



# SOLVENCY AND FINANCIAL CONDITION **REPORT 2020**

Standard Life International DAC, part of the Phoenix Group Holdings plc Group  
For the year ended 31 December 2020

# 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 2020, 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 2020. 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 2020 the Company's Solvency II surplus over the SCR is €143,015k, with a ratio of eligible own funds to SCR of 132%.

Please note that, due to the nature of the information displayed in tables throughout this report, there may be rounding differences in some cases.

## 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 PGH Group structure chart is presented in section A.1.2.1.

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 operating result of €(11)m for the year ended 31 December 2020 (2019: €5m) was negatively impacted by increasing reserves driven by modelling adjustments, coupled with lower fee income and the impact of market volatility relating to COVID-19. Further details on the components and the key drivers of the operating result are included in section A.2.

Loss before tax has increased from €0.2m in 2019 to a loss before tax of €18.6m in 2020 due to similar factors that affected the operating result.

## SECTION B – SYSTEM OF GOVERNANCE

The Company has an established system of governance, which includes the Enterprise Risk Management ('ERM') framework of policies, controls and practices by which it meets all the requirements of sound, risk-based management. The Company operates under its ERM framework (enhanced throughout 2020) in line with the Phoenix Group harmonised framework.

The system of governance was reviewed in 2020. A number of changes were made as detailed in Section B.1.4 to ensure the continuing effectiveness of the system of governance and ERM framework.

This, along with the review by the Chief Risk Officer 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.

# SUMMARY CONTINUED

## SECTION C – RISK PROFILE

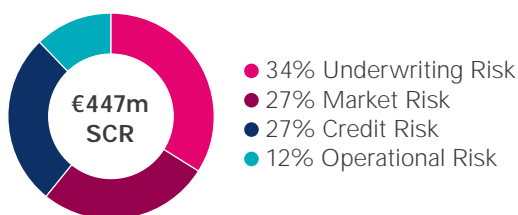
The Company operates a standardised Risk Management Framework ('RMF'), which includes the ERM framework, for the identification and assessment of the risks it may be exposed to, and the amount of capital that should be held in relation to those exposures. The capital assessment has been carried out on 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 the Company has remained broadly in line with 2019 following the part VII transfer for Irish, German & Austrian policies in March 2019. The main changes to the risk exposure in 2020 were:

- The inclusion of investment management expenses in the scope of expense risk following updated guidance from European Insurance and Occupational Pensions Authority ('EIOPA')
- The update of modelling of the charging structure on the Wrap Offshore bond, reducing exposure across all market and underwriting risks.
- Concentration risk has been included for completeness of coverage of the Standard Formula, but has never been a material risk for the Company.

The chart below shows the composition of the Company's undiversified Solvency Capital Requirement ('SCR') as at 31 December 2020. The largest component of the undiversified SCR is counterparty default risk, which is the risk of losses arising from the failure of a counterparty to meet its contractual obligations. Counterparty default risk falls within the Credit 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:

	2020 €'000	2019 €'000
Excess of assets over liabilities	589,650	568,599

The Tier 2 ancillary own funds of €55 million are included in the above figure for 2020. This represents a commitment from SLIDAC's parent company, PGH.

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.

# SUMMARY CONTINUED

## SECTION E – CAPITAL MANAGEMENT

The capital positions for the Company at 31 December 2020 and 31 December 2019 are presented in the table below:

Solvency II capital position	2020 €'000	2019 €'000
Eligible Own Funds	589,650	568,599
SCR	(446,634)	(438,349)
<b>Solvency II capital surplus</b>	<b>143,015</b>	<b>130,250</b>
<b>Solvency cover</b>	<b>132%</b>	<b>130%</b>

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.

Of the Company's Eligible Own Funds, 91% 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. The remaining 9% (€55,000k) are Tier 2 Ancillary Own Funds which will become Tier 1 if called upon. The Company has sufficient Tier 1 own funds to cover its capital requirements.

In light of the persistent low interest rate environment and increased market volatility experienced during 2020, SLIDAC has taken action to improve the financial strength and resilience of the balance sheet including the receipt of a capital injection of €34m from PGH on 11 March 2020. The Company issued 1 new ordinary €1 share, with the remainder being credited to the share premium account. A further €23m was received on the 31 March 2020 in the form of a capital contribution.

Following receipt of approval from the CBI, on 18 December 2020 the Company executed an ancillary own funds transaction within the meaning of the Solvency II Directive (2009/138/EC). The Tier 2 Own Funds are ancillary own-funds and represent a €55 million commitment from SLIDAC's parent company, PGH. The commitment allows SLIDAC to call Fixed Rate Reset Perpetual Restricted Tier 1 Write-Down Notes (of €55 million) from PGH, during the term of the agreement without any encumbrance. PGH's obligations under the commitment expire on 17 December 2025. The ancillary own-funds represent an off-balance sheet arrangement and are subject to eligibility rules in terms of SCR coverage.

As at 31 December 2020, the Company's Solvency II surplus over the SCR is €143,015k, with a ratio of Eligible Own Funds to SCR of 132%. The increase in the Solvency II surplus from €130,250k at the end of 2019 reflects the additional capital items received over the year, offset by economic impacts, increases in the risk margin and some modelling and methodology changes. Further details of material drivers of change are provided in E.1.4.2.

