



PHOENIX GROUP

SOLVENCY AND FINANCIAL CONDITION REPORT **2019**

STANDARD LIFE INTERNATIONAL DAC
PART OF THE PHOENIX GROUP
FOR THE YEAR ENDED 31 DECEMBER 2019

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SUMMARY

INTRODUCTION AND BACKGROUND

This document sets out a Solvency and Financial Condition Report ('SFCR') for Standard Life International DAC ('SLIDAC' or 'the Company') for the year ended 31 December 2019, to satisfy the requirements of Solvency II. The SFCR and the accompanying Quantitative Reporting Templates ('QRTs') provide detailed information of the Company's business and performance, governance, risk profile and capital position.

The purpose of the report is to assist policyholders and other stakeholders to understand the capital position of the Company under Solvency II as at 31 December 2019. In 2016, the Solvency II regulatory regime came into force for insurers across the European Union ('EU'). Under Solvency II, every insurer is required to identify its key risks and hold sufficient capital to withstand adverse outcomes from those risks. The capital required to withstand these outcomes is the Solvency Capital Requirement ('SCR'). The SCR is calibrated so that the likelihood of a loss exceeding the SCR is less than 0.5% over one year. This ensures that capital is sufficient to withstand broadly a '1 in 200 year event'. The capital resources available to meet the requirements are called Own Funds.

The main purpose of holding capital is to provide security to policyholders and other customers. The Company considers itself to be strongly capitalised under Solvency II, as Own Funds are significantly higher than the SCR, as set out in the Capital Management section of this Summary. As at 31 December 2019 the Company's Solvency II surplus over the Solvency Capital Requirement is €130,250k, with a ratio of eligible own funds to SCR of 130%.

SECTION A – BUSINESS AND PERFORMANCE

The Company is a private company limited by shares, incorporated, registered and domiciled in Ireland. The Company's main activities consist of the provision of life assurance and pension products in the UK, Ireland, Austria and Germany, with the business written in Ireland and Germany. The Company is authorised and regulated by the Central Bank of Ireland ('CBI').

The Company's immediate parent is Phoenix Group Holdings plc ('PGH'), a company incorporated and resident in the United Kingdom. A simplified Phoenix structure chart is presented in section A.1.2.1.

On 29 March 2019, following shareholder, regulatory and other necessary approvals, the Irish, German and Austrian policies of another subsidiary of PGH, Standard Life

Assurance Limited ('SLAL'), were transferred to the Company by way of a Part VII transfer. As part of this transfer, the Irish and German with-profits policies were reinsured back to SLAL in order to avoid the need to split funds and to preserve existing economic terms. The Company also changed its reporting currency from Sterling to Euro during 2019.

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

The Company has generated an operating profit of €4,530k (2018: €4,103k) for the year ended 31 December 2019. The increase compared to the prior year is partly due to savings in operating expenses and greater fee revenue within the enlarged Company. Further details on the components and the key drivers of the operating profit result are included in section A.2.

Loss before tax has decreased from €1,632k in 2018 to a loss before tax of €225k in 2019. The main driver of the 2019 loss before tax were changes to IFRS reserving methodology, and unrealised losses from a currency hedge, driven by the strengthening of GBP against the Euro.

SECTION B – SYSTEM OF GOVERNANCE

Following the sale of the Standard Life insurance businesses to PGH, work continues to be carried out on the harmonisation of the Company's and PGH's risk management frameworks. A harmonised framework will be implemented across the business throughout 2020.

The system of governance was reviewed in 2019. A number of changes were made as detailed in Section B.1.4 to ensure the continuing effectiveness of the system of governance and Enterprise Risk Management ('ERM') framework.

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

SECTION C – RISK PROFILE

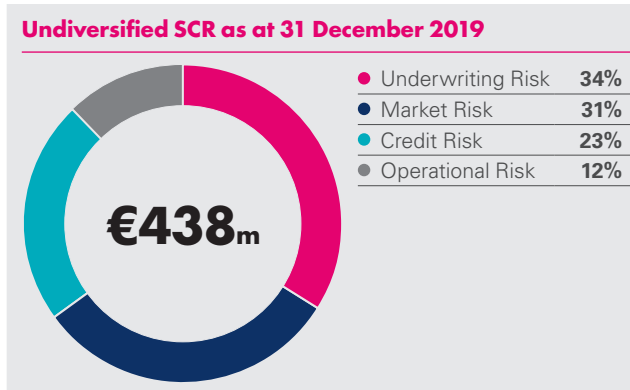
The Company operates a standardised Risk Management Framework ('RMF'), which includes the ERM framework, for the identification and assessment of the risks it may be exposed to, and the amount of capital that should be held in relation to those exposures. The capital assessment has been carried out on a Standard Formula basis since the introduction of the Solvency II regulatory regime on 1 January 2016. Therefore, the Solvency II position of the Company and the results presented in this SFCR are based on the Standard Formula.

The risk profile of Company changed significantly during 2019 as a result of the part VII transfer for Irish, German & Austrian policies in March 2019. Along with the transfer of this business, a reinsurance arrangement was set up whereby certain tranches of policies were reinsured back to SLAL, leading to a material increase in the Company's Counterparty Default and Operational risks. As part of this reinsurance arrangement, insured unit-linked funds available to German, Austrian and Irish policyholders were ceded back to SLIDAC via an External Fund link ('EFL') retrocession arrangement.

During 2019 the Company entered into currency hedging instruments to provide protection against the impact of negative movements in non-euro currencies on the value of Own Funds. The shareholders of the Company bear the market risk arising from these instruments.

The chart below shows the composition of the Company's undiversified SCR as at 31 December 2019. The largest component of the undiversified SCR continues to be persistency risk, which is the risk that policies lapse at a different rate than assumed. Persistency risk falls within the Underwriting Risk category in the table below.

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



SECTION D – VALUATION FOR SOLVENCY PURPOSES

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

The excess of assets over liabilities measured on a Solvency II basis for the Company is set out in the table below:

31 December 2019	€'000
Excess of assets over liabilities	568,599

There have been no material changes in the methodology used by the Company to value the assets or liabilities over the period, as the same valuation methods have been applied to the transferred German, Austrian and Irish policies.

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

SECTION E – CAPITAL MANAGEMENT

As outlined in the Risk Profile section above, significant changes were made to the Company's capital position as a result of the Part VII transfer and reinsurance arrangements. The Company also changed its reporting currency from Sterling to Euro during 2019.

The capital positions for the Company at 31 December 2019 and 31 December 2018 (in both GBP and Euro) are presented in the table below:

Solvency II capital position	2019 €'000	2018 €'000	2018 £'000
Eligible Own funds	568,599	128,565	115,398
SCR	(438,349)	(92,444)	(82,977)
Solvency II capital surplus	130,250	36,121	32,421
Solvency cover	130%	139%	139%

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

QUALITY OF OWN FUNDS

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

As at 31 December 2019, the Company's Solvency II surplus over the SCR is €130,250k, with a ratio of Eligible Own Funds to SCR of 130%. The increase in the Solvency II surplus from €36,121k at the end of 2018 reflects the transferring business and the change in reporting currency. Further details of material drivers of change are provided in E.1.4.2.

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

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

SCR BY RISK CATEGORY

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

SENSITIVITIES AND SCENARIO ANALYSIS

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

	Solvency II Surplus (€'000)
Base: 31 December 2019	130,250
Following a 20% fall in equity markets	123,616
Following a 15% fall in property values	134,456
Following a 60bps interest rates rise	195,727
Following a 80bps interest rates fall	1,918
Following credit spread widening (equivalent to average widening of 120bps)	94,246
Following 6% decrease in annuitant mortality rates	120,628
Following 10% increase in assurance mortality rates	142,647
Following a 10% increase in lapse rates	124,484
Following a 10% decrease in lapse rates	135,881

FUTURE DEVELOPMENTS

On 6 December 2019, PGH, the Company's immediate parent, announced the proposed acquisition of ReAssure Group plc. As part of this proposed transaction, Phoenix Group Holdings will acquire further business in Ireland and continental Europe. Developments in relation to the COVID-19 pandemic have been included in the body of this report.

DIRECTORS' RESPONSIBILITY STATEMENT

APPROVAL BY THE BOARD OF DIRECTORS OF THE SOLVENCY AND FINANCIAL CONDITION REPORT

Financial period ended 31 December 2019.

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

The Directors are satisfied that:

- a) throughout the financial year to 31 December 2019, the Company has complied in all material respects with the requirements of the CBI rules, including Solvency II regulations as applicable to the Company; and
- b) it is reasonable to believe that in respect of the period from 31 December 2019 to the date of publication of the Solvency and Financial Condition Report, the Company has continued to comply, and will continue so to comply in future.

For and on behalf of the Board of Directors



Naval Kapoor
Chief Financial Officer

31 March 2020

SECTION A

BUSINESS AND PERFORMANCE

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SECTION A BUSINESS AND PERFORMANCE

A.1 BUSINESS

A.1.1 INFORMATION REGARDING THE COMPANY

Standard Life International DAC ('SLIDAC' or 'the Company') was established in Ireland in 2006. The Company is an insurance undertaking and its main activities consist of the provision of life assurance and pension products in the UK, Ireland and Germany. As at 31 December 2019, the Company was a wholly-owned subsidiary of Phoenix Group Holdings ('PGH') or ('the Group').

The Company is registered in Ireland and therefore regulated by Irish legislation.

SLIDAC is authorised by the Central Bank of Ireland to transact insurance business in Ireland and cross-border life assurance business in the European Union under the Third Life Directive as introduced into domestic Irish legislation by the European Communities (Life Assurance) Framework Regulations, 1994.

With regard to the conduct of business requirements, the Company operates within the Central Bank of Ireland's Consumer Protection Framework. Products sold into the UK are overseen by the Financial Conduct Authority's ('FCA') in respect of Conduct of Business rules. For business in Germany and Austria, conduct is supervised by Bundesanstalt für Finanzdienstleistungsaufsicht ('BaFin') and the Finanzmarktaufsicht ('FMA').

The Company is part of the Phoenix Group PLC and is overseen by the PRA from a Group Supervisory perspective, under Solvency II.

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

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

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

Section A – Business and Performance continued

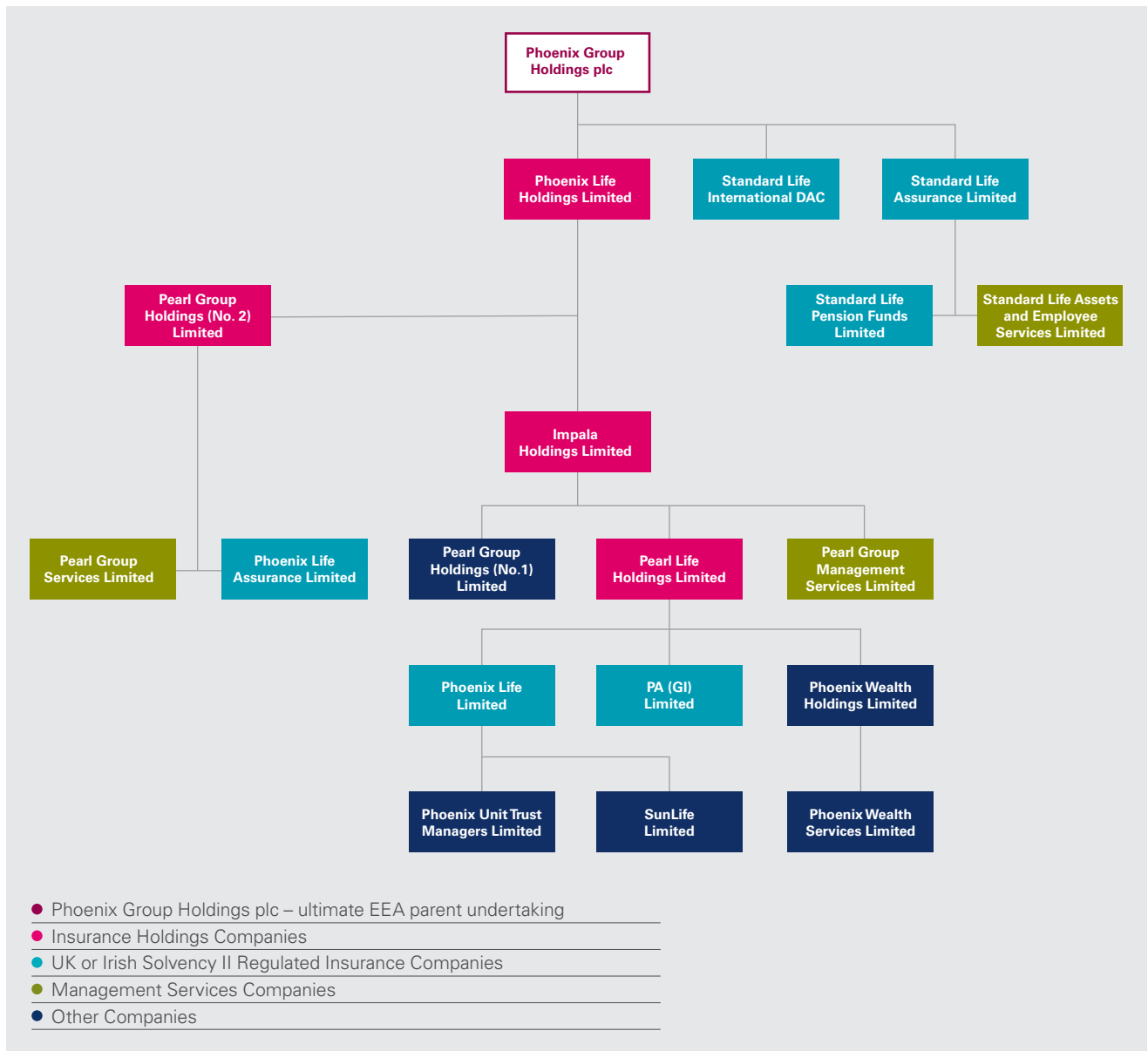
A.1 BUSINESS CONTINUED

A.1.2 COMPANY AND GROUP STRUCTURE

A.1.2.1 Legal Structure of the Group

A simplified Group structure chart as at 31 December 2019 is provided below, and shows the Company’s position within the legal structure of the Phoenix Group. All shareholdings are 100% unless shown otherwise.

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



Section A – Business and Performance continued**A.1 BUSINESS CONTINUED****A.1.2 COMPANY AND GROUP STRUCTURE CONTINUED****A.1.2.2 Governance and Organisation**

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

Following the acquisition of the Company by PGH on 31 August 2018, the Company transitioned to a new governance framework.

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

A.1.3 MATERIAL LINES OF BUSINESS AND GEOGRAPHICAL AREAS**A.1.3.1 Material Lines of Business**

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

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

A.1.3.1.1 Insurance with-profit participation

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

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

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

A.1.3.1.2 Index-linked and unit-linked insurance

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

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

The unit-linked funds retroceded back to SLIDAC under the reinsurance arrangement are included within this LoB.

A.1.3.1.3 Health insurance

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

A.1.3.1.4 Other life insurance

Other life insurance includes all remaining underwritten business and includes protection policies and annuity business.

The majority of the business included in this line of business is annuity business. Annuities generally provide a specified income stream over the life of the policyholder.

A.1.3.2 Geographical Areas

The Company is headquartered in Ireland and sells life assurance and pension products to customers in the United Kingdom, Ireland, Germany and Austria. Irish and UK policies are serviced by the Irish office and German and Austrian policies are serviced by the SLIDAC German branch.

Section A – Business and Performance continued

A.1 BUSINESS CONTINUED

A.1.4 SIGNIFICANT BUSINESS AND OTHER EVENTS OVER THE REPORTING PERIOD

Standard Life Assurance Limited ('SLAL'), the Company's former immediate parent and the Company have long benefited from EU cross border passporting rules, in order to provide life assurance business into or from the European Union. The UK's decision to exit the EU, and the uncertainty around the terms of the UK's withdrawal from the EU, impacted the pre-existing operations.

In order to provide continuity of service for existing customers, and to continue to write new business in Germany, Austria and Ireland, the Company received regulatory approval to act as a base from which to serve SLAL's European customers and existing UK customers. On 29 March 2019, the Irish, German and Austrian policies of SLAL transferred to the Company by way of a Part VII transfer. Following this transfer, all associated assets and liabilities are recognised on the Company's statement of financial position. Additionally the Company changed its reporting currency from GBP to Euro due to the change in business mix and cashflows under the new structure.

As part of the Part VII transfer, €23bn of German and Irish assets transferred from SLAL to the Company, of which €14.8bn in German and Irish with profits assets were immediately reinsured back to SLAL. €923m of insured unit-linked funds were retroceded back to SLIDAC under the reinsurance arrangement, via EFL reinsurance. Gross assets on the Company's balance sheet following the transaction were €30.7bn, a significant increase from 31 December 2018 (€7.2bn). Shareholder's equity increased from €88m in 2018 to €521m at the transfer date.

On 21 February 2019, the Company received a capital injection of €287m from Phoenix Group Holdings plc to ensure that the Company was appropriately capitalised ahead of the planned Brexit Part VII transfer. The Company issued 1 new ordinary €1 share, with the remainder being credited to the share premium account.

On the same date, direct ownership of the Company transferred from SLAL to Phoenix Group Holdings plc through a sale transaction. The Company is now a direct subsidiary of Phoenix Group Holdings plc.

In October 2019, the Company launched the Capital Redemption Bond for UK customers. This product has similar features to the existing International (Offshore) Bond, but without the requirement to have lives assured attached to the policy.

A.1.5 SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

On 6 December 2019, PGH, the Company's immediate parent, announced the proposed acquisition of ReAssure Group plc. As part of this proposed transaction, Phoenix Group Holdings will acquire further business in Ireland and continental Europe.

The emergence of the COVID-19 pandemic has created volatility in the financial markets. In terms of economic impacts, the most material impacts are that equity markets have fallen, interest rates have fallen and credit spreads have widened.

