11,745					72,671
R2500	**Other expenses**									0
R2600	**Total expenses**									72,671

S.05.02.01

Premiums, claims and expenses by country

Life

		C0150	C0160	C0170	C0180	C0190	C0200	C0210
R1400		Home Country	Top 5 countries (by amount of gross premiums written) - life obligations					Total Top 5 and home country
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
	Premiums written							
R1410	*Gross*	86,685						86,685
R1420	*Reinsurers' share*	16,187						16,187
R1500	*Net*	70,498	0	0	0	0	0	70,498
	Premiums earned							
R1510	*Gross*	86,685						86,685
R1520	*Reinsurers' share*	16,187						16,187
R1600	*Net*	70,498	0	0	0	0	0	70,498
	Claims incurred							
R1610	*Gross*	644,336						644,336
R1620	*Reinsurers' share*	208,823						208,823
R1700	*Net*	435,513	0	0	0	0	0	435,513
	Changes in other technical provisions							
R1710	*Gross*	0						0
R1720	*Reinsurers' share*	0						0
R1800	*Net*	0	0	0	0	0	0	0
R1900	**Expenses incurred**	72,671						72,671
R2500	**Other expenses**							
R2600	**Total expenses**							72,671

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Own Funds

	Basic own funds before deduction for participations in other financial sector	**Total**	**Tier 1 unrestricted**	**Tier 1 restricted**	**Tier 2**	**Tier 3**
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	250,050	250,050		0	
R0020	*Non-available called but not paid in ordinary share capital at group level*	0				
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0060	*Non-available subordinated mutual member accounts at group level*	0				
R0070	Surplus funds	0	0			
R0080	*Non-available surplus funds at group level*	0	0			
R0090	Preference shares	24,500		24,500	0	0
R0100	*Non-available preference shares at group level*	0				
R0110	Share premium account related to preference shares	0		0	0	0
R0120	*Non-available share premium account related to preference shares at group level*	0				
R0130	Reconciliation reserve	163,403	163,403			
R0140	Subordinated liabilities	0		0	0	0
R0150	*Non-available subordinated liabilities at group level*	0				
R0160	An amount equal to the value of net deferred tax assets	16,968				16,968
R0170	*The amount equal to the value of net deferred tax assets not available at the group level*	0				0
R0180	Other items approved by supervisory authority as basic own funds not specified above	0	0	0	0	0
R0190	*Non available own funds related to other own funds items approved by supervisory authority*	0				
R0200	Minority interests (if not reported as part of a specific own fund item)	0				
R0210	*Non-available minority interests at group level*	0				
	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	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					
	Deductions					
R0230	Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities	0				
R0240	*whereof deducted according to art 228 of the Directive 2009/138/EC*	0				
R0250	Deductions for participations where there is non-availability of information (Article 229)	0				
R0260	Deduction for participations included by using D&A when a combination of methods is used	0				
R0270	**Total of non-available own fund items**	0	0	0	0	0
R0280	**Total deductions**	0	0	0	0	0
R0290	**Total basic own funds after deductions**	454,921	413,453	24,500	0	16,968

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Own Funds

		Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
	Basic own funds before deduction for participations in other financial sector	C0010	C0020	C0030	C0040	C0050
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0380	Non available ancillary own funds at group level	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Own funds of other financial sectors					
R0410	Credit Institutions, investment firms, financial insitutions, alternative investment fund manager, financial institutions	0				
R0420	Institutions for occupational retirement provision	0				
R0430	Non regulated entities carrying out financial activities	0				
R0440	**Total own funds of other financial sectors**	0	0	0	0	0
	Own funds when using the D&A, exclusively or in combination of method 1					
R0450	Own funds aggregated when using the D&A and combination of method	0				
R0460	Own funds aggregated when using the D&A and combination of method net of IGT	0				
R0520	Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	454,921	413,453	24,500	0	16,968
R0530	Total available own funds to meet the minimum consolidated group SCR	437,953	413,453	24,500	0	
R0560	Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	454,921	413,453	24,500	0	16,968
R0570	Total eligible own funds to meet the minimum consolidated group SCR (group)	437,953	413,453	24,500	0	
R0610	**Minimum consolidated Group SCR**	73,053				
R0650	**Ratio of Eligible own funds to Minimum Consolidated Group SCR**	599.50%				
R0660	**Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&A)**	454,921	413,453	24,500	0	16,968
R0680	**Group SCR**	292,194				
R0690	**Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A**	155.69%				