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

### 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)
<b>Base: 31 December 2020</b>	<b>143,015</b>
Following a 20% fall in equity markets	151,307
Following a 15% fall in property values	143,593
Following a 60bps interest rates rise	233,644
Following a 80bps interest rates fall*	(38,187)
Following credit spread widening (equivalent to average widening of 120bps)	99,464
Following 6% decrease in annuitant mortality rates	130,889
Following 10% increase in assurance mortality rates	143,585
Following a 10% increase in lapse rates	140,465
Following a 10% decrease in lapse rates	143,651

\* N.B. This stress was calculated at a low interest rate position, as at 31st Dec 2020 (e.g. 20-year EUR swaps of 0.0%); the current interest rate position has improved considerably (20-year EUR swaps of 0.45% as at 19th Mar 2021) leading to a significant improvement of the post-stress solvency ratio.

### FUTURE DEVELOPMENTS

The Company has submitted an application to the CBI to apply the Volatility Adjustment in the calculation of its Technical Provisions going forward. The Company also intends to submit an application to the CBI for use of a Partial Internal Model ('PIM') in calculating its capital requirements. Developments in relation to the COVID-19 pandemic have been included in the body of this report.

# DIRECTORS' RESPONSIBILITY STATEMENT

## DIRECTORS' RESPONSIBILITY STATEMENT

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

Financial period ended 31 December 2020.

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 2020, 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 2020 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 2021

# SECTION A

## BUSINESS AND PERFORMANCE

<b>BUSINESS AND PERFORMANCE</b>	<b>5</b>
A.1 Business	6
A.2 Underwriting Performance	10
A.3 Investment Performance	12
A.4 Performance of Other Activities	13
A.5 Any Other Information	13

# SECTION A

## BUSINESS AND PERFORMANCE

### A.1 BUSINESS

#### A.1.1 Information regarding the Company

SLIDAC was established in Ireland in 2005 (originally registered as Standard Life International Limited). Standard Life International Limited converted to a Designated Activity Company in April 2016, under the Companies Act, 2014. 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 2020, the Company was a wholly-owned subsidiary of PGH.

The Company is incorporated in Ireland under the Irish Companies Act, 2014.

SLIDAC is authorised by the CBI 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.

The Company submitted a Part 4A application to the Prudential Regulation Authority ('PRA') and has been accepted into the Temporary Permissions Regime ('TPR') to support the ongoing provision of the International Bond (offshore) to our existing customers resident in the UK and to continue to offer this product to new customers in the UK market.

With regard to the conduct of business requirements, the Company operates within the CBI'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's supervisor is the Central Bank of Ireland, North Wall Quay, Spencer Dock, Dublin, Ireland.

The CBI applies group supervision under Solvency II to Standard Life International DAC at the level of PGH.

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

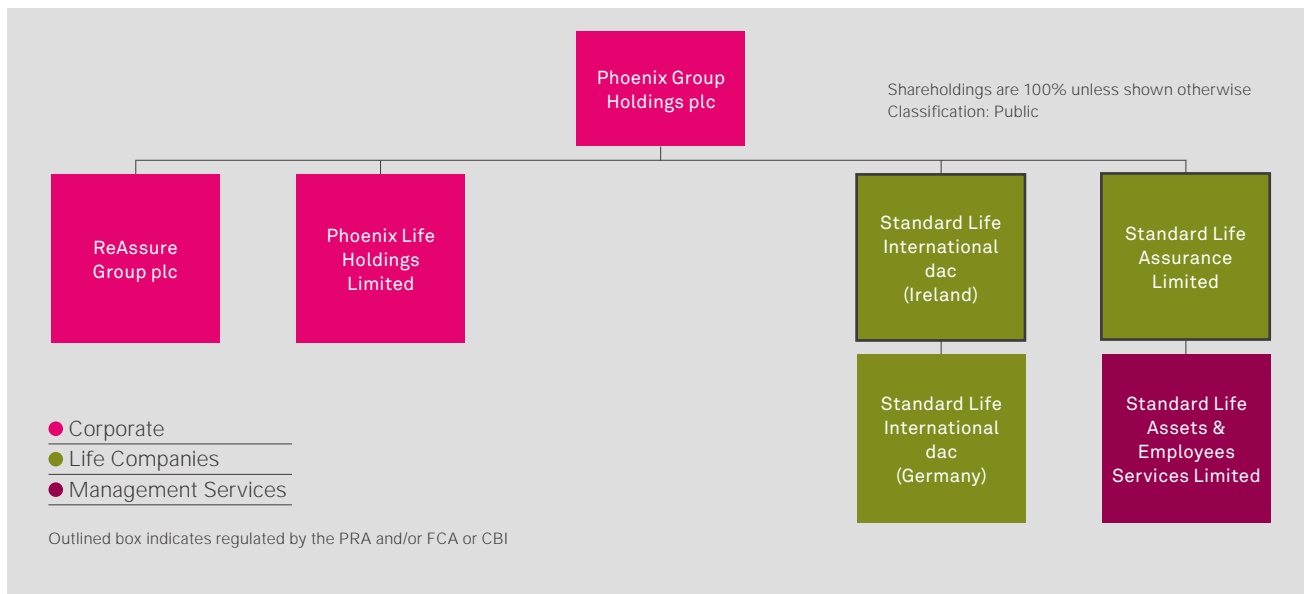
### A.1 BUSINESS continued

#### A.1.2 Company and Group structure

##### A.1.2.1 Legal Structure of the Group

A simplified Phoenix Group structure chart as at 31 December 2020 is provided below, and shows the Company's position within the legal structure of the Phoenix Group. All shareholdings are 100% unless shown otherwise. N.B. a complete Group structure can be found in the Group's SFCR.

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



##### A.1.2.2 Governance and Organisation

Prior to 31 August 2018, the Company was a wholly-owned subsidiary of Standard Life Assurance Limited ('SLAL'), which in turn was a subsidiary of Standard Life Aberdeen plc ('SLA') and the management of the Company was carried out in a manner consistent with the policies of SLA in relation to strategy, governance and risk management.