In response to impacts on solvency coverage, the Company has sought, and received, capital injections from its parent. This is in line with triggers in the Company's Risk Appetite and follows consideration of the range of measures contained in the Company's Recovery Plan. The Company received capital injections totalling €57m from Phoenix Group Holdings plc during Q1 2020. The Company's Operational Resilience has been tested, but Business Continuity planning and capabilities have enabled it to continue to service customers and fulfil regulatory obligations in a controlled way. The Company has continued to monitor the situation closely, invoking its Business Continuity plans and assessing impacts on technical provisions and solvency capital on a regular basis.

Section A – Business and Performance continued

A.2 UNDERWRITING PERFORMANCE

The Company commenced writing life assurance business in 2006. Total net earned premiums on insurance contracts for the year ended 31 December 2019 were €629,836k (2018: €672,624k). The Company reported a profit after tax for the year of €9,625k (2018: Loss €4,694k). Net assets at 31 December 2019 were €535,895k (2018: €88,222k). The increase in net assets in 2019 compared to 2018 is due to the enlarged business.

The key performance indicators for the Company are:

- Assets under management increased from €6.85bn in 2018 to €13.75bn at 31 December 2019. This increase reflects the impact of the assets transferred as part of the Part VII transfer from SLAL to the Company, as well as net new business flows during the year. Net investment return in the year was a gain of €1,314m, compared to an investment loss of €368m in 2018.
- Net flows of €112m were a result of premiums of €1,066m (2018: €701m) offset against claims of €954m (2018: €479m).
- In 2019 the Company posted a loss of €(0.2)m (2018: €(1.6)m). The 2019 result includes nine months of the transferred Irish and German business, and was negatively impacted by changes to IFRS reserving methodology and unrealised losses from a currency hedge, driven by the strengthening of GBP against the Euro.
- At 31 December 2019, the Company had available capital resources of €569m as measured on a Solvency II basis, and its solvency capital requirement ('SCR') was €438m. The solvency coverage ratio as at 31 December 2019 was 130% (2018: 139%). The Company continues to actively manage its regulatory capital position, and in this regard the persistent low interest environment impacted the solvency position during the year.

The Company will continue to strive for profitable growth by offering products in the UK, Ireland and Germany designed to meet customer needs in line with market developments. The objective is to generate satisfactory returns for the shareholders whilst meeting the reasonable expectations of policyholders in accordance with statutory, financial and regulatory obligations.

Section A – Business and Performance continued

A.2 UNDERWRITING PERFORMANCE CONTINUED

A.2.1 OPERATING PROFIT

A summary of the Company's performance during the year ended 31 December 2019 is presented below and in sections A.3 and A.4. The information is presented on an operating profit basis and reconciled to the IFRS result in the financial statements.

	Section Reference	2019 €'000	2018 €'000	2018 €'000
Operating profit before tax	A.2.1	4,530	4,103	3,634
Adjusted for the following items:	A.3.1			
Total investment return variances and economic assumption changes		(9,591)	(4,609)	(4,082)
Other non-operating items		(2,835)	(1,125)	(997)
Total other income and expenses	A.4	(12,426)	(5,735)	(5,079)
Tax credit attributable to policyholders' returns		7,672	–	–
IFRS (loss)/profit before tax		(225)	(1,632)	(1,445)
Tax expense attributable to policyholders' returns		(7,672)	–	–
Tax credit attributable to shareholders' profits		17,522	(3,062)	(2,712)
IFRS (loss)/profit for the year		9,625	(4,694)	(4,157)

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

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

Operating profit in 2019 (€4,530k) is 10% higher than 2018 (€4,103k), with savings in operating expenses and greater fee revenue contributing to this. In addition, all expenses emerge in the Company with expenses relating to the reinsured business being reimbursed by SLAL, along with a 10% commission as outlined in the reinsurance agreement. This reinsurance commission contributes to the operating income in Ireland and Germany.

A.2.2 Analysis of Operating Profit

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

	Ireland €'000	Germany & Austria €'000	UK €'000
Operating Income	35,294	28,367	14,958
Operating Expenses	(33,959)	(26,283)	(14,279)
Capital Management	(53)	0	484
Operating profit before tax	1,282	2,084	1,164

The Company's fee based business is made up of products that generate revenue primarily from asset management charges ('AMCs'), premium based charges and transactional charges. AMCs are earned on products such as individual pensions and investment bonds, and are calculated as a percentage fee based on the assets held. Investment risk on these products rests principally with the customer, with the shareholder's major indirect exposure to rising or falling markets coming from higher or lower AMCs. Fee business includes unit-linked business predominantly.

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

All territories have positive operating profit before tax. The operating profit before tax from the business in Germany and Austria (€2,084k) is higher than that from Ireland and the UK, partly due to savings in operating expenses. While as outlined in A.2.1, the reinsurance commission is benefiting the operating income of Ireland and Germany.

Section A – Business and Performance continued

A.3 INVESTMENT PERFORMANCE

The Company uses investment return as a measure of investment performance. The following table shows the Company's investment return by asset class, for the year ended 31 December 2019 and the prior year:

	2019 €'000	2018 €'000	2018 €'000
Interest and similar income			
Cash and cash equivalents and available-for-sale debt securities	2,926	2,203	1,951
Loans	9	–	–
Other	37	597	529
	2,972	2,800	2,480
Dividend income	56,725	25,151	22,275
Gains/(losses) on financial instruments held at Fair Value Through Profit or Loss ('FVTPL')			
Investment in subsidiaries	68,328	–	–
Equity securities and interests in pooled in investment funds	1,169,014	(395,958)	(350,678)
Debt securities	34,333	(153)	(135)
Derivative Financial Instruments	(19,012)	–	–
	1,252,663	(396,111)	(350,813)
Foreign exchange gains on instruments other than those at fair value through profit or loss	1,619	(49)	(43)
Gain/(loss) on financial instruments	1,313,979	(368,209)	(326,101)
Investment property			
Rental income	1,463	–	–
Net fair value (loss)/gain on investment property	(1,044)	–	–
Total investment return/(loss)	1,314,398	(368,209)	(326,101)
Investment Expenses	23,165	8,857	7,844
Net investment return after deduction of investment expenses	1,291,233	(377,066)	(333,945)

A.3.1 INVESTMENT INCOME AND EXPENSES

Total investment return in 2019 amounts to €1,314,398k (2018 had a loss of €368,209k). The main contributor to the increase in the 2019 return compared to 2018 is the enlarged business of the Company, as well as gains in market movements.

Investment management expenses in 2019 were €23,165k, while the 2018 expenses was €8,857k. Similarly to previous, the enlarged business is the reason for the increase in investment management expenses.

Section A – Business and Performance continued

A.4 PERFORMANCE OF OTHER ACTIVITIES

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

	2019 €'000	2018 €'000	2018 £'000
Other income and expense items			
Total investment return variances and economic assumption changes	(9,591)	(4,609)	(4,082)
Other non-operating items	(2,835)	(1,125)	(997)
Total other income and expenses	(12,426)	(5,735)	(5,079)

In 2019 there was €12,426k in non-operating expense items from investment return variances and economic assumption changes, and other non-operating items.

A.4.1 ANALYSIS OF INVESTMENT RETURN VARIANCES AND ECONOMIC ASSUMPTION CHANGES

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

Short term fluctuations are calculated based on expected returns on investments backing equity holder funds, with consistent allowance for the corresponding expected movements in equity holder liabilities. Impacts arising from the difference between the expected return and actual return on investments, and the corresponding impact on equity holder liabilities except where they are directly related to a significant management action, are excluded from operating profit and are presented within investment return variances and economic assumption changes as a component of profit before tax.

In 2019 the Company had €9,591k in non-operating expense items relating to movements in a hedge valuation, and adjustments to reserves and other economic assumptions.

The other non-operating items of €2,835k in 2019 relates to one-off project and restructuring expenses.

A.5 ANY OTHER INFORMATION

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

SECTION B SYSTEM OF GOVERNANCE

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SECTION B SYSTEM OF GOVERNANCE

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE

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

B.1.1 OVERVIEW

The Company has an established system of governance, which includes the Enterprise Risk Management ('ERM') framework of policies, controls and practices by which it meets all the requirements of sound, risk-based management. The Company has continued to operate under the existing ERM framework throughout 2019 and this document reflects that position.

Following the sale of the Company's previous parent company, Standard Life Assurance Limited ('SLAL'), to Phoenix Group Holdings ('PGH') in late 2018, work has been undertaken throughout 2019 to harmonise SLAL's and PGH's risk management frameworks. There are currently plans in place to, where appropriate, implement the harmonised Risk Management Framework across SLIDAC.

The existing system of governance comprises:

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

The effectiveness of the system of governance and ERM framework is reviewed each year and updated where necessary.

SLIDAC has a clearly defined system of governance and ERM Framework as at 31 December 2019. In addition to the established Board, there also exists a Nomination Committee, an Audit Committee, a Remuneration Committee and a Risk Committee. At a management level, SLIDAC has an established European Senior Leadership Team, with the following sub-committees:

- An Enterprise Risk Management Committee;
- Separate Irish and German and Austrian Operational and Conduct Risk Committees;
- Separate Irish and German and Austrian Leadership Teams;
- Reinsurance Business, Product Governance Oversight and Investment and Credit Risk Committees

All of the above are key components in the Company's role as the European hub for the Phoenix Group. A graphical representation of this and the inherent decision making structure can be seen in the following section.

Section B – System of Governance continued

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED

B.1.2 SYSTEM OF GOVERNANCE

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

The framework consists of the following key elements which are discussed further in this section:

- Decision making structure;
- The Function of the Company Board;
- The role of Non-Executive and Executive Directors;
- Board committees;
- The Executive and Executive committees;
- Scheme of Delegation;
- Code of conduct;
- Prudent person principle;
- Fitness and Probity regime; and
- Remuneration

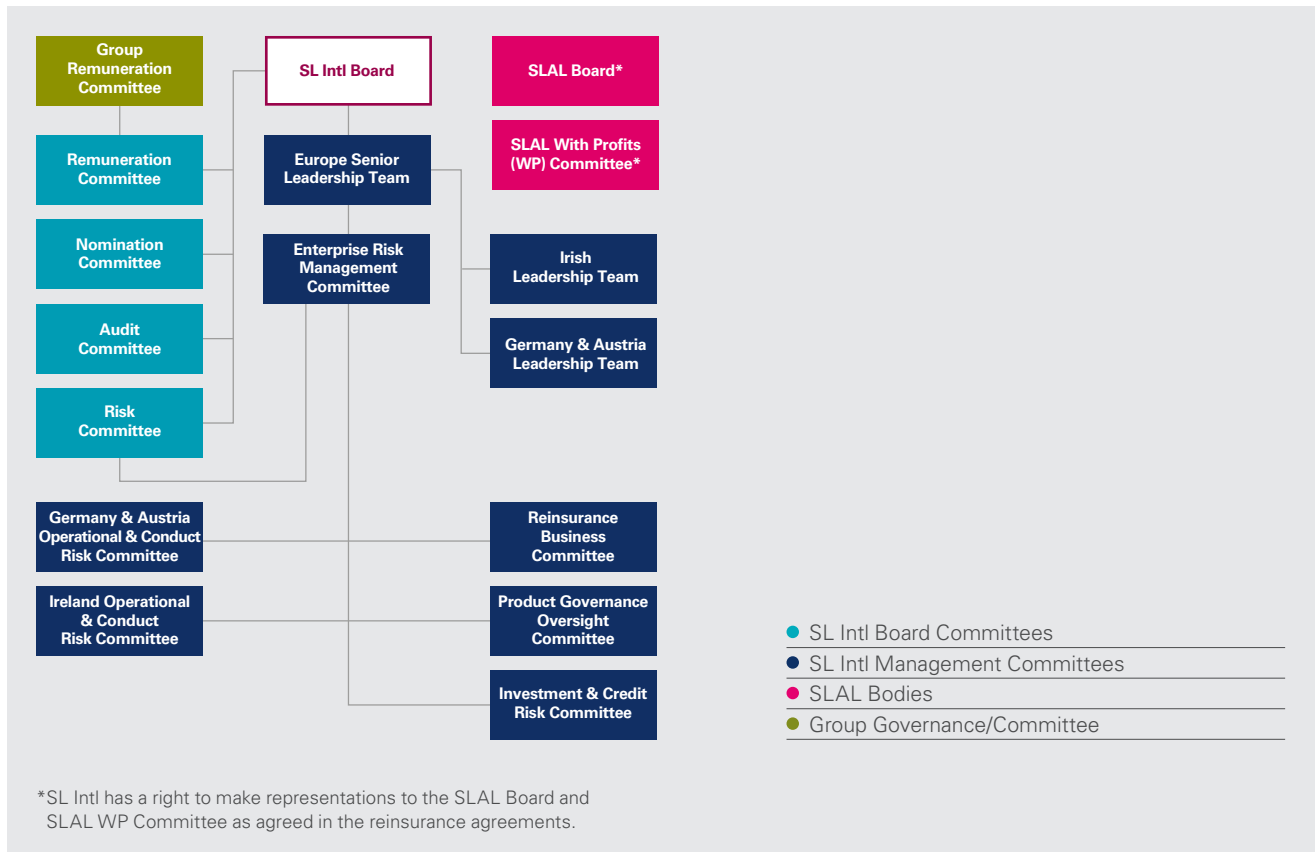
Section B – System of Governance continued

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED

B.1.2 SYSTEM OF GOVERNANCE CONTINUED

Decision making structure

The diagram below provides an illustration of the Company’s decision making structure as at 31 December 2019.



Section B – System of Governance continued

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED

B.1.2 SYSTEM OF GOVERNANCE CONTINUED

The Function of the Company Board

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

The Board's role is to organise and direct the business of the Company in a manner designed to further the best interests of the Company, having regard to the interests of its shareholders, while complying with its legal, regulatory and fiduciary duties and corporate governance requirements. As a high impact firm, there are additional obligations placed on SLIDAC by the Corporate Governance Requirements for Insurance Undertakings 2015 with respect to the frequency of Board meetings. The Board shall meet as often as is appropriate to fulfil its responsibilities effectively and prudently. The Board shall meet at least six times per calendar year and at least three times in every six month period.

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

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

The Board of Directors has overall responsibility for the approval of the ERM framework, including the Risk Appetite Framework, the Risk Registers and all related quantitative risk limits, and review of its implementation including monitoring management actions in respect of any breaches, and the implementation of any Board recommendations arising as a result of any breaches as well as managing the Company's internal control framework. The framework is designed to manage, rather than eliminate, risk and can only provide reasonable, not absolute, assurance against material misstatement or loss.

The Board consists of the following roles:

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

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

Section B – System of Governance *continued*

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED

B.1.2 SYSTEM OF GOVERNANCE CONTINUED

The Function of the Company Board *continued*

The Board is collectively responsible for:

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

The Role of Non-Executive and Executive Directors

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

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

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

Section B – System of Governance *continued*

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED

B.1.2 SYSTEM OF GOVERNANCE CONTINUED

Board Committees

The Board is supported in the oversight of the System of Governance – including the ERM Framework, the ORSA process and the system of internal controls – by the Audit Committee, the Risk Committee, the Remuneration Committee and the Nomination Committee. Further details regarding each of these committees are set out in the table below.

Committee	Role, duties and responsibilities
Audit Committee	<p>The role of the Audit Committee is to consider and to make appropriate recommendations to the Board on:</p> <ul style="list-style-type: none"> • the draft financial statements of the Company; • the Company’s regulatory reporting submissions, including all Solvency II regulatory capital reporting and related messaging, the Regular Supervisory Report (‘RSR’), annual Solvency and Financial Condition Report (‘SFCR’) and quarterly and annual solo Quantitative Reporting Template (‘QRTs’); • the Company’s internal and external audit arrangements, including the independence of the external audit firm; and • the Company’s internal controls over financial and regulatory reporting, money laundering and financial crime. <p>The Audit Committee meets at least four times a year to coincide with the Company’s financial reporting cycle. Members of the Committee are appointed by the Board. The Committee shall be made up of at least three members and all members of the Committee shall be Non-Executive Directors with the majority being independent Non-Executive Directors.</p>
Risk Committee	<p>The role of the Risk Committee is to provide oversight and challenge of, and advice to, the Board on:</p> <ul style="list-style-type: none"> • The Company’s material risk exposures, current risk strategy and future risk strategy and their impact on capital; • The structure and implementation of the Company’s ERM Framework and its suitability to react to forward-looking issues and the changing nature of risks; • The Company’s Risk Function, Risk Appetite Framework (‘RAF’), and changes to both the RAF and the quantitative risk limits; • The risk aspects of major investments, major product developments and other corporate transactions; • Regulatory Compliance and Regulatory Reporting matters; • Material actuarial matters affecting the Company; • The annual review of Group policies and review of any proposed new or amended Group policies and determine whether they should be recommended to the Board for adoption by the Company; and • The Company shall keep under review the Company’s ORSA including steering how the assessment is to be performed and challenging the results. <p>The Committee meets at least four times a year to coincide with the Company’s reporting cycle and otherwise as required by the Board or Committee. Members of the Committee are appointed by the SLIDAC Board. The Committee shall be composed of Directors with the majority being Non-Executive Directors, independent Non-Executive Directors or a combination of both. Appointments of Directors to the Committee shall be for a period of up to three years, which may be extended for two additional three year periods.</p>

Section B – System of Governance *continued*

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED

B.1.2 SYSTEM OF GOVERNANCE CONTINUED

Board Committees *continued*

Committee	Role, duties and responsibilities
Nomination Committee	<p>The Nomination Committee meets at least twice a year at appropriate times in the reporting cycle and otherwise as required by the Board or the Committee. The role of the Committee is to:</p> <ul style="list-style-type: none"> • Review/consider and/or make recommendations to the Board with regard to: <ul style="list-style-type: none"> – The structure, size and composition of the Board; – The short, medium and long-term contingency and succession planning for the Board, in particular the Board Chairperson, and approve the succession plans for Pre-Approval Controlled Function ('PCF') holders; – The appointment and removal of the Board Chairperson, the Deputy Board Chairperson (if appointed), the Non-Executive Directors, the Executive Directors and the CEO; – The appointment of members and chairpersons to Committees of the Board; – The appointment and removal of PCF holders; and – The continued appointment of any Non-Executive Director at the conclusion of his or her specified term of office on the Board, having given due regard to their performance and ability to continue to contribute to the Board in light of the knowledge, skills and experience required; • In considering appointments prepare a comprehensive job description, taking into account for Board appointments, the existing skills and expertise of the Board and the anticipated time commitment required; • Ensure that on appointment to the Board, Non-Executive Directors receive a formal letter of appointment setting out clearly what is expected of them in terms of time commitment, service on committees of the Board and involvement outside Board meetings; • Approve and review the implementation of processes for identifying the training needs of Directors; and processes for selecting, inducting and training Directors; • Approve outside appointments of the Board Chairperson and make recommendations to the Board with regard to the authorisation of any actual or potential conflict of interest of any Director, and review regularly the authorised conflicts.