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Own Funds

Basic own funds before deduction for participations in other financial sector

		Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	564,863
R0710	Own shares (held directly and indirectly)	
R0720	Forseeable dividends, distributions and charges	100,000
R0730	Other basic own fund items	291,518
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	9,942
R0750	Other non available own funds	
R0760	**Reconciliation reserve**	163,403
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	66,226
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	
R0790	**Total Expected profits included in future premiums (EPIFP)**	66,226

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Solvency Capital Requirement - for groups on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0080	C0090
R0010	Market risk	200,037		
R0020	Counterparty default risk	15,834		
R0030	Life underwriting risk	205,885		
R0040	Health underwriting risk	4,567		
R0050	Non-life underwriting risk	0		
R0060	Diversification	-87,140		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	339,183		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	33,667
R0140	Loss-absorbing capacity of technical provisions	-80,656
R0150	Loss-absorbing capacity of deferred taxes	0
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency Capital Requirement excluding capital add-on**	292,194
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement for undertakings under consolidated method**	292,194

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Solvency Capital Requirement - for groups on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0080	C0090
	Other information on SCR			
R0400	Capital requirement for duration-based equity risk sub-module	0		
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	288,835		
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	3,358		
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0		
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0		
R0470	Minimum consolidated group solvency capital requirement	73,053		
	Information on other entities			
R0500	Capital requirement for other financial sectors (Non-insurance capital requirements)	0		
R0510	*Credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies*			
R0520	*Institutions for occupational retirement provisions*			
R0530	*Capital requirement for non- regulated entities carrying out financial activities*			
R0540	Capital requirement for non-controlled participation requirements			
R0550	Capital requirement for residual undertakings			
	Overall SCR			
R0560	SCR for undertakings included via D&A			
R0570	**Solvency capital requirement**	292,194		

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Undertakings in the scope of the group

Row	Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking
	C0010	C0020	C0030	C0040	C0050
1	GB	213800LBGGLJPIBQ4P08	LEI	SLF of Canada UK Limited	Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC
2	GB	549300NZ227BVL5W4E72	LEI	Sun Life Assurance Company of Canada (U.K.) Limited	Life insurance undertaking
3	GB	2939726	Specific code	Sun Life of Canada UK Holdings Limited	Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC
4	GB	6997417	Specific code	SLFC Services Company (UK) Limited	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35
5	GB	600319	Specific code	Barnwood Properties Limited	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35
6	GB	2306074	Specific code	Laurtrust Limited	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35

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Undertakings in the scope of the group

				Ranking criteria (in the group currency)							
Row	Legal form	Category (mutual/non mutual)	Supervisory Authority	Total Balance Sheet (for (re)insurance undertakings)	Total Balance Sheet (for other regulated undertakings)	Total Balance Sheet (non-regulated undertakings)	Written premiums net of reinsurance ceded under IFRS or local GAAP for (re)insurance undertakings	Turn over defined as the gross revenue under IFRS or local GAAP for other types of undertakings or insurance holding companies	Underwriting performance	Investment performance	Total performance
	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160
1	Company limited by shares or by guarantee or unlimited	Non-mutual				412,174		36,480			33,971
2	Company limited by shares or by guarantee or unlimited	Non-mutual	Prudential Regulation Authority	562,217			70,498		-417,102	1,111,667	66,118
3	Company limited by shares or by guarantee or unlimited	Non-mutual				2,000		0			0
4	Company limited by shares or by guarantee or unlimited	Non-mutual				2,057		24,779			-6
5	Company limited by shares or by guarantee or unlimited	Non-mutual				2,787		289			198
6	Company limited by shares or by guarantee or unlimited	Non-mutual				0		0			0

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Undertakings in the scope of the group

	Criteria of influence						Inclusion in the scope of Group supervision		Group solvency calculation
Accounting standard	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	YES/NO	Date of decision if art. 214 is applied	Method used and under method 1, treatment of the undertaking
C0170	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
IFRS							Included in the scope		Method 1: Full consolidation
IFRS	100.00%	100.00%	100.00%	Centralised management and governance	Dominant	100.00%	Included in the scope		Method 1: Full consolidation
IFRS	100.00%	100.00%	100.00%	Centralised management and governance	Dominant	100.00%	Included in the scope		Method 1: Full consolidation
IFRS	100.00%	100.00%	100.00%	Centralised management and governance	Dominant	100.00%	Included in the scope		Method 1: Full consolidation
IFRS	100.00%	100.00%	100.00%	Centralised management and governance	Dominant	100.00%	Included in the scope		Method 1: Full consolidation
IFRS	100.00%	100.00%	100.00%	Centralised management and governance	Dominant	100.00%	Included in the scope		Method 1: Full consolidation