Following the acquisition of SLAL (and the Company as its wholly owned subsidiary) by PGH on 31 August 2018, the Company transitioned to a new governance framework.

On 21 February 2019, SLAL sold all of the shares it held in SLIDAC to PGH. As a result of this, PGH is the 100% shareholder of the Company.

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



# SECTION A BUSINESS AND PERFORMANCE

## CONTINUED

### A.1 BUSINESS continued

#### 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

The existence of COVID-19 has created volatility in the financial markets, and resulted in an unprecedented global crisis. SLIDAC management has put contingency plans in place to ensure the operational impact from COVID-19 has been minimal. The measures taken to reinforce the Company's resilience have ensured we have continued to provide services to policyholders and safeguard the financial strength of the Company throughout these uncertain times. The Company's key priorities throughout the pandemic have been to support and ensure the safety of our colleagues, customers and of the communities in which we operate while protecting the long-term value of the Company.

In light of the persistent low interest rate environment and increased market volatility, SLIDAC has taken action to improve the financial strength and resilience of the balance sheet including the receipt of a capital injection of €34m from PGH on 11 March 2020. The Company issued 1 new ordinary €1 share, with the remainder being credited to the share premium account. A further €23m was received on the 31 March 2020 in the form of a capital contribution.

On 18 December 2020, the CBI approved the Company's use of an ancillary own-funds item within the meaning of the Solvency II Directive (2009/138/EC). Under the terms of the ancillary own-funds, PGH has an unconditional commitment to subscribe for Fixed Rate Reset Perpetual Restricted Tier 1 Write-Down Notes issued by SLIDAC of €55 million. PGH's commitment under the ancillary own-funds expires on 17 December 2025. The AOF item represents an off-balance sheet arrangement and is subject to eligibility rules in terms of SCR coverage.

#### A.1.5 Significant events after the reporting period

On 1 January 2021 the UK left the European Union. In order to future proof against this the company had previously obtained regulatory approval to act as a base from which to serve all European customers in March 2019, thus preserving the continuity of existing operations in Ireland and Germany, including the ability to continue to write new business following the UK's withdrawal from the EU.

In addition the Company has been accepted into TPR following submission of a Part 4A application to the (PRA). This will ensure continuing provision of the International Bond (offshore) to its existing customer's resident in the UK along with new customers in the UK market.

On 23 February 2021, PGH announced that it had entered into a new agreement with SLA which simplifies the arrangements of their Strategic Partnership, enabling the Phoenix Group to control its own distribution, marketing and brands, and focusing the Strategic Partnership on using SLA's asset management services in support of the Phoenix Group's growth strategy. Under the terms of the transaction, the Phoenix Group will sell certain UK products to SLA, and acquire ownership of the Standard Life brand.

# 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 2020 were €609m (2019: €630m). The Company reported a loss after tax for the year of €23m (2019: €10m profit).

The key performance indicators for the year are set out below:

- Assets under management increased to €30.8bn (2019: €28.8bn) of which €16.2bn (2019: €15bn) relates to an intra-group reinsurance arrangement with Standard Life Assurance Limited ("SLAL");
- Net inflows of €257m (2019: €112m) were a result of gross inflows of funds received from customers of €1,280m (2019: €1,066m) and gross outflows of funds withdrawn of €1,023m (2019: €954m);
- The operating result of €(11m) (2019: €5m) was negatively impacted by increasing reserves driven by modelling adjustments, coupled with lower fee income and the impact of market volatility relating to COVID-19;
- The Company's shareholder liquidity position of €507m (2019: €433m) remains robust. Shareholder liquidity continues to be invested in collective investment schemes;
- At 31 December 2020, the Company had available capital resources of €590m (2019: €569m) as measured on a Solvency II ("SII") basis, and its unaudited SCR was €447m (2019: €438m). The solvency coverage ratio as at 31 December 2020 was 132% (2019: 130%). The Company continues to actively manage its regulatory capital position in light of the persistent low interest environment.

The financial highlights for the year are set out below:

- Gross written premiums increased by €151m in 2020 to €1,398m (2019: €1,247m);
- Net investment income for the year was €713m, compared to €1,314m in 2019;
- In 2020, the Company posted a loss before tax of €18.6m (2019: €0.2m);
- Shareholder's equity increased to €570m (2019: €536m).

The Company will continue to strive for profitable growth by offering products in the UK, Ireland, Austria 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.

#### A.2.1 Operating profit

A summary of the Company's performance during the year ended 31 December 2020 is presented below and in sections A.3 and A.4. The information below is presented on an operating profit basis and reconciled to the IFRS result in the financial statements.

	Section Reference	2020 €'000	2019 €'000
<b>Operating (loss)/profit</b>	<b>A.2.1</b>	<b>(10,759)</b>	<b>4,667</b>
<b>Adjusted for the following items:</b>			
Total investment return variances and economic assumption changes	A.4	(11,394)	(9,591)
Other non-operating items	A.4	(905)	(2,973)
<b>IFRS loss before tax attributable to owners</b>		<b>(23,058)</b>	<b>(7,897)</b>
Tax (charge)/credit		(4,141)	9,850
Less: tax attributable to policyholders' returns		4,507	7,672
Tax credit attributable to owners		366	17,522
<b>IFRS (loss)/profit for the year attributable to owners</b>		<b>(22,692)</b>	<b>9,625</b>

# SECTION A BUSINESS AND PERFORMANCE

## CONTINUED

### A.2 UNDERWRITING PERFORMANCE continued

#### A.2.1 Operating profit continued

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.