Section B – System of Governance *continued*

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED

B.1.2 SYSTEM OF GOVERNANCE CONTINUED

Board Committees *continued*

Committee	Role, duties and responsibilities
Remuneration Committee	<p>The role of the Committee is to:</p> <ul style="list-style-type: none"> • Ensure compliance with the Group remuneration policy as set by the Group Remuneration Committee; • Review the ongoing appropriateness and relevance of the Group Remuneration Framework and Policy, in particular in the context of changing business strategy and risk environment, and provide appropriate input to the Group Remuneration Committee; • Review on an annual basis the remuneration, of the Company’s executive directors and members of senior management, against local benchmarks and the Group Remuneration Framework and Policy and liaise with the Group Remuneration Committee on an arm’s length basis as part of the annual Group remuneration-setting process; • Provide any feedback to the Group Remuneration Committee in respect of the performance of executive directors and/or members of senior management as part of the annual Group remuneration-setting process; • Liaise with the Group Remuneration Committee of PGH on an arm’s length basis in terms of providing advice on specific risk adjustments to be applied to performance objectives set in the context of incentive packages – in the event of any difference of view appropriate risk adjustments should be decided by the Committee Chairperson and the Non-Executive Directors; • be aware of and advise, where appropriate, on any major changes in employee benefit structures throughout the Group; • be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of engagement for any remuneration consultants who advise the Committee and considering any other connection that they may have with the Company; • delegate any of its powers to one or more of its members or the secretary of the Committee; and • consider any other matters as may be requested by the Board and to make available its Terms of Reference to the Board. <p>The Remuneration Committee shall meet at least twice a year at such times as agreed by the members and otherwise as required by the Board or the Committee. Members of the Committee are appointed by the SLIDAC Board. All members of the Remuneration Committee shall be Non-Executive Directors of the Company. The majority of the members will be determined by the Board to be independent.</p>

Executive and Executive Committees

Chief Executive Officer

The role of the Chief Executive Officer ('CEO') is to manage the day-to-day business of the company subject to Matters Reserved for the Board and the matters assigned by the Board to the Board Committees. The CEO assists the Board in carrying out its role by providing advice and recommendations consistent with the agreed strategic direction and operational, financial and regulatory good practice.

Section B – System of Governance *continued*

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE *CONTINUED*

B.1.2 SYSTEM OF GOVERNANCE *CONTINUED*

Executive and Executive Committees *continued*

European Senior Leadership Team

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

- Develops appropriate capital, corporate, management and succession structures to ensure the Group's objectives can be met;
- Makes and implements operational decisions;
- Supports and implements strategies of the SL Intl business as approved by the Board as appropriate;
- Approves for submission to the Board detailed business plans for the SL Intl business, including business priorities, sales targets, product and customer propositions and budgets in accordance with the agreed International business plan and priorities;
- Monitors business results against agreed plans;
- Reports to the Board with appropriate, timely and high-quality information; and
- In conjunction with the Chairman, represents the Company to customers, suppliers, government and regulators, the shareholder and the community.

Executive Committees

In addition to the ESLT, there are eight other Management committees which are to oversee the operations of SL Intl, namely the:

- Enterprise Risk Management Committee ('ERMC') – It derives its authority from the Board, which is delegated to the CEO, and ultimately reports to the CEO. The scope of the ERMC covers SLIDAC's International Bond business in the UK, its Irish Domestic business and its German Branch (including Austrian business). The ERMC considers and has responsibility for all strategic, financial, operational and regulatory risks and conflicts of interest arising from the current and proposed activities of the SL Intl business. The Committee considers conduct risk and receives and relies on reporting from the Operational & Conduct Risk Committees in that regard;
- Reinsurance Business Committee – It exists in the context of the intra-group reinsurance arrangements between SLAL and SL Intl;
- Country Leadership Teams – They exist in both Ireland and Germany and have responsibility for the day-to-day delivery of local level reporting and inputs required by the ESLT. The Teams derive their authority from and ultimately report to the CEO, with a direct reporting line to the ESLT;
- Operational & Conduct Risk Committees – They are established in both Ireland and Germany. The Committees are a sub Committees of the SL Intl ERMC. The scope of the Committees covers operational and conduct risks concerning the Irish and the German & Austrian businesses. Compliance and Financial Crime matters are in scope as well. All significant risk and control issues are reported via the risk dashboard/ Views on Risk and Compliance Report to the SL Intl ERMC (one for Ireland and one for Germany & Austria);
- Product Oversight Governance Committee – It is responsible for maintaining oversight of Product Governance for all SL Intl Propositions in order to prevent and mitigate customer detriment and embed the delivery of fair outcomes for all customers. The aim is to ensure that the interests of our customers are taken into consideration throughout the life cycle of products, including the process of designing and manufacturing the product, bringing it to the market, monitoring the product once it has been distributed and exiting the product if applicable;
- Investment and Credit Risk Committee – The overarching responsibility of the Committee is to support the SL Intl ESLT in delivering effective management of credit and investment risks. Individual members of the Committee are accountable for the provision of appropriate input.

Section B – System of Governance continued

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED

B.1.2 SYSTEM OF GOVERNANCE CONTINUED

Scheme of delegation

The Company Scheme of Delegation sets out the parameters of delegation from the SLIDAC Board to its Committees, Executive Directors and others. The Company's Board can delegate, where appropriate, all or part of its authority to an individual Director or to a Board Committee or other individuals competent to carry out that task.

The Delegated Authorities document outlines the delegated authorities that have been assigned to appropriate senior representatives to apply to settlement transactions carried out as a service to SL Intl that are processed within Finance in Ireland or Business Finance Services in the UK (and in accordance with parameters set by SLIDAC).

Delegated authority is an important control that allows the business to operate in a controlled but efficient and effective manner by giving individuals clear accountability for specific activities.

Code of conduct

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

Prudent person principle

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

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

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

Policy compliance reporting on our internal risk management system, called ORAC, demonstrates whether the Company has been compliant with the relevant policy standards and, as a consequence, with the requirements of the Prudent Person Principle. Further details on Prudent Person Principle compliance can be found in Section C, Risk Profile.

Fitness and probity regime

Under the CBI's Fitness and Probity regime, only individuals who are deemed to be fit and proper can carry out Pre-Approval Controlled Functions and specified activities, known as Controlled Functions. Candidates for Pre-Approval Controlled Functions must be approved by the CBI prior to being appointed to the role.

Section B – System of Governance continued

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED

B.1.2 SYSTEM OF GOVERNANCE CONTINUED

Remuneration

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

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

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

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

(a) Fixed reward:

- Fixed remuneration: salary (and cash allowances, if appropriate)
- Benefits (including pension)

(b) Variable reward:

- Bonus, including the Phoenix Group Deferred Bonus Share Scheme where awards in excess of €55,000 for senior employees are delivered in shares with a three year vesting period.
- Senior employees may also be awarded a long-term incentive award

Appropriate ratios of fixed to variable remuneration will be set so as to ensure that fixed and variable components of total remuneration are appropriately balanced; and the fixed component is a sufficiently high proportion of total remuneration to allow the Company to operate a fully flexible policy on variable remuneration components including paying no variable remuneration component. Bonus awards are contingent upon the company meeting various business targets set at the start of each year. The targets were based on financial and customer measures in 2019.

Executive Directors and non-independent Non-Executive Directors are members of the Standard Life parts of either the Phoenix Ireland or Phoenix UK pension schemes. The schemes are both defined contribution and operated through Standard Life Asset and Employment Services Limited. Independent Non-Executive Directors have no supplementary pension or early retirement scheme with Standard Life.

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

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

- The Phoenix Share Incentive Plan
- The Phoenix Irish and German Sharesave Plans

Section B – System of Governance continued

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED

B.1.3 OVERVIEW OF ORGANISATIONAL AND OPERATIONAL STRUCTURE

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

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

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

Three Lines Of Defence

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

- **First line:** Day-to-day risk management is delegated from the Board to the Chief Executive Officer and, through a system of delegated authorities (and limits within), to business managers. The role of business managers in the first line is to establish, own and operate the key elements of the risk control processes.
- **Second line:** The role of the second line is performed by the SL Intl Risk and Compliance Functions. The second line are responsible for providing effective advice and challenge to the business stakeholders in the first line, providing oversight of risk management activities and ensuring that risks are being identified, assessed, controlled, monitored and reported appropriately.
- **Third line:** The role of the third line is performed by Internal Audit that provides independent verification of the adequacy and effectiveness of the internal risk and control management systems.

B.1.4 CHANGES TO THE SYSTEM OF GOVERNANCE AND ERM FRAMEWORK DURING 2019

Key changes to the System of Governance and ERM framework during 2019 have been:

- The establishment of a new Board Committee, the Remuneration Committee.
- The creation of a Product Oversight Governance Committee responsible for maintaining oversight of Product Governance for all SL Intl Propositions in order to prevent and mitigate customer detriment and embed the delivery of fair outcomes for all customers;
- The creation of an Investment and Credit Risk Committee to support the SL Intl European Senior Leadership Team in delivering effective management of credit and investment risks;
- Claudia Lang and Naval Kapoor were appointed as directors (replacing Helen Keelan and Aoife O'Leary respectively)
- The Head of Actuarial function role has been brought in-house, with Aoife O'Leary appointed to this role.
- Appointment of Sean Casey as Chairperson of the Audit Committee.
- Appointment of Claudia Lang as Chairperson of the Risk Committee.

Section B – System of Governance continued

B.2 FIT AND PROPER REQUIREMENTS

The Company carries out due diligence checks before appointing new Directors (including Non-Executive Directors), executives, and other positions within SLIDAC which fall within scope of the CBI's Fitness and Probity ('F&P') Regime. Due diligence checks are fully documented and kept in a record. This includes the assessment of whether the person is 'fit' based on professional and formal qualifications, knowledge and relevant experience and takes account of the responsibilities of the role; and 'proper' based on honesty, financial soundness, character and criminal record.

Each year a Fitness & Capability review is undertaken. This consists of asking all Pre-Approval Controlled Functions ('PCF's') and Controlled Functions ('CF's') to re-certify that they comply with the F&P Standards and to undertake to notify SL Intl if they no longer comply with those Standards. Effectiveness reviews of the SL Intl Board, the Audit Committee, the Risk Committee and the Nomination Committee were undertaken in 2019. Directors also completed self-assessment questionnaires. Actions were agreed from the reviews. The actions included the provision of training, enhancement of information received by the Board/Committees and particular areas of focus for the Board/Committees going forward.

SLIDAC's employees are subject to the Performance Management Process which takes into consideration whether there are any material issues identified that will materially impact the competence and capability of employees to carry out their role.

B.3 RISK MANAGEMENT SYSTEM

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

B.3.1 ENTERPRISE RISK MANAGEMENT FRAMEWORK

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

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

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

Following the sale of the Company's parent company, SLAL, to PGH, work to harmonise the Standard Life and PGH ERM frameworks will be implemented across SLIDAC in 2020.

Section B – System of Governance continued

B.3 RISK MANAGEMENT SYSTEM CONTINUED
B.3.2 OWN RISK AND SOLVENCY ASSESSMENT

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

The purpose of the ORSA is to inform and develop:

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

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

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

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

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



Section B – System of Governance *continued*

B.4 INTERNAL CONTROL SYSTEM

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

B.4.1 CONDUCT AND OPERATIONAL RISK FRAMEWORK

As referenced in Section B.3 above, SLIDAC will roll-out an updated integrated ERM framework in 2020. This follows harmonisation activity between the Standard Life and Phoenix Groups. A key feature of the new framework is the Risk Universe, upon which a Risk Policy framework is based. The Risk Policy framework incorporates key risks and Minimum Control Standards relating to each policy and key risk. The ERM framework also features a holistic Risk and Control Self-Assessment approach and Incident and Breach Management procedures. Tracking of actions plans and key risk indicators will also form part of the framework. A new Risk Management administration system will also be rolled out in 2020. The current Conduct and Operational Risk framework comprises the following processes outlined below:

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

Management awareness of risks ('MARs')

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

Policy framework

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

The fair treatment of customers is integral to all of our business activities and of fundamental importance. As such, policies are implemented with their specific impact on the customer in mind. This framework provides a structured process for developing and implementing policies consistently across the business.

Risk assessment including risk registers

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

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

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

Section B – System of Governance continued

B.4 INTERNAL CONTROL SYSTEM CONTINUED

B.4.1 CONDUCT AND OPERATIONAL RISK FRAMEWORK CONTINUED

Control Self-Assessment ('CSA')

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

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

Risk Event Management

A risk event is a risk that has materialised as a result of a deficiency in our system of internal control or an external event. Since they can have a significant impact on the Company's reputation and performance, we aim to identify and understand them quickly to ensure that an appropriate response is taken. The ORAC system is used to log any risk events that occur and ensure action plans are put in place for corrective action.

Action Plan Management

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

- Ensure that control improvement work is identified, what is required is clearly expressed, ownership is clear and target dates are set;
- Demonstrate active management of the control environment;
- Prioritise control improvement work; and
- Provide progress on work to allow source owners to determine the impact of outstanding issues

Key Risk Indicators

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

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

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

- Monitor risks by measuring trends or performance of KRIs;
- Provide an early warning to enable proactive rectifying action and help to minimise exposure to losses;
- Promote a proactive risk culture by providing a trigger for management action; and
- Bring objectivity to the risk process

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

Section B – System of Governance continued

B.4 INTERNAL CONTROL SYSTEM CONTINUED

B.4.2 RISK AND COMPLIANCE FUNCTION

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

The Risk and Compliance function achieves this by:

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

The Risk and Compliance function is led by the Chief Risk Officer, who has dual reporting lines to the SLIDAC Chief Executive Officer and the Group Life Company Chief Risk Officer. The SLIDAC Chief Risk Officer also has access to the chairperson of the Risk Committee and regularly attends Board Risk Committee meetings. The function covers all elements of the Risk Universe.

Support is also provided by Group functions.

B.4.3 REGULATORY COMPLIANCE

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

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

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

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

This Policy is currently under review as part of the Risk Management Policy Harmonisation Project across the Group.

Section B – System of Governance continued

B.5 INTERNAL AUDIT FUNCTION

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

SLIIA operates in compliance with the International Standards for the Professional Practice of Internal Auditing, the Internal Audit Code of Ethics and the Guidance on Effective Internal Audit in the Financial Services Sector and guidance provided by the European Confederation of Institutes of Internal Audit ('ECIIA').

The full Internal Audit Charter can be found on the governance pages of the Standard Life International's website: <https://www.standardlife.ie/standard-life-international-internal-audit-charter.pdf>

B.5.1 ROLES AND RESPONSIBILITIES OF INTERNAL AUDIT

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

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

B.5.2 REPORTING

SLIIA attend, and issue reports to the Standard Life International Board Audit Committee ('SLIBAC') and any other governing bodies and Board committees as appropriate.

SLIIA's reporting to the SLIBAC will include significant control weaknesses, root-cause and relevant 'lesson learned' analysis, themes and a view on the adequacy of management's remediation plans. Bi-annually, SLIIA will provide an opinion on the strength of the design and operation of the Risk Management/Internal Control Framework (and adherence to the risk appetite framework across the business).

B.5.3 INDEPENDENCE AND OBJECTIVITY OF THE INTERNAL AUDIT FUNCTION

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

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

Section B – System of Governance continued

B.6 ACTUARIAL FUNCTION

The actuarial function has the following responsibilities:

- **Technical provisions:** co-ordinate calculation of technical provisions; ensure the appropriateness of the methodologies and underlying models used as well as assumptions made in the calculation of the technical provisions; inform the Board of the adequacy of calculation; provide opinion on the adequacy of technical provisions
- **Underwriting:** prepare an opinion on overall underwriting policy
- **Reinsurance:** prepare an opinion on adequacy of reinsurance arrangements
- **With Profits:** prepare an opinion on the compliance of the technical provisions with the principles in the With Profits Operating Principles ('WPOPs') document
- **Risk management:** contribute to an effective risk management system; provide an opinion to the Board on the range of risks and adequacy of the scenarios considered as part of the ORSA

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

- **Assumptions and methodology:** assess whether the methodologies used in the calculation of the technical provisions and SCR are appropriate for the business. Review and propose changes to methodologies, having regard to the available data;
- **IFRS actuarial liabilities:** oversee and co-ordinate calculation of IFRS actuarial liabilities, recommend to the Board methodology and assumptions for the calculations of IFRS actuarial liabilities;
- **Capital and liquidity management:** monitor and manage capital and liquidity

In addition to the requirements of Solvency II, the Actuarial Function is subject to the requirements of the Central Bank of Ireland's Domestic Actuarial regime.

B.7 OUTSOURCING

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

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

For each outsourced arrangement with SLIDAC, an Executive Sponsor, Accountable Authority and Supplier Relationship Manager are appointed. Outsourced control functions (as per CBI fitness and probity definitions) are required to satisfy the fitness and probity requirements. In addition to these, the Supplier Governance Manager, the Chief Risk Officer, Chief Operating Officer and local level Operational & Conduct Risk Committees ('OCRC') have specific roles in relation to the approval and subsequent governance of outsourcing arrangements. The OCRC is responsible for reviewing all proposed outsourcing arrangements that are identified by the Chief Risk Officer (or nominated deputy) as potentially having a material impact on the risk profile and annually reviews the complete master list of outsourcing arrangements across Standard Life International.

SLIDAC uses a number of outsourcing partners to operate and deliver core systems, capabilities and processes. Most arrangements are to other companies within the Phoenix Group and are located in the UK. We also have arrangements with companies based in Ireland and Germany.