The operating loss experienced in 2020 of €10.8m is considerably lower than the operating profit generated in 2019 (€4.7m). This was negatively impacted by increasing reserves driven by modelling adjustments, coupled with lower fee income and the impact of market volatility relating to COVID-19.

#### 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	47,301	73,415	2,746
Operating Expenses	(43,971)	(76,261)	(13,672)
Capital Management	1,285	0	(1,602)
<b>Operating (loss)/profit before tax</b>	<b>4,616</b>	<b>(2,845)</b>	<b>(12,529)</b>

Only Ireland has positive operating profit before tax, driven by positive spread/risk experience, while the UK was affected by increases in reserves arising from modelling adjustments during the year, included within Operating Income. Germany was impacted by lower than expected fee income.

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.

Split of operating profit by line of business is shown below. While Annuity and With Profits have produced an operating profit, the increase in reserves and lower fee revenue than expected has driven the Unit Linked operating loss.

	Unit Linked €'000	Annuity €'000	With Profits €'000	Health €'000
<b>Operating (loss)/profit before tax</b>	<b>(18,078)</b>	<b>4,898</b>	<b>2,421</b>	<b>0</b>

# 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 2020 and the prior year:

	2020 €'000	2019 €'000
<b>Investment income</b>		
Interest income on loans and deposits at amortised cost	82	9
Other interest income on instruments at amortised cost	3,046	2,963
Interest income on financial assets designated at fair value through profit or loss on initial recognition	9,727	8,459
Dividend income	61,486	56,725
Rental income	1,931	1,463
Foreign exchange gains on instruments at amortised cost	(2,689)	1,619
	<b>73,583</b>	<b>71,238</b>
<b>Fair value gains/(losses) on items at fair value through profit or loss</b>		
Financial assets and liabilities:		
Held for trading – derivatives	32,060	(18,987)
Designated upon initial recognition	615,499	1,194,863
Investment in subsidiaries	(5,763)	68,328
Investment property	(2,632)	(1,044)
	<b>639,164</b>	<b>1,243,160</b>
<b>Net investment income</b>	<b>712,747</b>	<b>1,314,398</b>

#### A.3.1 Investment income and expenses

Net investment return in the year was a gain of €713m (2019 €1,314m).

# 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:

	2020 €'000	2019 €'000
<b>Other income and expense items</b>		
Total investment return variances and economic assumption changes	(11,394)	(9,591)
Other non-operating items	(905)	(2,973)
<b>Total other income and expenses</b>	<b>(12,299)</b>	<b>(12,564)</b>

In 2020 there was €12.3m in non-operating expense items made up of reserve increases driven by economic assumption changes. The other non-operating items of €0.9m in 2020 relates to one-off project and restructuring expenses.

#### 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 2020 the Company had €11.4m in non-operating economic assumption changes arising from reserve increases driven by assumption changes and falling yields.

### A.5 ANY OTHER INFORMATION

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

# SECTION B

## SYSTEM OF GOVERNANCE

<b>SYSTEM OF GOVERNANCE</b>	<b>14</b>
B.1 General Information	15
B.2 Fit and Proper Requirements	25
B.3 Risk Management System	25
B.4 Internal Control System	28
B.5 Internal Audit Function	31
B.6 Actuarial Function	32
B.7 Outsourcing	33
B.8 Any Other Information	33

# 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 ERM framework of policies, controls and practices by which it meets all the requirements of sound, risk-based management. The Company has enhanced its ERM framework in 2020 in line with the Phoenix Group harmonised framework. This document reflects that position.

Following the sale of the Company's previous parent company, SLAL, to PGH on 31st August 2018, work has been undertaken throughout 2019 and 2020 to harmonise risk management frameworks across SLAL, SLIDAC and the Phoenix Group.

For SLIDAC, this involved assessing the appropriateness of the Group policies and the risk and control standards within them, before adopting or adapting them into the SLIDAC equivalents. Generally, the work carried out showed that the Group's policy framework was fit for purpose, with some strengthening of controls put in place to make it more appropriate to SLIDAC's business and risk profile. In this way, SLIDAC is able to maintain standalone policies while aligning to those of the rest of the Phoenix Group.

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, captured within SLIDAC's 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 2020. In addition to the established Board, there also exists a Nomination Committee, an Audit Committee, a Remuneration Committee, a Risk Committee and a Model Governance Committee. At a management level, SLIDAC has an established European Senior Leadership Team ('ESLT'), with the following sub-committees:

- An Investment and Credit Risk Committee;
- Separate Irish and German and Austrian Leadership Teams;
- An Enterprise Risk Management Committee ('ERMC');
- A Reinsurance Business Committee;
- Separate Irish and German and Austrian Operational and Conduct Risk Committees;
- Product Governance Oversight and Customer Incident Management; and
- Regulatory Change Forum.

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.

#### 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 annually, taking into account developments in regulatory guidance and corporate governance best practice, and recommends any changes to the Board, for its approval.

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.

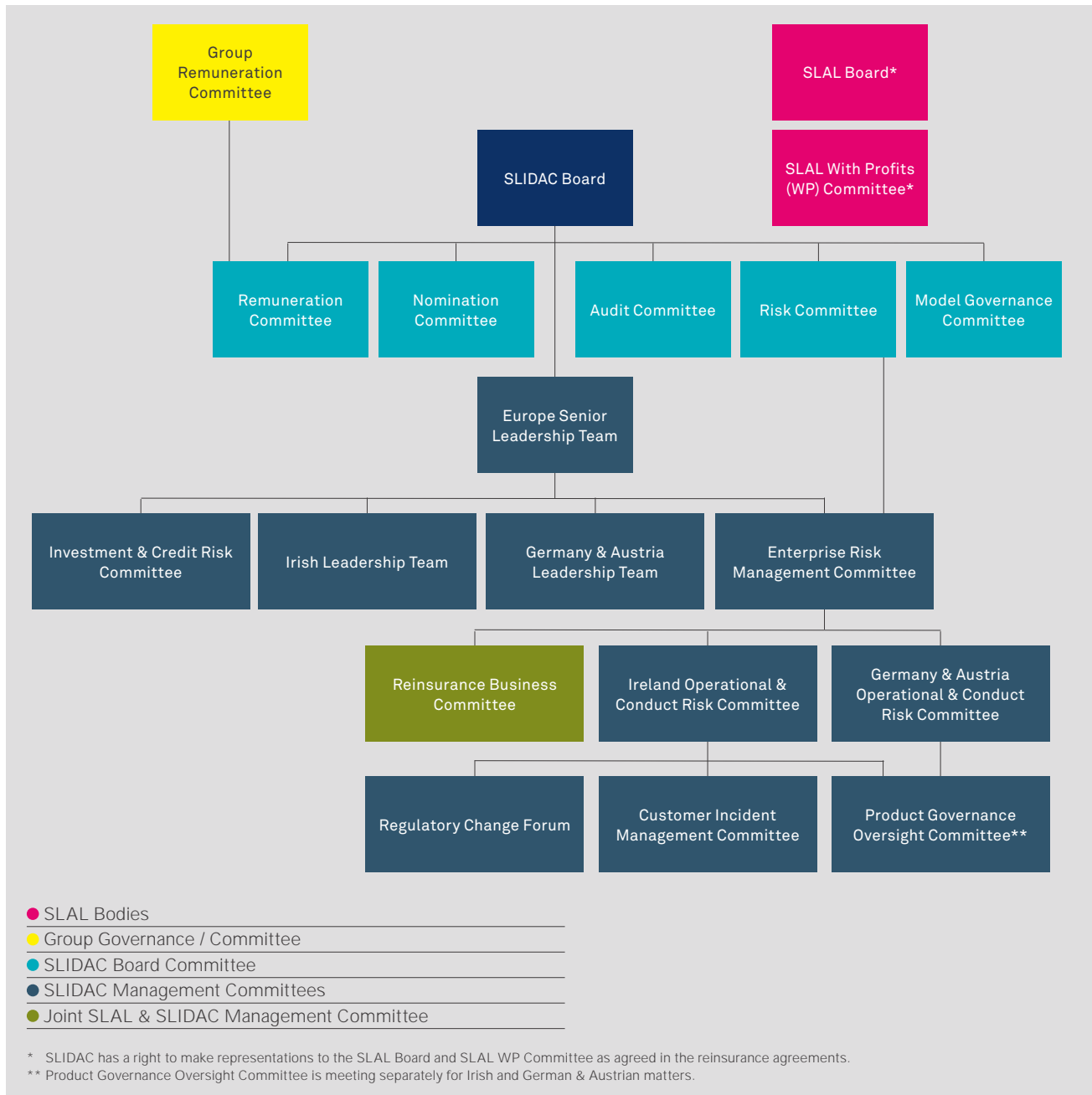


# SECTION B SYSTEM OF GOVERNANCE CONTINUED

## B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE continued

### Company governance structure chart

The diagram below provides an illustration of the Company's governance structure as at 31 December 2020.



### 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 and other stakeholders, 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.

# SECTION B SYSTEM OF GOVERNANCE

## CONTINUED

### B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE continued

#### B.1.2 System of governance continued

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 Strategy, 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 Group Non-Executive Director; and
- Three Executive Directors

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

The Board is collectively responsible for:

- determining 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 Own Risk and Solvency Assessment ('ORSA') process and the system of internal controls – by the Audit Committee, the Risk Committee, the Nomination Committee, the Remuneration Committee and the Model Governance 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"> <li>Financial reporting documentation including: draft financial statements (including significant reporting issues and judgments), interim and preliminary results' announcements, any announcements relating to financial performance, financial returns to regulators and any significant financial information contained in any document for Board approval;</li> <li>The Company's regulatory reporting submissions, including all Solvency II regulatory capital reporting and related messaging, the Regular Supervisory Report ('RSR'), annual SFCR and quarterly and annual solo QRTs;</li> <li>The Company's internal and external audit arrangements, including the independence of the external audit firm; and</li> <li>The Company's internal controls over financial and regulatory reporting, money laundering and financial crime.</li> </ul> <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"> <li>The Company's material risk exposures, current risk strategy and future risk strategy and their impact on capital;</li> <li>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;</li> <li>The Company's Risk Function, Risk Appetite Framework ('RAF'), and changes to both the RAF and the quantitative risk limits;</li> <li>The due diligence on risk issues and aspects of major transactions, investments, strategic proposals, major product developments and other corporate transactions, ensuring the potential consequences of any such transactions are appropriately considered;</li> <li>Regulatory Compliance and Regulatory Reporting matters;</li> <li>Material actuarial matters affecting the Company;</li> <li>The annual review of the appropriateness to the Company of Group policies and review any proposed new or amended Group policies and determine whether they should be recommended to the Board for adoption by SLIDAC; and</li> <li>The Company's ORSA including steering how the assessment is to be performed and challenging the results.</li> </ul> <p>The Risk Committee meets at least four times a year to coincide with the Company's financial 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