B.8 ANY OTHER INFORMATION

There have been a number of additional Board meetings in 2020 in response to the COVID-19 crisis and its impacts.

The Company continues to exercise oversight in relation to its outsourcing arrangements, in line with Governance rules, and review its overall operation of organisational governance through the COVID-19 crisis.

SECTION C

RISK PROFILE

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SECTION C

RISK PROFILE

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

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

The Company's principal risks and uncertainties are described in note 30 of the 2019 Annual Financial Statements. These are:

Risk	Description	More detail included in section
Demographic and Expense Risk	<p>Demographic</p> <p>The risk that arises from the inherent uncertainties as to the occurrence, amount and timing of future cash flows due to demographic experience differing from that expected. This class of risk includes risks that meet the definition of insurance risk under IFRS 4 and other financial risks.</p>	C.1 Underwriting risk
	<p>Expense</p> <p>The risk that expense levels are higher than planned or revenue falls below that necessary to cover actual expenses. This can arise from an increase in the unit costs of the Company or an increase in expense inflation, either Company specific or relating to economic conditions. This risk will be present on contracts where the Company cannot or will not pass the increased costs onto the customer. Expense risk can reflect an increase in liabilities or a reduction in expected future profits.</p>	
Financial Market and Credit Risks	<p>Market</p> <p>The risk that arises from the Company's exposure to market movements which could result in the value of income, or the value of financial assets and liabilities, or the cash flows relating to these, fluctuating by differing amounts.</p>	C.2 Market risk
	<p>Credit</p> <p>The risk of exposure to loss if a counterparty fails to perform its financial obligations, including failure to perform those obligations in a timely manner.</p>	C.3 Credit risk
Liquidity Risk	The risk that the Company is unable to realise investments and other assets in order to settle its financial obligations when they fall due, or can do so only at excessive cost.	C.4 Liquidity risk
Operational Risk	The risk of adverse consequences for the Company's business resulting from inadequate or failed internal processes, people or systems, or from external events. This includes conduct risk as defined below.	C.5 Operational risk
Conduct Risk	The risk that through our behaviours, strategies, decisions and actions the Company delivers unfair outcomes to our customer/client and/or poor market conduct.	C.6 Other material risks
Strategic Risk	Risks which threaten the achievement of the strategy through poor strategic decision-making, implementation or response to changing circumstances.	C.6 Other material risks

Section C – Risk Profile continued

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

Capital held in respect of these risks is described in Section E. Please see Quantitative Reporting Template S25.01.21 to see the split of the SCR by risk category.

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

Risk profile	Section reference	SLIDAC SCR 31 December 2019	SLIDAC SCR 31 December 2018
Underwriting risk	C.1	34%	49%
Market risk (including credit risk)	C.2 & C.3	54%	50%
Liquidity risk	C.4	0%	0%
Operational risk	C.5	12%	1%
Other risks	C.6	0%	0%
Total		100%	100%

The movements in the above table versus 2018 are a result of the German and Irish business being transferred in March 2019, along with the corresponding reinsurance arrangements. Credit risk has been included within the Market Risk category for the purposes of QRT reporting, with Credit Risk making up 22% of the undiversified SCR. The Company does not hold SCR for liquidity risk, as explained further in Section C.4.1.

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

Section C – Risk Profile continued**C.1 UNDERWRITING RISK****C.1.1 RISK EXPOSURE**

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

Risk Source	Description
Lapse Risk	Adverse movement in either surrender rates or persistency rates on policies, leading to losses. This includes the risk of greater than expected policyholder option exercise rates giving rise to increased claims costs.
Mortality Risk	Higher than expected number of deaths experienced on life and protection products or greater than expected increase in mortality rates.
Longevity Risk	Lower than expected number of deaths experienced on annuity products or greater than expected improvements in annuitant mortality.
Catastrophe Risk	Once-off catastrophic event causing a sharp spike in mortality rates.
Expense Risk	Unexpected timing or value of expenses incurred.

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

Components of Underwriting Risk	SLIDAC
Lapse Risk	25%
Mortality Risk	1%
Longevity Risk	4%
Catastrophe Risk	0%
Expense Risk	5%
Total Underwriting Risk	34%

During the year ended 31 December 2019, the key changes to the Company's exposure to underwriting risk include:

- The transfer of the Irish and German business to SLIDAC increased the Company's exposure across all underwriting risks.
- The transfer also introduced longevity risk onto the Company's balance sheet with the transfer of Irish and German annuities.
- The update of underwriting assumptions across a variety of products to reflect the results of experience analysis.

C.1.2 RISK MEASUREMENT

The Company uses several methods to assess and monitor underwriting risk exposures both for individual types of risks insured and the overall risks. These methods include the Solvency II Standard Formula, experience analyses, external data comparisons, sensitivity analyses, scenario analyses and stress testing.

The risk capital requirement for underwriting risk is assessed using the Standard Formula model, which is calibrated to withstand a stress event to a 99.5% confidence level over a one-year period.

As at 31 December 2019, underwriting risk represented 34% of the Company's total undiversified SCR as shown in the table at the beginning of Section C.

C.1.3 RISK CONCENTRATION

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

Section C – Risk Profile continued**C.1 UNDERWRITING RISK CONTINUED****C.1.4 RISK MITIGATION**

Reinsurance is used within the Company primarily to reduce risk exposures arising on With-Profits policies. The reinsurance arrangements (with SLAL) covering these policies reduce the Company's underwriting risk exposure in respect of these policies.

For business retained within SLIDAC, underwriting risks are managed through the use of appropriate and active pricing and regular monitoring of experience. We also have a risk appetite framework which limits the amount of exposure we have to individual risks.

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

C.1.5 SENSITIVITY ANALYSIS

As part of the Company's internal risk management processes, the impact of a number of underwriting risk scenarios on the SCR is monitored. These sensitivities incorporate some modelling approximations and results are indicative. The results of such stress testing on the Company's SCR are provided below.

	SCR (€'000)	SCR Ratio (%)
Base: 31 December 2019	438,349	130%
Following 6% decrease in annuitant mortality rates	440,549	127%
Following 10% increase in assurance mortality rates	437,539	133%
Following a 10% increase in lapse rates	427,124	129%
Following a 10% decrease in lapse rates	452,118	130%

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

C.2 MARKET RISK**C.2.1 RISK EXPOSURE**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market influences. The Company is exposed to the following material sources of market risk (note credit risk is covered in section C.3 but is included in Market Risk for the SLIDAC S.25.02.21 QRT):

Risk Source	Description
Equity Risk	The risk of reduction in earnings and/or value, from unfavourable movements in equity asset values and/or equity volatility. In this context, equity assets should be taken to include shares, equity derivatives and equity collectives (OEICs, unit trusts, investment trusts).
Property Risk	The risk of adverse property market movements which could result in a financial loss.
Interest Rate Risk	The risk that the fair value of future cash flows of a financial instrument will fluctuate relative to the respective liability due to the impact of changes in market interest rates and the associated guarantees on certain insurance contracts.
Spread Risk	The risk of reduction in earnings and/or value, from unfavourable movements in the spread between government bond yields and swap rates used to discount insurance liabilities.
Currency Risk	The risk of reduction in earnings and/or asset and liability values, arising solely as a consequence of changes to currency exchange rates. This risk category also covers the risk of a change in swap rates in one currency, relative to the swap rate in another currency.

Section C – Risk Profile continued**C.2 MARKET RISK CONTINUED****C.2.1 RISK EXPOSURE CONTINUED**

During the year ended 31 December 2019, the following are the key changes to the Company's exposure to market risk:

- The transfer of the Irish and German business to SLIDAC increased the Company's exposure across all market risks.
- On 30 September 2019, the Company implemented two currency hedges using Foreign Exchange forward contracts to protect against the impact of falls in currency markets on the solvency position, which has reduced the currency risk exposure for the Company.

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

Components of Market Risk	SLIDAC
Equity Risk	18%
Property Risk	0%
Interest Rate Risk	1%
Spread Risk	6%
Currency Risk	6%
Total Market Risk	31%

C.2.2 RISK MEASUREMENT

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

The risk capital requirement for market risk is assessed using the Standard Formula model, which is calibrated to withstand a stress event to a 99.5% confidence level over a one-year period.

As at 31 December 2019, market risk represented 31% of the Company's total undiversified SCR as shown in the table at the beginning of Section C.

C.2.3 RISK CONCENTRATION

Market risk concentrations are minimised by offering a wide range of investment options to the Company's customers. The Company also has a risk appetite framework which limits the amount of exposure it has to individual risks.

C.2.4 RISK MITIGATION

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

Risk Mitigation Technique	Description
Diversification	Where possible investments are diversified across class, industries and counterparties.
Cashflow Matching	In the case of the immediate annuity portfolios assets with similar cash flows to the liabilities are selected to minimise the risk of reinvesting cash flows at adverse prices.
Hedging	Hedging programmes are in place to reduce the exposure to equity risk on future policyholder charges, and to manage market risk (in particular equity and interest rate risk) within the with profits funds of the Company. To mitigate exposure to interest rate risk, assets with similar sensitivity to interest rate risk as the corresponding liabilities are selected where possible.

Section C – Risk Profile continued**C.2 MARKET RISK CONTINUED****C.2.5 SENSITIVITY ANALYSIS**

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

	SCR (€'000)	SCR Ratio (%)
Base: 31 December 2019	438,349	130%
Following a 20% fall in equity markets	401,580	131%
Following a 15% fall in property values	436,730	131%
Following a 60bps interest rates rise	412,706	147%
Following a 80bps interest rates fall	486,690	100%

The company's biggest exposure is to a fall in interest rates, which increases the value of the with profit liabilities reinsured to SLAL. This has an impact on counterparty default and operational risk in SCR, and increases risk margin under standard formula. This risk has come to life in 2019 and a number of management actions were implemented to increase solvency. There is a longer term plan in place to apply for an internal model, as the stresses under standard formula do not match the company's risk profile.

C.3 CREDIT RISK**C.3.1 RISK EXPOSURE**

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge its obligation. These obligations can relate to both on and off balance sheet assets and liabilities. The Company is exposed to the following sources of credit risk:

Risk Source	Description
Spread Risk	The risk of reduction in earnings and/or value, from unfavourable movements in the spread between government bond yields and swap rates used to discount insurance liabilities.
Investment counterparty risk	The risk of reduction in earnings and/or value, arising from counterparty defaults on investments such as bonds, derivatives and cash deposits.
Reinsurance counterparty risk	The risk of reduction in earnings and/or value, arising from the failure of a reinsurance counterparty to meet its contractual obligations by way of default or delayed claim settlements.

During the year ended 31 December 2019, the following are the key changes to the Company's exposure to credit risk:

- The transfer of the Irish and German business to SLIDAC, and the corresponding reinsurance arrangements with SLAL increased the Company's counterparty default risk exposure.
- The implementation of the currency hedges in September 2019 also increased the company's counterparty default risk exposure.

Note: Credit Risk is included under Market Risk for the purpose of the SLIDAC S25.02.21 QRT, so its contribution to the undiversified SCR is shown in the Market Risk row of this QRT.

C.3.2 RISK MEASUREMENT

Several methods are used to assess and monitor credit exposures. These methods include monitoring of asset portfolio composition and single name counterparty monitoring. In addition, risk is measured using the Standard Formula, sensitivity analyses, scenario analyses and stress testing.

The risk capital requirement for credit risk is assessed using the Standard Formula, which is calibrated to withstand a stress event to a 99.5% confidence level over a one-year period.

Section C – Risk Profile continued

C.3 CREDIT RISK CONTINUED**C.3.3 RISK CONCENTRATION**

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

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

Rating	Market Value €'000	Percentage of Total %
AAA	–	0%
AA	181,206	7%
A	2,438,836	92%
BBB	4,794	0%
BB	–	0%
B and below	25,899	1%
Non-rated	–	0%
Total	2,650,735	100%

As at 31 December 2019, the largest credit counterparty exposures to a single name counterparty in the Company's asset portfolio were:

Top 10 single name credit exposures	€'000
SLAL	2,128,574
Standard Chartered Bank	32,297
DZ Bank AG Deutsche Zentral-Genossenschaftsbank Frankfurt Am Main	22,910
Natixis SA	21,193
Qatar National Bank QPSC	20,753
First Abu Dhabi Bank PJSC	20,362
OP Corporate Bank plc	19,575
Mitsubishi UFJ Financial Group Inc	19,117
CITIBANK	18,018
Sumitomo Mitsui Trust Bank Ltd	17,689

The Company is exposed to concentration risk in respect of reinsurance ceded to SLAL, although this is largely mitigated by collateral arrangements with the reinsurers and concentration limits in respect of individual reinsurance counterparties. The exposure to SLAL shown here is the expected recoverable, adjusted for collateral, risk-mitigating effects and a market risk adjustment.

C.3.4 RISK MITIGATION

The Company has a Credit Risk Management Policy in place to manage its credit risk exposure, which has a number of rules by which it mitigates credit risk, such as limiting the counterparties to which it can gain exposure, and limiting individual exposure levels. There is a counterparty exposure to SLAL from the reinsurance arrangements which is mitigated through holding collateral.

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

Section C – Risk Profile continued**C.3 CREDIT RISK CONTINUED****C.3.5 SENSITIVITY ANALYSIS**

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

	SCR (€'000)	SCR Ratio (%)
Base: 31 December 2019	438,349	130%
Following credit spread widening (equivalent to average widening of 120bps)	435,102	122%

C.4 LIQUIDITY RISK**C.4.1 RISK EXPOSURE**

Liquidity risk is defined as the failure of the Company to maintain adequate levels of financial resources to enable it to meet its obligations as they fall due. The Company has exposure to liquidity risk as a result of normal business activities, specifically the risk arising from an inability to meet short-term cash flow requirements.

The Company does not hold risk capital against liquidity risk. Liquidity risk is managed by holding an appropriate proportion of the assets in liquid form, with the proportion determined based on periodic investigations into liquidity requirements, which include consideration of cash flows in normal conditions, as well as investigation of scenarios where cash flows differ markedly from those expected (primarily due to significant changes in policyholder behaviour).

C.4.2 RISK MEASUREMENT

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

C.4.3 RISK CONCENTRATION

Liquidity risk for SLIDAC arises primarily from the following key sources:

- Operational risk events
- Mass lapse events
- Longevity risk on annuity business
- Asset defaults (beyond best estimate) on assets exposed to credit risk backing annuity liabilities
- Very short-term pre-funding of large investments or switches

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

C.4.4 RISK MITIGATION

For annuity and unit-linked business, liquidity risk is primarily managed by holding a range of diversified instruments which are assessed against estimated cash flow and funding requirements.

For annuity contracts, assets are held which are specifically chosen with the intention of matching the expected timing of annuity payments. The Company actively manages and monitors the performance of these assets against liability benchmarks and liquidity risk is minimised through the process of planned asset and liability matching.

For non-participating unit-linked contracts, a core portfolio of assets is maintained and invested in accordance with the mandates of the relevant unit-linked funds. Policyholder behaviour and the trading position of asset classes are actively monitored. The unit price and value of any associated contracts would reflect the proceeds of any sales of assets.

The Company undertakes regular assessments of its cash flow requirements under normal conditions, as well as considering scenarios where cash flows differ markedly from those expected (primarily due to extreme policyholder behaviour). In addition, the Company performs periodic reviews of its liquidity risks and performs stress testing on these risks to define minimum liquid asset requirements. This mitigates the risk that the Company does not have appropriate liquidity under severe stress conditions.

Section C – Risk Profile continued**C.4 LIQUIDITY RISK CONTINUED****C.4.4 RISK MITIGATION CONTINUED**

The Company is required to monitor, assess, manage and control liquidity risk in accordance with the relevant principles within the Company's risk policy framework. Oversight is provided both at a Phoenix Group level and within the Company. In addition, the Company benefits from membership of a larger group to the extent that, centrally, the Phoenix Group:

- Coordinates strategic planning and funding requirements;
- Monitors, assesses and oversees the investment of assets within the Phoenix Group;
- Monitors and manages risk, capital requirements, and available capital on a group-wide basis; and
- Maintains a portfolio (currently undrawn) of committed bank facilities.

The Company adopted its own risk policy framework in 2018; the risk policies approved by the Board are at least as stringent as the PGH risk policies. Each entity is responsible for the definition and management of its contingency funding plan. Liquidity risk is managed by each entity in consultation with the relevant PGH functions.

As a result of the policies and processes established with the objective of managing exposure to liquidity risk, the Company expects to be able to manage liquidity risk on an ongoing basis.

C.4.5 EXPECTED PROFITS IN FUTURE PREMIUMS ('EPIFP')

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

As at 31 December 2019, the Company's EPIFP (Gross of Reinsurance) is shown below. This is comprised of future profits arising across all lines of business.

	(€'000)
EPIFP (gross of tax and reinsurance)	596,303

Section C – Risk Profile continued

C.5 OPERATIONAL RISK

C.5.1 RISK EXPOSURE

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

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

- **Financial control and reporting** – the risk of financial failure, reputation loss, loss of earnings and/or value arising from the inappropriate recording, reporting and disclosure of financial information.
- **Data protection** – the risk of reputational damage, loss of investor, customer or employee confidence that adversely impact the economic value of the firm. This includes reductions in earnings and/or value through either financial or reputational loss.
- **Regulatory compliance** – the risk of having the ‘licence to operate’ withdrawn by a regulator, or having conditions applied (retrospectively or prospectively) that adversely impact the economic value of the firm. This includes reductions in earnings and/or value through either financial or reputational loss.
- **Legal** – The risk of financial or reputational loss that can result from lack of awareness or misunderstanding of, ambiguity in, or reckless indifference to, the way law and regulation apply to the business, its relationships, processes, products and services.
- **Financial crime and anti-bribery** – the risk to the organisation or customer from fraud, money laundering, terrorist financing, corruption and bribery or international sanctions violations.
- **Information security** – the risk of reductions in earnings and/or value through financial or reputation loss associated with inadequate Information Security, including failure to ensure confidentiality of information, failing to protect the integrity of information and failing to secure and maintain availability of information.
- **Customer treatment** – risk arising from the failure to have a customer centric culture which drives appropriate behaviours and decisions leading to customer interactions and outcomes which meet or exceed reasonable customer and regulator expectations and which take account of potential customer vulnerability.
- **Business continuity** – the risk of reductions in earnings and/or value, through financial or reputation loss resulting from a failure to plan for the continuity of operations associated with a systems failure, loss of premises, equipment or people.
- **Change** – the risk of reputational damage, loss of investor confidence and/or financial loss arising from the impact of a significant change initiative, or a number of change initiatives running at the same time, creating an adverse effect on business conditions and/or customer. This includes changes to processes, the development and implementation of new IT systems and/or delivery channels, the development of new products and the failure of change initiatives and/or new strategies to meet the required business case. This also includes the cost of inherent delays or failure to deliver benefits.
- **Sourcing and procurement** – the risk of reductions in earnings and/or value through financial or reputation loss associated with outsourced partners, third party suppliers, or managing material internal suppliers to provide the service required by the business (either through their own organisational failure, or simply substandard performance).