Committee	Role, duties and responsibilities
Nomination Committee	<p>The role of the Committee is to:</p> <ul style="list-style-type: none"> <li>• Review/consider and/or make recommendations to the Board with regard to:               <ul style="list-style-type: none"> <li>– The structure, size, diversity and composition of the Board;</li> <li>– 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;</li> <li>– The appointment and removal of the Board Chairperson, the Deputy Board Chairperson (if appointed), the Non-Executive Directors, the Executive Directors and the Chief Executive Officer ('CEO');</li> <li>– The appointment of members and chairpersons to Committees of the Board;</li> <li>– The appointment and removal of PCF holders;</li> <li>– 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; and</li> <li>– Make recommendations to the Board with regard to the continued appointment of any Non-Executive Director at the conclusion of his or her specified term of office on the Board.</li> </ul> </li> <li>• Keep under review the Board's policy on diversity (in all its forms) and any measurable objectives that the Board has set for implementing the policy, and progress on achieving the objectives;</li> <li>• 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;</li> <li>• 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;</li> <li>• Approve and review the implementation of processes for identifying the training needs of Directors; and processes for selecting, inducting and training Directors;</li> <li>• 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; and</li> <li>• Review annually the time required from non-executive directors. Performance evaluation should be used to assess whether the non-executive directors are spending enough time to fulfil their duties.</li> </ul> <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 Committee is composed of at least three non-executive Directors, with the majority being independent non-executive Directors.</p>

# SECTION B SYSTEM OF GOVERNANCE

## CONTINUED

### B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE continued

#### B.1.2 System of governance continued

Committee	Role, duties and responsibilities
Remuneration Committee	<p>The role of the Committee is to:</p> <ul style="list-style-type: none"> <li>• Ensure compliance with the Group remuneration policy as set by the Group Remuneration Committee;</li> <li>• 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;</li> <li>• 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;</li> <li>• 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;</li> <li>• 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;</li> <li>• Be aware of and advise, where appropriate, on any major changes in employee benefit structures throughout the Group; and</li> <li>• 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.</li> </ul> <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>
Model Governance Committee	<p>The role of the Committee is to:</p> <ul style="list-style-type: none"> <li>• Review and recommend on the strategic direction of the PIM;</li> <li>• Review and recommend on the on-going appropriateness of the design and operation of the PIM, including when appropriate, summary information produced under the PIM Triggers Process, and oversee that the PIM continues to appropriately reflect the risk profile;</li> <li>• Review and recommend the Model Governance Policy to the Board Risk Committee and the underlying Model Change Policy at least annually;</li> <li>• Review the reasonableness of the PIM including accepted limitations, as well as areas that require improvement and the status of efforts to improve previously identified weaknesses;</li> <li>• Oversee that an appropriate PIM change prioritisation and planning process is in operation and provide challenge, as necessary, and that the materiality and proportionality framework is operated in relation to the PIM;</li> <li>• Ensure that the governance requirements set out in the Validation Framework (underlying the Model Governance Policy) are met;</li> <li>• Provide oversight and challenge on the effectiveness and independence of Independent Validation and Assurance, and the Risk Department's oversight of the PIM and ensure that the PIM is an integral part of the Risk Management Framework;</li> <li>• Ensure that there are adequate independent review procedures in place around the PIM design, operation and validation;</li> <li>• Provide oversight of the Company's assessment of the extent to which the PIM complies with the Solvency II Directive;</li> <li>• Report to the Board on the oversight exercised by the Committee, including as appropriate, key findings and opinions over the PIM, taking into account Validation, Independent Validation, and Independent Assurance; and</li> <li>• In support of its oversight of the PIM, review the outputs of the PIM, to the extent that this informs its governance over the Reasonableness of the PIM and in support of oversight of compliance with the Use Test Minimum Control Standards within the Model Governance Policy.</li> </ul> <p>The Model Governance Committee is required to meet at least twice a year at appropriate times in the reporting cycle or more frequently, as circumstances require. The Committee shall comprise two Non-Executive Directors who sit on the SLIDAC Board, the SLIDAC Chief Risk Officer, the SLIDAC Head of Actuarial Function, the SLIDAC Chief Financial Officer and the SLIDAC Chief Operating Officer. The Board can also appoint any additional members it deems appropriate. Members of the Committee shall have been determined by the Board to have recent and relevant financial experience.</p>

# 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

###### Chief Executive Officer

The role of the 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.

###### European Senior Leadership Team

The ESLT is installed to manage the business of SLIDAC on a day-to-day basis according to the delegated authorities of and with the SLIDAC CEO. The ESLT's key responsibilities are:

- Supporting and implementing strategies of the SLIDAC business as approved by the Board as appropriate;
- Approving for submission to the Board detailed business plans for the SLIDAC business, including business priorities, sales targets, product and customer propositions and budgets in accordance with the agreed International business plan and priorities;
- Monitoring business results against agreed plans;
- Reviewing and monitoring Strategic Risks;
- Ensuring the following key operating principles are followed:
  - Operate a sustainable life assurance company consistent with the criteria of the SLIDAC Business and the Group;
  - Provide competitive, relevant products and a superior level of service to customers;
  - Maintain the good standing reputation, image and integrity of the SLIDAC business;
  - Retain the confidence and support of the Group Executive; and
  - Manage all risks in line with approved appetite and reduce level of unrewarded risk.
- Ensuring the operation of an effective internal control framework; and
- Reviewing key outputs from the SLIDAC Enterprise Risk Management Committee and taking appropriate actions.

###### Executive Committees

In addition to the ESLT, there are ten other Management committees which are to oversee the operations of SLIDAC, namely the:

- ERM – It derives its authority from the Board, which is delegated to the CEO, and ultimately reports to the CEO. The scope of the ERM covers SLIDAC's International Bond business in the UK, its Irish Domestic business and its German Branch (including Austrian business). The ERM considers and has responsibility for all strategic, financial, operational and regulatory risks and conflicts of interest arising from the current and proposed activities of SLIDAC's 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 SLIDAC, to provide a mechanism through which both parties may communicate with each other and obtain and consider information in relation to the reinsured business, to facilitate the running of the operational processes associated with the reinsurance and to oversee significant claims and the acceptability of pricing of new business;
- 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;

# SECTION B SYSTEM OF GOVERNANCE

## CONTINUED

### B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE *continued*

#### B.1.2 System of governance *continued*

- Operational & Conduct Risk Committees – They are established in both Ireland and Germany. The Committees are sub Committees of the SLIDAC ERM. 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 SLIDAC ERM (one for Ireland and one for Germany & Austria);
- Product Oversight Governance Committee – It is responsible for maintaining oversight of Product Governance for all SLIDAC 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 SLIDAC ERM in delivering effective management of credit and investment risks. Individual members of the Committee are accountable for the provision of appropriate input;
- Customer Incident Management Committee – The purpose of the Committee is to identify and oversee improvements to customer experience and outcomes, in line with customer strategies and propositions and to fully understand, make decisions and challenge actions in relation to the management of conduct and customer risk across the SLIDAC Irish & UK businesses in line with established risk appetites; and
- Regulatory Change Forum (for Ireland) – The purpose of the Forum is to oversee that all regulatory change impacting the SLIDAC business is actively assessed and appropriately implemented.

#### Scheme of Delegation

The SLIDAC Scheme of Delegation sets out the flow and principles of delegation from the SLIDAC Board to its Committees, Executive Directors and members of senior management. The SLIDAC 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 appropriate authority levels that have been assigned to senior representatives across the business to apply to settlement transactions carried out on behalf of 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 SLIDAC is predicated on the ethical behaviour of the organisation's staff. In recognition of this, the Company has developed, adopted and communicated a Code of Conduct which provides guidance on the high standards of ethical behaviour expected from staff to fulfil the Company's aim of becoming the trusted home for the financial future of customers.

#### 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
- Insurance Risk Management policy
- Capital Management policy
- Liquidity and Funding Policy

Policy compliance reporting on our internal risk management system, called GCM, 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.



# SECTION B SYSTEM OF GOVERNANCE

## CONTINUED

### B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE continued

#### B.1.2 System of governance continued

##### 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 Controlled Functions. Pre-Approval Controlled Functions are a subset of Controlled Functions which require approval from the CBI prior to the candidate being appointed to the role.

##### Remuneration

SLIDAC's Remuneration Policy is fully aligned to the strategic aims of the Company and to Phoenix Group's Remuneration Policy. Its aim is to attract and retain talent at all levels focused and capable of delivering business objectives whilst considering the interests of shareholders and other stakeholders, balanced with the affordability to make these payments.

The SLIDAC Board is responsible for ensuring that these principles are applied and that individuals are not rewarded for taking on undue risks. The Remuneration Committee of the Board supports it in achieving these objectives.

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 a predefined limit 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 2020.

Executive Directors and non-independent Non-Executive Directors are members of Phoenix pension schemes. The schemes are 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 SLIDAC.

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, with specified limits, 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 SLIDAC Risk and Compliance Function. 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. The second line also undertakes independent assurance reviews, as set out in the annual plan which is approved by the Board Risk Committee. The overall second line Mission and Mandate have been set out at the ERM and Board Risk Committee.
- **Third line:** The role of the third line is performed by Internal Audit that provides independent verification of the adequacy and effectiveness of governance, risk management and internal controls.

#### B.1.4 Changes to the System of Governance and ERM framework during 2020

Key changes to the System of Governance and ERM framework during 2020 have been:

- The establishment of a new Board Committee, the Model Governance Committee, to provide appropriate oversight and challenge on the Company's application for a PIM, and then to do the same on a business-as-usual basis if and when it has been approved by the CBI;
- The creation of a Customer Incident Management Committee (for Ireland) responsible for managing the conduct and customer risk across the SLIDAC Ireland business in line with established risk appetites;
- The creation of a Regulatory Change Forum (for Ireland) responsible for overseeing that all regulatory change impacting the Company business is actively assessed and appropriately implemented;
- The inclusion of the new Risk Management Framework which is in place to promote informed decision making and controlled risk taking;
- The inclusion of the new Governance & Compliance Manager (GCM) System that is used to embed proactive and effective risk management across the Company; and
- Updated reported lines of the Company Governance bodies.

# SECTION B SYSTEM OF GOVERNANCE CONTINUED

## B.2 FIT AND PROPER REQUIREMENTS

SLIDAC carries out due diligence and 'fit and proper' checks before appointing people to CFs and PCFs. PCFs include new Directors (including non-executive Directors), Executives and other roles specified by the CBI. The checks are fully documented and include an assessment of whether the person is 'fit' based on professional and formal qualifications, knowledge and relevant experience for the responsibilities of the role; and 'proper' based on honesty, financial soundness, character and criminal record.

Each year a Competency and Capability review is conducted to ensure that individuals carrying out PCFs and CFs roles are fit to carry out the role and individuals are asked to review the Fitness and Probity Standards and re-certify that they comply with those Standards.

Effectiveness reviews of the SLIDAC Board, the Audit Committee, the Risk Committee and the Nomination Committee were undertaken in 2020. Directors also completed self-assessment questionnaires, with actions agreed from the reviews.

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.