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

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

During the year ended 31 December 2019, the key changes to the Company’s exposure to operational risk included:

- the transfer of SLAL’s Ireland and Germany branch business. This was already included in the prospective assessment of operational risk at the end of 2018;
- bringing the Head of Actuarial Function in-house where previously this had been outsourced; and
- scanning the market, we have seen increases in the levels of fines levied by regulators on financial services firms for operational risk failings, so we have increased the size of these in our assessment of the potential impact of operational risk events

Section C – Risk Profile *continued*

C.5 OPERATIONAL RISK CONTINUED

C.5.2 RISK MEASUREMENT

The Company uses the Standard Formula calculation for operational risk to contribute to the Solvency Capital Requirement. This calculation is based on the level of with-profits technical provisions held at the valuation date, and the level of expenses incurred on maintaining unit-linked business over the previous 12 months.

The capital held in respect of the Company's operational risk on the Standard Formula basis was €78,310k at 31 December 2019 and represented 12% of the Company's total undiversified SCR as shown in the table at the beginning of section C.

For the assessment of own solvency needs in the Enterprise Risk Management framework, we perform a more detailed analysis of operational risks and how they arise. The assessment involves determining scenarios that are representative of the key operational risks facing Standard Life International, and then holding a series of workshops in order to calculate the financial impact over the next year if a risk event were to occur in each of these risk categories, and at what frequency it would be expected that such an event might occur. This approach blends the expert opinion of senior management with internal or external loss data to estimate loss impacts and likelihoods.

The risk capital requirement for operational risk is assessed using the same model that Phoenix and SLAL have developed for use in the harmonised Group for their partial Internal Model, which is calibrated to withstand a stress event to a 99.5% confidence level over a one-year period. This model defines the operational risk categories and loss distribution functions used to quantify capital requirements. As there is limited historical data on extreme operational losses, operational risks are assessed using ground up scenario analysis. Stochastic models are used to determine the amount of capital for low probability, high impact events.

C.5.3 RISK CONCENTRATION

Within Standard Life International, operational risks are not significantly concentrated into any of the categories listed above. The largest exposures lie within the financial control & reporting, data protection and regulatory compliance categories. Standard Life International carries out the majority of its operations in offices in Dublin, Edinburgh, Frankfurt and Wythall. Each of these premises has regularly-tested business continuity plans and off-site secondary locations where operations can continue in case an incident makes the primary premises unavailable.

C.5.4 RISK MITIGATION

Our aim is to minimise our exposure to operational risk by use of our control framework as described in Section B. However, there is an acceptance that in order to achieve our business strategy we will be exposed to a certain amount of operational risk. A number of insurance policies are used to reduce operational risk exposures in practice. The key policies are Crime, Cyber Crime, Professional Indemnity, Premises and Business Interruption and Employer's Liability Cover for all employees.

There is however minimal allowance made for this within the assessment of own solvency needs due to the expected length of time for recoveries exceeding the one-year forward-looking period. The methodology for this is under review across the Group and more allowance may be made for these recoveries in future.

C.6 OTHER MATERIAL RISKS

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

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

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

- There is currently no requirement to hold additional capital in respect of these risks
- Other risks are not considered when investing assets according to the prudent person principle
- No material other risks were identified through the sensitivity, scenario and stress tests described in section C.7.2.

Section C – Risk Profile continued

C.7 ANY OTHER INFORMATION

C.7.1 PRUDENT PERSON PRINCIPLE

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

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

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

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

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

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

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

With-profits business

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

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

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

Section C – Risk Profile continued

C.7 ANY OTHER INFORMATION CONTINUED

C.7.1 PRUDENT PERSON PRINCIPLE CONTINUED

Shareholder funds

Shareholder funds are directly exposed to investment profits and losses. The most significant funds are the assets backing annuities and the free surplus. These funds are primarily invested in fixed interest investments and cash, with the objective of optimising the risk-adjusted return and ensuring the diversification of credit risk exposures. Derivative instruments may be used to hedge against market risk exposures, for example the risk of adverse currency exchange rate movements.

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

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

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

Unit-linked

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

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

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

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

Section C – Risk Profile continued**C.7 ANY OTHER INFORMATION CONTINUED****C.7.2 SENSITIVITY ANALYSIS**

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

The Solvency II surplus is quite sensitive to market risks, in particular to interest rate movements, and there is a moderate sensitivity to credit risk.

The table below shows the effect of a change on key assumptions, with all other variables held constant on the Company's Solvency II surplus. Some modelling approximations have been used in the calculation of these results.

	SCR (€'000)	SCR Ratio (%)
Base: 31 December 2019	438,349	130%
Following a 20% fall in equity markets	401,580	131%
Following a 15% fall in property values	436,730	131%
Following a 60bps interest rates rise	412,706	147%
Following a 80bps interest rates fall	486,690	100%
Following credit spread widening (equivalent to average widening of 120bps)	435,102	122%
Following 6% decrease in annuitant mortality rates	440,549	127%
Following 10% increase in assurance mortality rates	437,539	133%
Following a 10% increase in lapse rates	427,124	129%
Following a 10% decrease in lapse rates	452,118	130%

C.7.3 COVID-19 Impacts

The emergence of the COVID-19 pandemic in early 2020 has created volatility in the financial markets and heightened operational risks.

In terms of economic impacts, the most material impacts are that equity markets have fallen, interest rates have fallen and credit spreads have widened.

The fall in equity markets in particular has reduced both Own funds and SCR but, in line with the sensitivities shown above, has not had an adverse impact on solvency coverage.

Falls in interest rates and increases in credit spreads have increased SCR and impacted the Company's solvency coverage. Impacts are again in line with the sensitivities shown above. In response to these impacts, the Company has sought, and received, capital injections from its parent. This is in line with triggers in the Company's Risk Appetite and follows consideration of the range of measures contained in the Company's Recovery Plan. The Company received capital injections totalling €57m from Phoenix Group Holdings plc during Q1 2020.

No material impacts are anticipated from mortality, morbidity or longevity risks.

In terms of operational risks, the Company's operational resilience has been tested, but Business Continuity planning and capabilities have enabled it to continue to service customers and fulfil regulatory obligations in a controlled way.

The Company has continued to monitor the situation closely, invoking its Business Continuity plans and assessing impacts on technical provisions and solvency capital on a regular basis. SLIDAC has reviewed its 2019 ORSA and the potential need for additional scenario runs. This will be based on a review of Risk Profile as at 31 March 2020.

The Company's liquidity position remains healthy with a strong excess above target buffers.

SECTION D VALUATION FOR SOLVENCY PURPOSES

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SECTION D VALUATION FOR SOLVENCY PURPOSES

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

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

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

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

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

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

Section D – Valuation for Solvency Purposes continued

D.1 ASSETS AND LIABILITIES

D.1.1 OVERVIEW

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

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

Balance Sheet as at 31 December 2019	Note	Solvency II Value €'000	Statutory Accounts Value €'000	Difference €'000
Deferred acquisition costs	1	–	230,648	(230,648)
Intangible assets	2	–	3,683	(3,683)
Deferred tax assets	3	–	4,036	(4,036)
Property, plant and equipment held for own use	4	1,514	1,514	–
Investments (other than assets held for index-linked and unit-linked contracts)	5			
Holdings in related undertakings, including participations		425,959	425,959	–
Bonds		332,408	332,408	–
Collective Investment Undertakings		18,977	18,977	–
Derivatives		760	760	–
Deposits other than cash equivalents		2,517	2,517	–
Assets held for index-linked and unit-linked contracts	6	14,582,526	14,582,526	–
Loans and mortgages	7	48,502	48,502	–
Reinsurance recoverables	8	16,200,681	17,261,824	(1,061,143)
Insurance and intermediaries receivables	9	6,162	6,162	–
Reinsurance receivables	9	65,296	65,296	–
Receivables (trade, not insurance)	10	80,901	83,876	(2,974)
Cash and cash equivalents	11	36,810	36,810	–
Total Assets		31,803,013	33,105,498	(1,302,485)
Technical provisions (BEL plus risk margin)	12	30,934,689	32,217,493	(1,282,805)
Provisions other than technical provisions	13	15,094	15,094	–
Deferred tax liabilities	3	2,538	972	1,566
Derivatives	14	8,351	8,351	–
Debts owed to credit institutions	15	433	433	–
Insurance and intermediaries payables	16	109,878	109,878	–
Reinsurance payables	16	14,323	14,323	–
Payables (trade, not insurance)	17	149,110	149,110	–
Any other liabilities not elsewhere shown	18	–	53,951	(53,951)
Total Liabilities		31,234,414	32,569,604	(1,335,190)
Excess of Assets over Liabilities		568,599	535,894	32,705

The table above reflects reallocation adjustments which have been applied to assets and liabilities in the Company's IFRS statutory accounts at 31 December 2019. These adjustments relate to the following:

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

Section D – Valuation for Solvency Purposes continued

D.1 ASSETS AND LIABILITIES CONTINUED**D.1.2 ASSET AND LIABILITY VALUATION BASES, METHODS AND MAIN ASSUMPTIONS**

The Company's Solvency II valuation principles (including the bases, methods and main assumptions) for each asset and liability class are set out below. Unless otherwise stated (i.e. where there are differences to the 'Statutory accounts value' column) the valuation methods for IFRS are consistent with the valuation methods of the regulations. Further details on the IFRS valuation principles are set out in the Notes to the IFRS financial statements in the SLIDAC Annual Reports and Accounts for the year ended 31 December 2019. There have been no significant changes to the valuation principles set out below during the year. Details regarding the valuation of technical provisions are covered separately in section D.2.

Note	Balance Sheet Item	Valuation Principles
1	Deferred acquisition costs	In the Company's IFRS statutory accounts, some costs incurred in issuing certain contracts are deferred and amortised as Deferred Acquisition Costs ('DAC'). For Solvency II DAC are valued at zero unless they can be sold separately and it can be demonstrated that there is value for the same or similar assets (i.e. that a value has been derived from quoted prices in active markets). None of the deferred acquisition costs in the Company have been assessed as meeting these criteria.
2	Intangible assets	For Solvency II intangible assets are valued at zero unless the intangible assets can be sold separately and it can be demonstrated that there is value for the same or similar assets (i.e. that a value has been derived from quoted prices in active markets). None of the Company's intangible assets have been assessed as meeting these criteria and therefore these are valued at zero. Furthermore, any related deferred tax is written off. For IFRS, intangible assets are measured on the balance sheet at cost less accumulated amortisation and any impairment loss recognised to date. The Company has recognised as intangible assets software which has been developed internally and other purchased technology which is used in managing and executing its business.
3	Deferred tax assets	Deferred tax is determined on temporary differences between the fair value of assets and liabilities on the Solvency II balance sheet and their tax base at the valuation date. The tax base is the value as determined under IFRS. This means deferred tax should be provided on temporary differences between the IFRS and the Solvency II balance sheet. All valuation differences between the IFRS and Solvency II balance sheets are identified and deferred tax is calculated, where appropriate, on these differences. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Further details on the origin of the deferred tax assets are provided in section D.1.3.
4	Property, plant and equipment held for own use	<p>Property held for own use</p> <p>In line with IFRS, owner-occupied property is stated at the revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment.</p> <p>Plant and equipment held for own use</p> <p>In the Company's IFRS statutory accounts, plant and equipment is initially recognised at cost and subsequently measured at cost less depreciation. Depreciation is charged to the income statement over two to 15 years depending on the length of time the Company expects to derive benefit from the asset. There is no valuation difference between the Solvency II balance sheet and the IFRS statutory accounts. Where property, plant and equipment relates to a right-of-use lease asset, the right-of-use asset is initially measured at cost and subsequently depreciated using the straight-line method from commencement date to the end of the lease term. There is no valuation difference between the Solvency II balance sheet and IFRS statutory accounts for the right-of-use assets.</p>

Section D – Valuation for Solvency Purposes continued

D.1 ASSETS AND LIABILITIES CONTINUED

D.1.2 ASSET AND LIABILITY VALUATION BASES, METHODS AND MAIN ASSUMPTIONS CONTINUED

Note	Balance Sheet Item	Valuation Principles
5	Investments (other than assets held for index-linked and unit-linked contracts)	<p>In line with IFRS, the value of investments (other than assets held for index-linked and unit-linked contracts) are determined using a fair value methodology as follows:</p> <ul style="list-style-type: none"> • For financial instruments traded in active markets (such as exchange traded securities and derivatives), fair value is based on quoted market prices at the period end provided by recognised pricing services. Market depth and bid-ask spreads are used to corroborate whether an active market exists for an instrument; • Where quoted market prices are not available, quoted market prices for similar assets or liabilities are used to determine the fair value; • Where either of the above are not possible, alternative valuation methods are used to determine fair value. Where discounted cash flow techniques are used, future cash flows are based on contractual cash flows using current market conditions and market-calibrated discount rates and interest rate assumptions for similar instruments; and • Certain financial instruments are determined by valuation techniques using non-observable market inputs based on a combination of independent third party evidence and internally developed models. Further details are included in section D.4.1.

Holdings in related undertakings, including participations comprise of Collective Investment Undertakings where the Company holds a greater than 20% interest (where the interest is less than 20% it is included within 'Collective Investment Undertakings' line). Any investments in Collective Investment Undertakings related to unit-linked contracts are included as Assets held for index-linked and unit-linked contracts.

In both the Company's IFRS statutory accounts and the Solvency II balance sheet, **Government bonds** are valued using quoted market prices provided by recognised pricing sources. For **corporate bonds** listed on a recognised stock exchange, quoted market prices are used. For other corporate bonds, these instruments are valued using pricing data received from external pricing providers or in some cases using broker quotes where observable market data is unavailable. For a small number of investment vehicles and debt securities, standard valuation models (based on a discounted cash flow approach) are used, as by their nature and complexity, they have no external market. Inputs into such models are based on observable market data where applicable.

In both the Company's IFRS statutory accounts and the Solvency II balance sheet, interests in pooled investment funds, including holdings in property collective investment schemes (referred to as **Collective Investments Undertakings** Under Solvency II) are held at fair value. The Company receives valuations from investment managers of the underlying funds, based on quoted market prices. Where quoted prices are not available they are estimated using pricing models or discounted cash flow techniques. Where pricing models are used, inputs are based on market-related data at the period end.

In both the Company's IFRS statutory accounts and the Solvency II balance sheet, **derivative assets** are held at fair value. The fair value of OTC assets is estimated using pricing models, with inputs based on market-related data at the period end. The fair value of exchange traded securities is based on quoted market prices at the period end provided by recognised pricing services.

Deposits other than cash and cash equivalents comprise short-term deposits that cannot be used to make payments before a specific maturity date or without any penalty.

Section D – Valuation for Solvency Purposes continued

D.1 ASSETS AND LIABILITIES CONTINUED

D.1.2 ASSET AND LIABILITY VALUATION BASES, METHODS AND MAIN ASSUMPTIONS CONTINUED

Note	Balance Sheet Item	Valuation Principles
6	Assets held for index-linked and unit-linked contracts	Assets held for unit-linked funds are measured based on the fair value of the underlying assets and liabilities (other than technical provisions) held within such funds. Under IFRS, assets and liabilities of unit-linked contracts are separately reported on a line-by-line basis. Under Solvency II, all assets and liabilities backing unit-linked contracts are reported on a single line in 'assets held for index-linked and unit-linked contracts'.
7	Loans and mortgages	Assets categorised as Loans and mortgages in the Solvency II balance sheet include loans to individuals and loans on policies. In the Company's IFRS statutory accounts, loans to individuals are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method, less any impairment losses. The IFRS accounting values do not differ materially from the fair values and hence there is no valuation difference between the Solvency II balance sheet and the IFRS statutory accounts.
8	Reinsurance recoverables	The value of reinsurance recoverables is dependent on the expected claims and benefits arising under the related reinsured policies. To the extent that the Solvency II valuation of the related technical provisions differs to the valuation under IFRS, the valuation of the related reinsurance recoverable will also be impacted. Further details on the calculation approach for Solvency II reinsurance recoverables are included in section D.2.8.
9	Insurance and intermediaries receivables, Reinsurance receivables	Given their short-term nature, the carrying amount per the IFRS financial statements is considered to represent the fair value for these assets under Solvency II.
10	Receivables (trade, not insurance)	In the Company's IFRS statutory accounts, trade and other receivables (including prepayments) are recorded at amortised cost. From Q2 2019, to align with PGH methodology, prepayments were removed from the Solvency II amount, as under PGH methodology prepayments are treated similarly to intangibles. This gives rise to the difference in the Solvency II and IFRS positions.
11	Cash and cash equivalents	Cash and cash equivalents comprise of cash balances that are usable for all forms of payments without penalty or restriction.
12	Technical provisions (BEL plus risk margin)	Details regarding the valuation of technical provisions are covered in section D.2.
13	Provisions other than technical provisions	Consistent with IFRS, under Solvency II, a provision is recognised when the Company has a present legal or constructive obligation, as a result of a past event, which is likely to result in an outflow of resources and where a reliable estimate of the amount of the obligation can be made. If the effect is material, the provision is determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Includes pension benefit obligations.
14	Derivatives	In the Company's IFRS statutory accounts and under Solvency II, the fair values of OTC derivative liabilities are estimated using pricing models, with inputs based on market-related data at the period end. The fair value of exchange-traded securities is based on quoted market prices at the period end provided by recognised pricing services.
15	Debts owed to credit institutions	Debts owed to credit institutions consist of the bank overdraft liabilities. These are short term in nature and are valued at fair value, i.e. amounts payable on the balance sheet date.

Section D – Valuation for Solvency Purposes continued

D.1 ASSETS AND LIABILITIES CONTINUED

D.1.2 ASSET AND LIABILITY VALUATION BASES, METHODS AND MAIN ASSUMPTIONS CONTINUED

Note	Balance Sheet Item	Valuation Principles
16	Insurance and intermediaries payables, Reinsurance payables	These are short term in nature and are valued at amortised cost. This approximates the fair value valuation basis under Solvency II for these liabilities.
17	Payables (trade, not insurance)	In the Company's IFRS statutory accounts, trade payables are recorded at amortised cost. This approximates the fair value valuation basis under Solvency II for these liabilities. Accordingly, there are no valuation differences between the IFRS statutory accounts and the Solvency II balance sheet.
18	Any other liabilities not elsewhere shown	This balance sheet caption relates to deferred income balances. In the Company's IFRS statutory accounts, front-end fees on certain service contracts, including investment management service contracts, are deferred as a liability and amortised. In accordance with the Solvency II valuation rules, nil value has been allocated to deferred income balances.

D.1.3 ANALYSIS OF DEFERRED TAX

Deferred tax on the Solvency II balance sheet is recognised by reference to expected future taxable profits and valued based on the differences between the carrying value in the balance sheet and its tax base. Under Solvency II, the Deferred Tax Liability exceeds the Deferred Tax Asset, leading to a net liability position at 31 December 2019.

From a Statutory Accounts perspective, following the Part VII transfer in March 2019, the SLIDAC Deferred Tax Asset ('DTA') is made up of €3,289k of DTA on historic losses within SLIDAC, €729k of DTA on losses relating to the Irish transfer business and €18k of DTA on in-year losses for the whole portfolio.

A comparison of the Solvency II and IFRS Deferred Tax is shown in the table below.

Item	Solvency II – Ireland (€'000)	Solvency II – Germany (€'000)	Solvency II – Ireland Policyholder (€'000)	Total Solvency II (€'000)	Statutory Accounts (€'000)
Losses Carried Forward recognised as DTA	146,752	507,219		653,971	32,291
Deferred Tax Asset (12.5% of Losses Carried Forward, 32% for Germany)	18,344	162,310		180,654	4,036
Timing Differences between S2 and IFRS:					
• Remove DAC/DIR	(111,907)			(111,907)	
• Remove Intangibles	(168)			(168)	
• Remove IFRS Reserves	215,634	250,923		466,558	
• Add Solvency II Best Estimate Liabilities	136,043	(30,444)		105,599	
• Add Solvency II Risk Margin	(80,324)	(194,366)		(274,690)	
Total Timing Differences	159,279	26,113		185,392	
Deferred Tax Liability (12.5% of Timing Differences for Ireland, 32% for Germany)	19,910	8,356		28,266	
Statutory Accounts Deferred Tax Liability – Unit Linked					8,765
Policyholder Deferred Tax – HWPF			972	972	972
Total Deferred Tax Liability	19,910	8,356	972	29,238	9,737
Net Deferred Tax Liability Position	1,566	–	972	2,538	5,700

Section D – Valuation for Solvency Purposes continued

D.2 TECHNICAL PROVISIONS

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

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

D.2.1 INTRODUCTION

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

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

The value of technical provisions is determined as the sum of technical provisions calculated as a whole, a best estimate, and a risk margin. Technical provisions calculated as a whole are the full value of the policyholder unit-linked investment funds, as these are made up of assets which have a reliable observable market value.

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

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

The best estimate and the risk margin are calculated separately.

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

The valuation approach is summarised in subsequent sections.

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

Section D – Valuation for Solvency Purposes continued**D.2 TECHNICAL PROVISIONS CONTINUED****D.2.2 TECHNICAL PROVISIONS BY LINE OF BUSINESS**

This section provides technical provisions split by Solvency II LoB as at 31 December 2019, including the amount of Best Estimate Liability ('BEL'), Technical Provisions ('TPs') as a whole and risk margin.

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

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

At 31 December 2019, the contribution to technical provisions from each line of business was as follows:

Technical provisions by Line of Business	Insurance with-profit participation €'000	Index-linked and unit linked insurance €'000	Health insurance €'000	Other Life insurance €'000	Total technical provisions €'000
Best Estimate Liabilities	14,708,917	(450,141)	165,532	763,843	15,188,151
Risk margin	173,406	82,564	1,971	15,694	273,635
Technical provisions as a whole	–	15,472,902	–	–	15,472,902
Gross technical provisions	14,882,323	15,105,325	167,503	779,537	30,934,689

Within each of these groups, the valuation of cash flows is determined at policy level, except that similar policies are grouped together when appropriate for the purposes of the stochastic modelling of with-profits liabilities. The Technical Provisions as a Whole for Index-linked and unit-linked insurance business includes the BEL in respect of the EFL arrangement between SLAL and SLIDAC.

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

Section D – Valuation for Solvency Purposes continued

D.2 TECHNICAL PROVISIONS CONTINUED

D.2.2 TECHNICAL PROVISIONS BY LINE OF BUSINESS CONTINUED

The table below outlines separately for each LoB, the material differences between the bases, methods and main assumptions used for Solvency II and those used for IFRS.

Technical provisions – IFRS to Solvency II reconciliation	Note	Insurance with-profit participation €'000	Index-linked and unit-linked insurance €'000	Health insurance €'000	Other Life insurance €'000	Total technical provisions €'000
Statutory accounts value technical provisions – gross		15,678,591	15,519,566	163,159	738,844	32,100,161
Statutory accounts value reinsurance		(15,687,008)	(890,605)	(162,421)	(404,268)	(17,144,302)
Statutory accounts value technical provisions – net		(8,417)	14,628,961	739	334,577	14,955,859
Change to discount curve	1	–	4,771	14	6,724	11,509
Change in restriction for negative sterling reserves	2	–	(482,415)	–	–	(482,415)
Demographic margin	3	–	–	–	(14,345)	(14,345)
Other	4	(27,802)	–	64	17,502	(10,236)
Solvency II Best Estimate Liabilities – net		(36,219)	14,151,316	817	344,458	14,460,372
Add Risk Margin		173,406	82,564	1,971	15,694	273,635
Solvency II technical provisions – net		137,187	14,233,880	2,788	360,152	14,734,007
Solvency II reinsurance		14,745,136	871,445	164,716	419,384	16,200,681
Solvency II technical provisions – gross		14,882,323	15,105,325	167,503	779,537	30,934,689

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

Note	Item	Description
1	Change to discount curve	Liabilities are valued using a discount rate derived from the EIOPA swap curve less a credit risk adjustment of 10bps under Solvency II. For IFRS they are valued using a discount rate from the EIOPA swap curve plus an illiquidity adjustment of 10bps.
2	Change in restriction for negative sterling reserves	The term 'sterling reserves' represents reserves set aside to cover future cash flow obligations on unit-linked policies, over and above the value of units held. For Solvency II, negative sterling reserves are allowed as a reduction to technical provisions. For IFRS, negative sterling reserves are disallowed and set to zero. This effectively includes removing Sterling reserves calculated under IFRS and adding unit-linked PVIF.
3	Demographic margin	A margin for demographic risk is included within the IFRS technical provisions. This item is based on a percentage of undiversified demographic risk capital, relating to mortality, longevity, persistency and expenses. Solvency II does not require this margin to be held over and above best estimate.
4	Other	The 'other' line contains the profit margin on the reinsurance arrangement the Company has with SLAL.

Section D – Valuation for Solvency Purposes continued

D.2 TECHNICAL PROVISIONS CONTINUED

D.2.3 BASES, METHODOLOGY AND MAIN ASSUMPTIONS USED FOR BEST ESTIMATE LIABILITY

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

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

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

The best estimate and the risk margin are calculated separately. The exception is where the future cash flows can be replicated reliably using financial instruments for which a reliable market value is observable (such as unit-linked funds), in which case the value of technical provisions equals the market value of those financial instruments (technical provisions as a whole).

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

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

The valuation approach for the BEL is summarised in subsequent sections.

D.2.3.1 Best Estimate Liability

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

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

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

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

D.2.3.2 Overview of Methodology

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

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

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

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

Section D – Valuation for Solvency Purposes continued

D.2 TECHNICAL PROVISIONS CONTINUED

D.2.3 BASES, METHODOLOGY AND MAIN ASSUMPTIONS USED FOR BEST ESTIMATE LIABILITY CONTINUED

D.2.3.3 Discount Rates

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

An adjustment (also specified by EIOPA) is made to the swap curve for credit risk. At 31 December 2019, the Sterling credit risk adjustment was minus 10bps, and for Euros minus 10bps at each duration.

D.2.3.4 Tax Assumptions

The mainstream tax rate is 12.5% for profits arising in Ireland and 32% for profits arising in Germany.

D.2.3.5 Contract Boundaries

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

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

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

D.2.3.6 Grouping of Liability Data

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

D.2.4 CALCULATION

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

Section D – Valuation for Solvency Purposes continued

D.2 TECHNICAL PROVISIONS CONTINUED

D.2.4 CALCULATION CONTINUED

D.2.4.1 Insurance with-profit participation

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

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

The 'asset share' is a measure of the with-profits policy value at the valuation date. In addition to the asset share, Best Estimate Liabilities include an allowance for the following cash flows:

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

Additional liabilities arise in respect of the Company's treatment of smoothing on with-profits claims and with-profits payout practice in respect of unitised pension business ('vintage unit' approach).

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

In practice, these requirements are interpreted as being equivalent to a current value of the policy at the valuation date (asset share) plus a valuation of future guarantee (and other) costs calculated on a stochastic basis. Therefore, depending on the contract type, the BEL for with-profits contracts is made up of the following components:

- Asset share.

Less present value of:

- Deduction for guarantees.
- Future profits.

Plus present value of:

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

Section D – Valuation for Solvency Purposes continued

D.2 TECHNICAL PROVISIONS CONTINUED

D.2.4 CALCULATION CONTINUED

D.2.4.1 Insurance with-profit participation continued

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

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

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

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

The key assumptions used in the projection are the simulated investment returns, charges, expenses, best estimate persistency and mortality rates. The approach to determining the simulated future investment returns ('ESG') and the best estimate persistency and mortality/longevity rates are covered in sections D.2.6.1 and D.2.5.1 respectively.

D.2.4.2 Other life insurance – annuities

This category of business covers the following contract classes:

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

Valuation approach

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

Section D – Valuation for Solvency Purposes continued

D.2 TECHNICAL PROVISIONS CONTINUED

D.2.4 CALCULATION CONTINUED

D.2.4.2 Other life insurance – annuities continued

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

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

D.2.4.3 Other life insurance – protection and other business (including health)

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

The non-investment component of with-profits business is included within this line of business and is valued in the same way as unit-linked PVIF (covered in section D.2.4.4).

Valuation Approach

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

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

Best Estimate Liabilities are calculated excluding any reinsurance cash flows, with a separate valuation of the reinsurance asset allowing for reinsurance recoveries receivable and reinsurance premiums payable. These cash flows are discounted using the relevant Solvency II yield curve.

D.2.4.4 Index-linked and unit-linked business

The unitised contracts include the following policy types: UK Offshore Bond, Ireland unitised life, Ireland unitised pensions and Germany unit-linked.

The UK and Ireland life product types include bonds and endowments, and pension product types include group pensions, individual pensions, and stakeholder pensions. Policies that have units in both unit-linked and UWP funds are referred to as 'hybrid' policies. The valuation of the UWP related cash flows are described in section D.2.4.1. The unit-linked product in Germany is a deferred annuity contract with an option to take the benefits in cash at retirement. A loyalty bonus may be payable.

Valuation Approach

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

The overall technical provision for a unit-linked contract then comprises the following components:

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

The best estimate is required to be a probability weighted average of future cash flows. The PVIF is calculated deterministically. To calculate the PVIF, best estimate charge income and expense cash flows are projected, with the unit fund rolled up at the same risk-free interest rate term structure that is used for discounting the net cash flows. The projection is carried out using best estimate assumptions. The Solvency II yield curve and other best estimate assumptions are described in Sections D.2.3.3 and D.2.5.

Section D – Valuation for Solvency Purposes continued

D.2 TECHNICAL PROVISIONS CONTINUED

D.2.4 CALCULATION CONTINUED

D.2.4.4 Index-linked and unit-linked business continued

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

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

D.2.5 DEMOGRAPHIC AND EXPENSE ASSUMPTIONS

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

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

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

Best estimate expense assumptions on a per policy basis are derived from an analysis of management expenses. This allows for all expenses incurred in servicing policies, including overheads, assuming that the Company continues to write new business. The investment management expense assumptions are derived as the best estimate of the future charges expected to be paid to Standard Life Investments, reflecting current investment management agreements, varying by the nature of assets backing technical provisions.

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

Assumptions used in the valuation of technical provisions are reviewed regularly. The most significant changes during 2019 were as follows:

- For both the German and Irish persistency rates, the main changes are due to the use of 5 years' worth of experience and correcting for higher persistency rates observed in 2019 due to Brexit when applying this method.
- For the German expenses, the main changes are due to taking the AOP budget 2023 as a basis for the long-term assumptions. These are set under a going concern scenario and allow for a Future Management Action plan ('FMA') that accompanies the Annual Operating Plan ('AOP'). The FMA sets out the ways in which the company plans to stabilise the inforce policy count over a number of years.
- Investment expenses have been updated to reflect strategic changes in asset holdings over the year and recent fees.
- Approach for base longevity reviewed to give Irish data more weighting when setting assumptions which were previously combined UK & Irish assumptions prior to Part VII transfer to SLIDAC. This reflects generally lighter Irish experience compared to UK experience and therefore increases SII BEL.

Section D – Valuation for Solvency Purposes continued

D.2 TECHNICAL PROVISIONS CONTINUED

D.2.5 DEMOGRAPHIC AND EXPENSE ASSUMPTIONS CONTINUED

D.2.5.1 Mortality

Mortality

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

Longevity

Insurance with-profit participation	This assumption is used to value guaranteed annuity terms, and varies by: age, gender, territory.
Unit-linked	n/a
Health	n/a
Other life insurance	Varies by: age, gender, compulsory purchase or purchased life annuity, individual or group business, immediate or deferred annuity and territory.

Proportions Married

Insurance with-profit participation	n/a
Unit-linked	n/a
Health	n/a
Other life insurance	Varies by: individual or group business, immediate or deferred annuity, territory

D.2.5.2 Persistency

Persistency

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

Premium Indexation

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

Drawdown & Withdrawal Rates

Insurance with-profit participation	n/a
Unit-linked	Varies by: product, policy size and policyholder age
Health	n/a
Other life insurance	n/a

Section D – Valuation for Solvency Purposes continued

D.2 TECHNICAL PROVISIONS CONTINUED

D.2.5 DEMOGRAPHIC AND EXPENSE ASSUMPTIONS CONTINUED

D.2.5.3 Option take-up rates

Option Take-Up Rates

Insurance with-profit participation	The valuation of guaranteed annuities requires assumptions about the future guaranteed annuity and tax free cash take-up rates. The assumption varies depending on territory, product and the age at which the guarantee applies.
Unit-linked	n/a
Health	n/a
Other life insurance	n/a

D.2.5.4 Expense assumptions

Expense Assumptions

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

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

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

D.2.6 STOCHASTIC MODEL

D.2.6.1 Economic Scenario Generators

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

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

Section D – Valuation for Solvency Purposes continued

D.2 TECHNICAL PROVISIONS CONTINUED

D.2.6 STOCHASTIC MODEL CONTINUED

D.2.6.2 Management actions

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

D.2.6.3 Policyholder Actions

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

D.2.7 SOLVENCY II LONG TERM GUARANTEE AND TRANSITIONAL MEASURES

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

D.2.7.1 Matching Adjustment and Volatility Adjustment

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

D.2.7.2 Transitional Measures for Technical Provisions

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

D.2.8 RECOVERABLES ON REINSURANCE CONTRACTS

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

As part of the transfer of Irish, German and Austrian business in March 2019, the Company entered into a number of internal reinsurance arrangements with SLAL set up by treaty, covering Irish and German business.

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

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

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

D.2.8.1 Assessment of Reinsurers' Default Risk (Counterparty Default Adjustment)

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

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

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

The probability of default assumption is determined based on the credit rating of each counterparty using Article 199 of the Solvency II Delegated Acts. Loss given default assumptions are specific to the nature of the exposure.

D.2.9 SIMPLIFICATIONS

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

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

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

Section D – Valuation for Solvency Purposes continued

D.2 TECHNICAL PROVISIONS CONTINUED

D.2.10 UNCERTAINTY ASSOCIATED WITH THE VALUE OF TECHNICAL PROVISIONS

The valuation techniques adopted are in line with generally accepted actuarial principles and Solvency II requirements. The level of uncertainty associated with the amount of technical provisions primarily relates to assumed future experience.

The valuation of liabilities requires assumptions about the future (e.g. longevity/mortality, persistency, option take-up, expenses, economic conditions, management actions), which are inevitably the source of some uncertainty. While the approach adopted by the Company leads to its best estimate of future expected experience, there can be a number of alternative similarly justifiable assumptions. For example, a range of assumptions regarding the rate of future improvements in longevity could be considered reasonable. This is also particularly relevant to the treatment of future policyholder behaviour, where there is limited reliable data to support a scale of dynamic lapse rates which would allow for rates to vary depending on projected economic conditions.

Given this lack of data, the complexity that a model for dynamic persistency would entail and the uncertainty in the related assumptions, a simpler approach to modelling lapse behaviour is adopted, which appropriately takes into account anti-selective behaviour.

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

Overall, the vast majority of the Company's business is explicitly modelled in the way summarised in previous sections.

D.2.11 RISK MARGIN

The value of technical provisions is equal to the sum of a best estimate and a risk margin (plus technical provisions as a whole).

The risk margin is held in respect of non-hedgeable risks and is required to ensure that the value of the technical provisions is equivalent to the amount that insurance undertakings would be expected to require in order to take over and meet the insurance obligations.

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

In theory, the calculation of the risk margin involves a projection of future SCRs. A simplified approach to determining these SCRs is permitted by the regulations and this has been implemented using a risk driver-based approach. For each risk and product group, a risk driver is chosen that approximates the expected run-off pattern of the capital relating to that risk. For example, the present value of future expenses at each future date will drive the expense risk capital at that date so this is selected as the risk driver for expense risk. The appropriate risk drivers are regularly reviewed. This ensures that they accurately reflect the size of the risk exposure and that the run-off of the risk driver is consistent with, and materially captures the run-off of the underlying risk.

D.3 OTHER LIABILITIES

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

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

Section D – Valuation for Solvency Purposes continued**D.4 ALTERNATIVE METHODS FOR VALUATION**

This section provides details on the methods and assumptions used to determine the fair values of assets and other liabilities (other than technical provisions). More information about the valuation methods used for accounting purposes, including a fair value hierarchy, is provided in note 32 of the Company's Annual Financial Statements 2019.

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

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

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

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

D.4.1 ALTERNATIVE VALUATION METHODS – ASSETS

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

Asset	Solvency II Value €'000	Alternative Valuation Method
Property, plant and equipment held for own use	1,514	Property is valued using Royal Institution of Chartered Surveyors ('RICS') Appraisal and valuation methodology. Equipment is stated at historical cost less depreciation. Cost includes the original purchase price of the assets and the costs attributable to bring the asset to its working condition for its intended use. Depreciation on equipment is charged to the income statement on a straight-line basis over their estimated useful. The residual values and useful lives of the assets are reviewed at each reporting date and adjusted if appropriate.
Loans and mortgages	48,502	Loans are initially measured at fair value plus directly attributable transaction costs. Subsequently, other than those loans designated at FVTPL, they are measured at amortised cost, using the effective interest rate method ('EIR'), less any impairment losses. Revenue from financial assets classified as loans is recognised in the income statement on an EIR basis.

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

D.4.2 ALTERNATIVE VALUATION TECHNIQUES – LIABILITIES

The company does not use alternative valuation techniques for any of its financial liabilities.

D.5 ANY OTHER INFORMATION

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

SECTION E

CAPITAL

MANAGEMENT

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SECTION E

CAPITAL MANAGEMENT

E.1 OWN FUNDS

E.1.1 INTRODUCTION

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

A Solvency II capital assessment involves valuation of Own Funds in line with Solvency II regulations and a risk-based assessment of the SCR. Solvency II surplus is the excess of Eligible Own Funds over the SCR. The Company holds an amount of Eligible Own Funds that is greater than the SCR to allow for adverse events in the future that may reduce Own Funds and might otherwise cause failure to maintain the minimum level of regulatory capital, the Minimum Capital Requirement ('MCR').

Key Solvency metrics

At 31 December 2019, the capital position for the Company is presented in the table below:

	31-Dec-19 €'000	31-Dec-18 €'000	31-Dec-18 €'000
Eligible Own Funds	568,599	128,565	115,398
SCR	438,349	92,444	82,977
Solvency II surplus	130,250	36,121	32,421
Ratio of Eligible Own Funds to SCR	130%	139%	139%

As at 31 December 2019, the Company's Solvency II surplus over the Company SCR is €130,250k, with a ratio of Eligible Own Funds to SCR of 130%. 100% of the Company's Eligible Own Funds are unrestricted Tier 1, and are principally comprised of ordinary share capital, share premium account related to ordinary share capital and the reconciliation reserve.

All the required SCR quantitative limits have been complied with by the Company, and result in no restrictions nor are any Own Funds required to be relegated to lower tiers. Further details regarding the capital position of the Company are set out in this section.

E.1.2 MANAGEMENT OF OWN FUNDS

Following the sale of the Company to PGH, the Company has continued to adopt its existing capital framework. Harmonisation with the PGH Group capital management framework is due to be completed during 2020. Details of the Company's current liquidity and management policy are provided below.

The Company closely monitors its current and projected solvency position and risk exposures, and has a series of triggers for further action. The Company's capital position is also tested under a series of stressed scenarios. The Company's capital needs and stresses are considered over a five-year planning horizon on a rolling basis.

The Company actively seeks to ensure that its capital position can be maintained at a viable level to continue to operate the business under stress, in order to protect policyholders, customers and other key stakeholders. Within this overriding framework, the Company seeks to optimise its use of capital to maximise returns for shareholders and policyholders at an appropriate level of rewarded risk, and to manage its operations effectively to minimise or eliminate unrewarded risk.

The Company primarily manages its capital position by reference to its Capital Targets Framework. The key component of the Framework is the intention to maintain a minimum capital coverage under the most onerous of a range of plausible stress scenarios which are reviewed at least tri-annually. The Framework is used to inform all key board decisions with capital implications, in particular dividend proposals, investment strategy, capital planning and other management actions.

Section E – Capital Management continued**E.1 OWN FUNDS CONTINUED****E.1.2 MANAGEMENT OF OWN FUNDS CONTINUED**

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

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

E.1.3 STRUCTURE AND QUALITY OF OWN FUNDS

Own Funds are split into Tiers in line with the regulations. There are three 'Tiers' based on both 'permanence' and 'loss absorbency' (Tier 1 being the highest quality). Tier 1 is further divided into 'unrestricted' and 'restricted' Tier 1. Own Funds which are classified as 'unrestricted' Tier 1 include share capital, surplus funds and the reconciliation reserve.

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

E.1.4 ANALYSIS OF SOLVENCY POSITION

The table below summarises the SLIDAC solvency position at 31 December 2019. The Own Funds QRT S.23.01.22 can also be found in Appendix 1.

Description	Section Reference	Unrestricted Tier 1 €'000	Tier 2 €'000	Tier 3 €'000	31 December 2019 Total €'000	31 December 2018 Total €'000	31 December 2018 Total €'000
Ordinary Share Capital	E.1.4.1	50,020	–	–	50,020	41,718	37,446
Share Premium account related to Ordinary Share Capital	E.1.4.1	348,168	–	–	348,168	48,482	43,517
Surplus Funds	E.1.4.1	–	–	–	–	–	–
Reconciliation reserve (pre-availability restrictions)	E.1.4.1	170,411	–	–	170,411	38,364	34,435
Net Deferred Tax Assets	E.1.4.1	–	–	–	–	–	–
Excess of Assets over Liabilities		568,599	–	–	568,599	128,565	115,398
Subordinated Liabilities	E.1.4.1	–	–	–	–	–	–
Total Basic and Available Own Funds		568,599	–	–	568,599	128,565	115,398
Ring-fenced fund restriction	E.1.4.2	–	–	–	–	–	–
Eligible Own Funds to meet SCR		568,599	–	–	568,599	128,565	115,398
SCR	E.2.1				(438,349)	(92,444)	(82,977)
Solvency II surplus					130,250	36,121	32,421
Ratio of Eligible own funds to SCR	E.1.1				130%	139%	139%
Eligible Own Funds to meet MCR					568,599	128,565	115,398
MCR					(109,587)	(41,600)	(37,340)
Excess over MCR					459,012	86,965	78,058
Ratio of Eligible own funds to MCR					519%	309%	309%

Section E – Capital Management continued**E.1 OWN FUNDS** CONTINUED**E.1.4 ANALYSIS OF SOLVENCY POSITION** CONTINUED**E.1.4.1 Basic Own Funds**

The Company's Basic Own Funds total €568,599k (2018:€128,565k) and comprise of ordinary share capital, share premium account related to ordinary share capital, surplus funds, a reconciliation reserve and deferred tax assets. Further details regarding each Basic Own Funds item are set out below.

Ordinary Share Capital

The Company's issued and fully paid ordinary share capital is €50,020k and is treated as Tier 1 unrestricted Own Funds. The Company's Articles of Association allow cancellation of the payment of dividends (or other distributions) on ordinary shares prior to payment in certain circumstances, where it may be necessary or appropriate to do so because of legal, regulatory, capital or solvency requirements.

Share Premium Account Related to Ordinary Share Capital

The share premium account related to ordinary share capital of €348,168k is treated as Tier 1 unrestricted Own Funds.

Tier 2 capital

No amounts were held in relation to Tier 2 capital for the year to 31st December 2019 (2018: €nil)

Reconciliation Reserve

The reconciliation reserve is the amount of excess assets over liabilities (valued in accordance with the Solvency II regulations and guidance) that remain once all the other identified elements of basic own funds have been deducted. As such, it serves to ensure that the total of all the individual basic own funds items are equal to the total excess of assets over liabilities and subordinated liabilities. The reconciliation reserve is treated as Tier 1 unrestricted Own Funds. Further details regarding the impact of various sensitivities on the excess of assets over liabilities which forms part of the Own Funds calculation are set out in section C.7. The reconciliation reserve is calculated as follows:

	31 December 2019 €'000	31 December 2018 €'000	31 December 2018 £'000
Reconciliation Reserve			
Excess of Assets over Liabilities	568,599	128,565	115,398
Deduct other Basic Own Fund Items			
Ordinary Share Capital	(50,020)	(41,718)	(37,446)
Share Premium Account related to ordinary share capital	(348,168)	(48,482)	(43,517)
Surplus Funds	–	–	–
Net deferred tax asset – Tier 3	–	–	–
Reconciliation Reserve pre-availability restrictions	170,411	38,364	34,435
Ring Fenced Fund Restriction	–	–	–
Reconciliation Reserve Total (as shown on Own Funds QRT)	170,411	38,364	34,435

Deferred Tax Assets

Under Solvency II regulations and guidance, the value of any net shareholder deferred tax assets must be deducted from Tier 1 own funds and recognised as Tier 3. Deferred tax assets and liabilities are netted where legal offset is permitted. At 31 December 2019, there was no recognition of net deferred tax asset as Tier 3 Capital.

Section E – Capital Management continued

E.1 OWN FUNDS CONTINUED

E.1.4 ANALYSIS OF SOLVENCY POSITION CONTINUED

E.1.4.2 Analysis of Movement in Capital Position

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

Analysis of Movement in Solvency Position	Note	Own Funds €'000	SCR €'000	Solvency II Surplus €'000
Opening position at 1 January 2019		128,565	92,444	36,120
Part VII Transfer	1	197,870	346,000	(148,130)
Capital Injection	1	287,100	–	287,100
Expected Run-Off	2	–	(28,692)	28,692
New Business	3	6,138	17,435	(11,298)
Management Actions	4	–	(26,742)	26,742
Demographic Experience Variances (including changes to assumptions)	5	(45,588)	(34,713)	(10,876)
Economic Variances on Long-Term Business	6	29,698	72,617	(42,919)
Movement in Risk Margin	7	(35,182)	–	(35,182)
Closing position at 31 December 2019		568,599	438,349	130,250

Note	Item	Information
1	Capital Items	This relates to the transfer of the German, Austrian and Irish business, along with the corresponding capital support received from PHG.
2	Expected Run-Off	Policy run-off over the year resulted in the release of the related SCR requirements and increased the Solvency II surplus by €28,692k.
3	New Business	Increase in the value of future charges less future expenses as a result of writing new business, offset by the acquisition costs and increase in capital requirements. Note the value of expected future premiums is not included on the Solvency II balance sheet, and the movement in the risk margin due to new business is not included in this item.
4	Management Actions	Management actions throughout the year have increased the Solvency II surplus by €26,742k. This principally comprised a reduction in the SCR due to the implementation of a currency hedge to provide protection against the impact of a fall in the value of non-euro currencies.
5	Demographic Experience Variances	This item covers variances in experience versus plan and also the impact of assumption changes made in the second half of 2019 to more accurately reflect recent and expected persistency and expense experience. The impact of a modelling improvement in the calculation of the Mass Lapse SCR module is also included here.
6	Economic Variances on Long-Term Business	Economic variances on long-term business decreased the Solvency II surplus by €42,919k over the year. The movement in Own Funds in the shareholder environment was a result of market movements throughout 2019. These movements had a corresponding impact on the SCR through the cost of providing guarantees on with-profits business, which has a second-order impact on SLIDAC through the Counterparty Default Calculation. Also included in this item is the impact of moving reporting currency from GBP to Euro.
7	Movement in Risk Margin	Changes in risk margin as a result of the Part VII transfer, along with economic variances throughout the year (described above), decreased the overall Solvency II surplus by €35,182k.

Section E – Capital Management continued

E.1 OWN FUNDS CONTINUED

E.1.4 ANALYSIS OF SOLVENCY POSITION CONTINUED

E.1.4.3 Reconciliation of IFRS Equity to Excess of Assets over Liabilities

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

Section	31 December 2019 €'000	31 December 2018 €'000	31 December 2018 €'000
Total Equity per IFRS	535,894	88,223	79,188
Valuation differences:			
Assets increase/(decrease):			
Intangible Assets/Deferred Acquisition Costs	D.1.2 (234,331)	(45,177)	(40,550)
Reinsurance Recoverables	D.1.2 (1,061,143)		
Deferred Tax Assets	D.1.2 (4,036)	(1,758)	(1,578)
Any other assets not elsewhere shown	(2,974)		
Liabilities increase/(decrease):			
Technical Provisions	D.2.2 1,282,805	87,276	78,337
Deferred Tax Liabilities	D.1.2 (1,566)		
Any other liabilities not elsewhere shown	D.1.2 53,951		
Total liabilities valuation differences			
Excess of assets over liabilities	D.1.2 568,599	128,565	115,398

E.2 SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT

E.2.1 SOLVENCY CAPITAL REQUIREMENT

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

The Company's SCR at 31 December 2019 is presented below.

Analysis of SCR – 31 December 2019	Note	SL Intl Standard Formula €'000
Underwriting Risk (i.e. insurance risk)	1	229,626
Market & credit risk	2	359,000
Liquidity risk	3	
Operational risk	4	78,310
Other risks	5	
Total undiversified SCR		666,936
Diversification benefits	6	(228,587)
Total SCR		438,349

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

Section E – Capital Management continued**E.2 SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT CONTINUED****E.2.1 SOLVENCY CAPITAL REQUIREMENT CONTINUED**

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

Note	Risk module	Information
1	Underwriting risk	Underwriting risk (i.e. insurance risk) is the risk that the frequency and severity of insured events may be worse than expected. The main sources of insurance risk are lapse risk, longevity risk and expense risk. More details on these risks are included in section C.1.
2	Market and credit risk	Market risk is the risk that the fair value of future cash flows of a financial instrument fluctuates because of changes in market influences. More details on these risks are included in section C.2. Credit risk is the risk that a party to a financial instrument will cause financial loss for the other party by failing to discharge an obligation. These obligations can relate to both on and off balance sheet assets and liabilities. More details on these risks are provided in section C.3.
3	Liquidity risk	Liquidity risk is defined as the failure of the Company to maintain adequate levels of financial resources to enable it to meet its obligations as they fall due. More details on these risks are provided in section C.4.
4	Operational risk	Operational risk is the risk of reduction in earnings and/or value, through financial or reputational loss, from inadequate or failed internal processes and systems, or from people related or external events. Details of the sources of operational risk are provided in section C.5.
5	Other risks	There are no other material risks to which SLIDAC is exposed.
6	Diversification benefits	Diversification arises when the adverse outcome from one risk can be offset by a more favourable outcome from another risk, where those risks are not perfectly correlated. Diversification benefits are determined using a full risk distribution approach. The impact of deferred tax is also included in this item.

E.2.2 CHANGES IN SCR

The material changes in the SCR and reasons thereof are set out in section E.1.4.2.

Section E – Capital Management continued**E.2 SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT CONTINUED****E.2.3 MINIMUM CAPITAL REQUIREMENT**

The Minimum Capital Requirement ('MCR') applies to EEA-based insurance undertakings. The MCR represents an absolute floor to the level of eligible own funds that the insurance undertaking is required to hold under Solvency II. If the level of own funds falls below the MCR, the CBI would intervene. The MCR should correspond to the amount of capital needed to ensure that the insurance undertakings will be able to meet their obligations over the next 12 months with a probability of at least 85%. It is bound between 25% (or €3.7m, whichever is higher) and 45% of the insurance undertaking's SCR.

As set out in section E.1.4, SLIDAC's MCR at 31 December 2019 is €109,587k (2018: €41,600). The components of the overall calculation of the MCR as at 31 December 2019 are:

Calculation of MCR – 31 December 2019	€'000
MCR before the application of floors of caps	107,337
MCR cap (45% of SCR)	197,257
MCR floor (higher of 25% of SCR or €3.7m)	109,587
MCR (post application of floors of caps)	109,587

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

Analysis of change in MCR	31 December 2019 €'000	31 December 2018 €'000	31 December 2018 €'000
Technical Provisions for Index-linked and unit-linked insurance business	14,151,316	6,626,086	5,947,479
Technical Provisions for Other business	345,275		–
Capital at Risk	1,466,680	854,767	767,227
Linear MCR	107,337	46,981	42,169
25% of SCR	109,587	23,111	20,744
Linear MCR	107,337	46,981	42,169
45% of SCR	197,257	41,600	37,340
Combined MCR	109,587	41,600	37,340

Please note the 31 December 2018 MCR has been converted from Sterling to Euro using the exchange rate from that date. The increase in MCR is a result of the increase in SCR from the transfer of the German and Irish business in March 2019.

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

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

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

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

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

Throughout 2019 Own Funds have at all times exceeded both the MCR and the SCR and therefore the Company fully complied with capital requirements.

E.6 ANY OTHER INFORMATION

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

APPENDIX AND ADDITIONAL INFORMATION

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APPENDIX AND ADDITIONAL INFORMATION

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2019) APPENDIX 1.1 – SE.02.01.16 BALANCE SHEET

		Solvency II value C0010 €'000
Assets		
Intangible assets	R0030	–
Deferred tax assets	R0040	–
Pension benefit surplus	R0050	–
Property, plant & equipment held for own use	R0060	1,514
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	780,621
Property (other than for own use)	R0080	–
Holdings in related undertakings, including participations	R0090	425,959
Equities	R0100	–
Equities – listed	R0110	–
Equities – unlisted	R0120	–
Bonds	R0130	332,408
Government Bonds	R0140	114,936
Corporate Bonds	R0150	217,472
Structured notes	R0160	–
Collateralised securities	R0170	–
Collective Investments Undertakings	R0180	18,977
Derivatives	R0190	760
Deposits other than cash equivalents	R0200	2,517
Other investments	R0210	–
Assets held for index-linked and unit-linked contracts	R0220	14,582,526
Loans and mortgages	R0230	48,502
Loans on policies	R0240	145
Loans and mortgages to individuals	R0250	–
Other loans and mortgages	R0260	48,357
Reinsurance recoverables from:	R0270	16,200,681
Non-life and health similar to non-life	R0280	–
Non-life excluding health	R0290	–
Health similar to non-life	R0300	–
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	15,329,236
Health similar to life	R0320	164,716
Life excluding health and index-linked and unit-linked	R0330	15,164,521
Life index-linked and unit-linked	R0340	871,445
Deposits to cedants	R0350	–
Insurance and intermediaries receivables	R0360	6,162
Reinsurance receivables	R0370	65,296
Receivables (trade, not insurance)	R0380	80,901
Own shares (held directly)	R0390	–
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	–
Cash and cash equivalents	R0410	36,810
Any other assets, not elsewhere shown	R0420	–
Total assets	R0500	31,803,013

Appendix and Additional Information continued

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2019) CONTINUED
APPENDIX 1.1 – SE.02.01.16 BALANCE SHEET CONTINUED

		Solvency II value C0010 €'000
Liabilities		
Technical provisions – non-life	R0510	–
Technical provisions – non-life (excluding health)	R0520	–
TP calculated as a whole	R0530	–
Best Estimate	R0540	–
Risk margin	R0550	–
Technical provisions – health (similar to non-life)	R0560	–
TP calculated as a whole	R0570	–
Best Estimate	R0580	–
Risk margin	R0590	–
Technical provisions – life (excluding index-linked and unit-linked)	R0600	15,829,363
Technical provisions – health (similar to life)	R0610	167,503
TP calculated as a whole	R0620	–
Best Estimate	R0630	165,532
Risk margin	R0640	1,971
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	15,661,860
TP calculated as a whole	R0660	–
Best Estimate	R0670	15,472,759
Risk margin	R0680	189,100
Technical provisions – index-linked and unit-linked	R0690	15,105,325
TP calculated as a whole	R0700	15,472,902
Best Estimate	R0710	450,141
Risk margin	R0720	82,564
Contingent liabilities	R0740	–
Provisions other than technical provisions	R0750	6,676
Pension benefit obligations	R0760	8,417
Deposits from reinsurers	R0770	–
Deferred tax liabilities	R0780	2,538
Derivatives	R0790	8,351
Debts owed to credit institutions	R0800	433
Financial liabilities other than debts owed to credit institutions	R0810	–
Insurance & intermediaries payables	R0820	109,878
Reinsurance payables	R0830	14,323
Payables (trade, not insurance)	R0840	149,110
Subordinated liabilities	R0850	–
Subordinated liabilities not in BOF	R0860	–
Subordinated liabilities in BOF	R0870	–
Any other liabilities, not elsewhere shown	R0880	–
Total liabilities	R0900	31,234,414
Excess of assets over liabilities	R1000	568,599

Appendix and Additional Information continued

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2019) CONTINUED
APPENDIX 1.2 – S.05.01.01 PREMIUMS, CLAIMS AND EXPENSES BY LINE OF BUSINESS

	Line of Business for: life insurance obligations						Life reinsurance obligations			Total C0300
	Health insurance C0210	Insurance with profit participation C0220	Index- linked and unit-linked insurance C0230	Other life insurance C0240	Annuities stemming from non-life insurance contracts and relating to health insurance obligations C0250	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations C0260	Health reinsurance C0270	Life reinsurance C0280		
Premiums written										
Gross	R1410	– 612,765	1,132,893	37,982	–	–	–	19,053	1,802,692	
Reinsurers' share	R1420	– 612,659	23,058	936	–	–	–	–	636,652	
Net	R1500	– 106	1,109,835	37,047	–	–	–	19,053	1,166,041	
Premiums earned										
Gross	R1510	– 612,765	1,132,893	37,982	–	–	–	19,053	1,802,692	
Reinsurers' share	R1520	– 612,659	23,058	936	–	–	–	–	636,652	
Net	R1600	– 106	1,109,835	37,047	–	–	–	19,053	1,166,041	
Claims incurred										
Gross	R1610	2,248	716,629	1,352,810	32,563	–	–	118,872	2,223,122	
Reinsurers' share	R1620	2,248	703,910	134,945	20,531	–	–	–	861,635	
Net	R1700	– 12,718	1,217,865	12,031	–	–	–	118,872	1,361,487	
Changes in other technical provisions										
Gross	R1710	6,656	1,537,777	990,184	38,410	–	–	–	2,573,027	
Reinsurers' share	R1720	6,440	1,545,702	16,858	4,961	–	–	–	1,573,961	
Net	R1800	216	7,925	973,326	33,449	–	–	–	999,067	
Expenses incurred	R1900	0	53,620	91,672	2,837	–	–	–	148,130	
Other expenses	R2500	–	–	–	–	–	–	–	–	
Total expenses	R2600	–	–	–	–	–	–	–	148,130	

Appendix and Additional Information continued

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2019) CONTINUED
APPENDIX 1.2 – S.05.02.01 PREMIUMS, CLAIMS AND EXPENSES BY COUNTRY

	R1400	Home country	Top 5 countries (by amount of gross premiums written) – life obligations					Total Top 5 and home country
		C0150	C0160	C0170	C0180	C0190	C0200	C0210
		IE	DE	GB				
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
Premiums written								
Gross	R1410	492,264	661,831	570,032				1,724,127
Reinsurers' share	R1420	27,820	549,150	–				576,970
Net	R1500	464,444	112,681	570,032				1,147,157
Premiums earned		–	–	–				–
Gross	R1510	492,264	661,831	570,032				1,724,127
Reinsurers' share	R1520	27,820	549,150	–				576,970
Net	R1600	464,444	112,681	570,032				1,147,157
Claims incurred		–	–	–				–
Gross	R1610	1,073,141	591,094	452,849				2,117,083
Reinsurers' share	R1620	204,613	554,387	–				759,000
Net	R1700	868,528	36,707	452,849				1,358,083
Changes in other technical provisions		–	–	–				–
Gross	R1710	28,056	1,521,978	961,983				2,512,018
Reinsurers' share	R1720	10,132	1,519,873	–				1,530,005
Net	R1800	17,924	2,105	961,983				982,013
Expenses incurred	R1900	69,469	42,671	31,760				143,900
Other expenses	R2500							–
Total expenses	R2600							143,900

Appendix and Additional Information continued

**APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2019) CONTINUED
APPENDIX 1.3 – S.12.01.01 LIFE AND HEALTH SLT TECHNICAL PROVISIONS**

		Index-linked and unit-linked insurance				Other life insurance		Annuities stemming from non-life insurance contracts other than health C0090	Accepted reinsurance C0100	Total (life other than health insurance, incl. unit-linked) C0150
		Insurance with profit participation C0020	C0030	Contracts without options and guarantees C0040	Contracts with options or guarantees C0050	C0060	Contracts without options and guarantees C0070			
Technical provisions calculated as a whole	R0010	- 14,582,566	-	-	-	-	-	-	890,336	15,472,902
Total Recoverables from reinsurance/ SPV and Finite Re after adjustment	R0020	- 871,445	-	-	-	-	-	-	-	871,445
Technical provisions calculated as a sum of BE and RM		-	-	-	-	-	-	-	-	-
Best Estimate										
Gross Best Estimate	R0030	14,708,917	-	(450,141)	-	- 763,843	-	-	-	15,022,619
Total Recoverables from reinsurance/ SPV and Finite Re after adjustment	R0080	14,745,136	-	-	-	- 419,384	-	-	-	15,164,521
Best estimate minus recoverables from reinsurance/ SPV and Finite Re – total	R0090	(36,219)	-	(450,141)	-	- 344,458	-	-	-	(141,902)
Risk Margin	R0100	173,406	82,564	-	- 15,694	-	-	-	-	271,664
Amount of the transitional on Technical Provisions										
Technical provisions calculated as a whole	R0110	-	-	-	-	-	-	-	-	-
Best estimate	R0120	-	-	-	-	-	-	-	-	-
Risk margin	R0130	-	-	-	-	-	-	-	-	-
Technical provisions – total	R0200	14,882,323	14,214,989	-	- 779,537	-	-	-	890,336	30,767,185

Appendix and Additional Information continued

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2019) CONTINUED
APPENDIX 1.3 – S.12.01.01 LIFE AND HEALTH SLT TECHNICAL PROVISIONS CONTINUED

		Health insurance (direct business)			Annuities stemming from non-life insurance contracts related to health C0190	Health reinsurance (reinsurance accepted) C0200	Total Health (similar to Life) C0210
		C0160	Contracts without options and guarantees C0170	Contracts with options or guarantees C0180			
Technical provisions calculated as a whole	R0010	–	–	–	–	–	–
Total Recoverables from reinsurance/ SPV and Finite Re after adjustment	R0020	–	–	–	–	–	–
Technical provisions calculated as a sum of BE and RM		–	–	–	–	–	–
Best Estimate							
Gross Best Estimate	R0030	–	–	165,532	–	–	165,532
Total Recoverables from reinsurance/ SPV and Finite Re after adjustment	R0080	–	–	164,716	–	–	164,716
Best estimate minus recoverables from reinsurance/SPV and Finite Re – total	R0090	–	–	817	–	–	817
Risk Margin	R0100	1,971	–	–	–	–	1,971
Amount of the transitional on Technical Provisions							
Technical provisions calculated as a whole	R0110	–	–	–	–	–	–
Best estimate	R0120	–	–	–	–	–	–
Risk margin	R0130	–	–	–	–	–	–
Technical provisions – total	R0200	167,503	–	–	–	–	167,503

Appendix and Additional Information continued

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2019) CONTINUED
APPENDIX 1.4 – S.23.01.01 OWN FUNDS

		Total C0010 €000s	Tier 1 – unrestricted C0020 €000s	Tier 1 – restricted C0030 €000s	Tier 2 C0040 €000s	Tier 3 C0050 €000s
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35						
Ordinary share capital (gross of own shares)	R0010	50,020	50,020	–	–	–
Share premium account related to ordinary share capital	R0030	348,168	348,168	–	–	–
Initial funds, members' contributions or the equivalent basic own – fund item for mutual and mutual-type undertakings	R0040	–	–	–	–	–
Subordinated mutual member accounts	R0050	–	–	–	–	–
Surplus funds	R0070	–	–	–	–	–
Preference shares	R0090	–	–	–	–	–
Share premium account related to preference shares	R0110	–	–	–	–	–
Reconciliation reserve	R0130	170,411	170,411	–	–	–
Subordinated liabilities	R0140	–	–	–	–	–
An amount equal to the value of net deferred tax assets	R0160	–	–	–	–	–
Other items approved by supervisory authority as basic own funds not specified above	R0180	–	–	–	–	–
Own funds not represented by the reconciliation reserve	R0220	–	–	–	–	–
Deductions		–	–	–	–	–
Deductions for participations in financial and credit institutions	R0230	–	–	–	–	–
Total basic own funds after adjustments	R0290	568,599	568,599	–	–	–
Ancillary own funds						
Unpaid and uncalled ordinary share capital	R0300	–	–	–	–	–
Unpaid and uncalled initial funds	R0310	–	–	–	–	–
Unpaid and uncalled preference share capital	R0320	–	–	–	–	–
Commitment to subscribe and pay for subordinated liabilities	R0330	–	–	–	–	–
Letters of credit and guarantees under Article 96(2)	R0340	–	–	–	–	–
Letters of credit and guarantees other than under Article 96(2)	R0350	–	–	–	–	–
Supplementary members calls under Article 96(3)	R0360	–	–	–	–	–
Supplementary members calls other than under Article 96(3)	R0370	–	–	–	–	–
Other ancillary own funds	R0390	–	–	–	–	–
Total ancillary own funds	R0400	–	–	–	–	–
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	568,599	568,599	–	–	–
Total available own funds to meet the MCR	R0510	568,599	568,599	–	–	–
Total eligible own funds to meet the SCR	R0540	568,599	568,599	–	–	–
Total eligible own funds to meet the MCR	R0550	568,599	568,599	–	–	–
SCR	R0580	438,349				
MCR	R0600	109,587				
Ratio of eligible own funds to SCR	R0620	130%				
Ratio of eligible own funds to MCR	R0640	519%				

Appendix and Additional Information continued

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2019) CONTINUED
APPENDIX 1.4 – S.23.01.01 OWN FUNDS CONTINUED

C0060

Reconciliation reserve		
Excess of assets over liabilities	R0700	568,599
Own shares (held directly and indirectly)	R0710	–
Foreseeable dividends, distributions and charges	R0720	–
Other basic own fund items	R0730	398,189
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring-fenced funds	R0740	–
Reconciliation reserve	R0760	170,411
Expected profits		
Expected profits included in future premiums (EPIFP) – Life business	R0770	596,303
Expected profits included in future premiums (EPIFP) – Non-life business	R0780	–
Total EPIFP	R0790	596,303

Appendix and Additional Information continued

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2019) CONTINUED
APPENDIX 1.5 – S.25.01.01 SOLVENCY CAPITAL REQUIREMENT – USING THE STANDARD FORMULA

		Net solvency capital requirement C0030 €'000	Gross solvency capital requirement C0040 €'000	Allocation from adjustments due to RFF and Matching adjustments portfolios C0050 €'000
Market risk	R0010	167,094	167,094	–
Counterparty default risk	R0020	149,365	149,365	–
Life underwriting risk	R0030	194,768	194,768	–
Health underwriting risk	R0040	–	–	–
Non-life underwriting risk	R0050	–	–	–
Diversification	R0060	(148,650)	(148,650)	–
Intangible asset risk	R0070	–	–	–
Basic Solvency Capital Requirement	R0100	362,577	296,525	–
Calculation of Solvency Capital Requirement				C0100 €'000
Operational risk			R0130	78,310
Loss-absorbing capacity of technical provisions			R0140	–
Loss absorbing capacity of deferred taxes			R0150	(2,538)
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC			R0160	–
Solvency capital requirement excluding capital add-on			R0200	438,349
Capital add-on already set			R0210	–
Solvency capital requirement			R0220	438,349
Other information on SCR				
Capital requirement for duration-based equity risk sub-module			R0400	–
Total amount of Notional Solvency Capital Requirement for remaining part			R0410	–
Total amount of Notional Solvency Capital Requirements for ring fenced funds			R0420	–
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios			R0430	–
Diversification effects due to RFF nSCR aggregation for article 304			R0440	–
Method used to calculate the adjustment due to RFF/MAP nSCR aggregation			R0450	No adjustment

Appendix and Additional Information continued

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2019) CONTINUED
**APPENDIX 1.6 – S.28.01.01 – MINIMUM CAPITAL REQUIREMENT ONLY LIFE OR NON-LIFE INSURANCE
OR REINSURANCE ACTIVITY (LIFE)**

Linear formula component for life insurance and reinsurance obligations		C0040	
MCR _L Result	R0200		107,337
		Net (of reinsurance/SPV) best estimate and TP calculated as a whole C0050	Net (of reinsurance/SPV) total capital at risk C0060
Obligation with profit participation – guaranteed benefits	R0210	–	–
Obligation with profit participation – future discretionary benefits	R0220	–	–
Index-linked and unit-linked insurance obligations	R0230	14,151,316	–
Other life (re)insurance and health (re)insurance obligations	R0240	345,275	–
Total capital at risk for all life (re)insurance obligation	R0250	–	1,466,680
Overall MCR calculation		C0070	
Linear MCR	R0300		107,337
SCR	R0310		438,349
MCR cap	R0320		197,257
MCR floor	R0330		109,587
Combined MCR	R0340		109,587
Absolute floor of the MCR	R0350		3,700
Minimum Capital Requirement	R0400		109,587

Note: The non-life fields are not shown as the Company does not have any non-life insurance.

Appendix and Additional Information continued**APPENDIX 2 – GLOSSARY ASSUMPTIONS**

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

BEST ESTIMATE LIABILITY

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

BOARD

The board of Directors of Standard Life International Designated Activity Company.

CAPITAL RESOURCES (CR)

Capital resources include the assets in excess of liabilities, valued on a regulatory basis, and certain other components of capital.

CBI

The Central Bank of Ireland.

COMPANY

Standard Life International Designated Activity Company.

CONTRACT BOUNDARY

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

DELEGATED REGULATION

Commission Delegated Regulation supplementing the Solvency II Directive.

DIRECTOR

A director of Standard Life International Designated Activity Company.

DISCOUNTING

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

ECONOMIC ASSUMPTIONS

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

EIOPA

European Insurance and Occupational Pensions Authority.

EXTERNAL FUND LINKS (EFL)

These are unit linked fund options on Standard Life products, where the funds are not managed by Standard Life.

FCA

Financial Conduct Authority.

LARGE FUND DISCOUNTS

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

MAINTENANCE EXPENSES

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

MARKET CONSISTENCY

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

MATCHING ADJUSTMENT

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

NON-ECONOMIC ASSUMPTIONS

Assumptions in relation to future expenses and future lapse, withdrawal, and mortality rates.

OWN FUNDS

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

OPTION (INSURANCE POLICY FEATURE)

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

PRA

Prudential Regulation Authority.

PRESENT VALUE OF IN-FORCE BUSINESS (PVIF)

The expected future profits (usually excess of charges over expenses) on existing business.

Appendix and Additional Information continued**APPENDIX 2 – GLOSSARY CONTINUED**
REINSURANCE

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

RISK MARGIN

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

SLAL

Standard Life Assurance Limited.

SLIDAC

Standard Life International Designated Activity Company.

SOLVENCY II DIRECTIVE

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

SOLVENCY CAPITAL REQUIREMENT (SCR)

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

STOCHASTIC MODEL

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

TECHNICAL PROVISIONS

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

TECHNICAL PROVISIONS AS A WHOLE

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

UNIT LINKED

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

UNIT LINKED POLICY

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

VOLATILITY ADJUSTMENT

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

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