# SECTION B SYSTEM OF GOVERNANCE

## CONTINUED

### B.3 RISK MANAGEMENT SYSTEM continued

#### B.3.1 Enterprise risk management framework continued

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.

Work to harmonise the Standard Life and PGH ERM frameworks has been implemented across SLIDAC in 2020.

#### 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; and
- 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.

# SECTION B SYSTEM OF GOVERNANCE CONTINUED

## B.3 RISK MANAGEMENT SYSTEM continued

### B.3.2 Own risk and solvency assessment continued

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. As the Company is preparing an application for a PIM, differences between the two methods were assessed in the 2020 ORSA.

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.

The ORSA process is summarized in the diagram below.



# 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 rolled 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 the 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 also forms part of the framework. A new Risk Management administration system was also rolled out in 2020. The Conduct and Operational Risk framework comprises the following processes outlined below:

- Business risk profiles;
- Risk policy framework;
- Risk assessment including risk registers;
- Risk and Control self-assessment;
- Incident and breach management;
- Action plan management; and
- Key risk indicators.

#### Business Risk Profiles

A Business Risk Profile ('BRP') is a Line 1 report for a particular risk category which provides an overview of how well that risk is managed. BRPs contain a risk definition, qualitative and quantitative assessments of risks, details of key controls, key risk indicators and any relevant internal or external loss data. They also contain details of the top-down and bottom-up emerging risks and action plans to improve risk mitigation.

BRPs exist for each material Level 2 or Level 3 risk category and each BRP has an identifiable Risk Owner in Line 1. The Risk Owner is responsible for ensuring that the BRP is completed and they are supported in this by Risk Champions within their area. Risk Owners update most BRPs on a quarterly basis.

#### Risk 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 actions 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 GCM 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*

##### Risk and Control Self-Assessment

Risk and Control Self-Assessment ('RCSA') is a self-assessment tool, its purpose being to ensure that the risks that exist in key processes and the primary controls within them are documented and subject to regular assessment by business owners. The assessments include:

- the inherent likelihood and impact of key risks;
- the likelihood and impact of those risks following actions taken and controls put in place to mitigate against them;
- 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 control effectiveness conclusion.

The results of the RCSA certification process feed into the BRPs and provide senior management with assurance over the awareness of risks, and the effectiveness and quality of the control environment operated across the key business processes.

RCSA results may also lead to designing new procedures or changing existing procedures in order to reduce the probability of control failures.

##### Incident and Breach Management

An incident is a risk that has materialised as a result of a deficiency in our system of internal control or an external event and a breach is an incident that has gone beyond the appetites set for risks. Since they can have a significant impact on the Company's reputation and performance, we aim to identify and understand these quickly to ensure that an appropriate response is taken. The GCM system is used to log any incidents and breaches 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 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 GCM 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 was refreshed in 2020 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 Company'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 Company's 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).



# SECTION B SYSTEM OF GOVERNANCE

## CONTINUED

### B.5 INTERNAL AUDIT FUNCTION

#### 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 Company's Head of Internal Audit ('SLIHIA') reports functionally to the Company's 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 Company's 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.

### 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; and
- **With-Profits and Reinsurance Management:** monitor management of the with profits funds and compliance with relevant regulations. Oversee the adequacy and effectiveness of reinsurance arrangements.

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:** recommend to the Board methodology and assumptions for the calculations of IFRS actuarial liabilities;
- **Capital and liquidity management:** monitor and manage capital and liquidity; and
- **With-Profits and Reinsurance Management:** monitor management of the with profits funds and compliance with relevant regulations. Oversee the adequacy and effectiveness of reinsurance arrangements.

In addition to the requirements of Solvency II, the Actuarial Function is subject to the requirements of the CBI's Domestic Actuarial Regime.

## **SECTION B** SYSTEM OF GOVERNANCE CONTINUED

### **B.7 OUTSOURCING**

The SLIDAC Sourcing and Procurement Policy and Supplier Management Governance Process set 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 the 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 SLIDAC.

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.

Please note information on the Company's approach to Responsible Investment can be found on the following webpage: <https://www.standardlife.ie/news/responsible-investment>

# SECTION C

## RISK PROFILE

<b>RISK PROFILE</b>	<b>34</b>
C.1 Underwriting Risk	36
C.2 Market Risk	38
C.3 Credit Risk	39
C.4 Liquidity Risk	41
C.5 Operational Risk	43
C.6 Other Material Risks	46
C.7 Any Other Information	47

# SECTION C

## RISK PROFILE

### RISK PROFILE

Section B.3 sets out the risk management system including information on how the RMF 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 37 of the 2020 Annual Financial Statements. These are:

Risk	Description	More detail included in section
<b>Demographic and Expense Risk</b>	<b>Demographic</b> 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.	C.1 Underwriting risk
	<b>Expense</b> The risk that expense levels are higher than planned or revenue falls below what 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.	
<b>Financial Market and Credit Risks</b>	<b>Market</b> 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.	C.2 Market risk;
	<b>Credit</b> 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.	C.3 Credit risk
<b>Liquidity Risk</b>	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
<b>Operational Risk</b>	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
<b>Conduct Risk</b>	The risk that through our behaviours, strategies, decisions and actions the Company delivers unfair outcomes to our customers/clients and/or poor market conduct.	C.6 Other material risks
<b>Strategic Risk</b>	Risks which threaten the achievement of the strategy through poor strategic decision-making, implementation or response to changing circumstances.	C.6 Other material risks

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

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

# SECTION C RISK PROFILE

## CONTINUED

### RISK PROFILE continued

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 2020	SLIDAC SCR 31 December 2019
Underwriting risk	C.1	34%	34%
Market risk (including credit risk)	C.2 & C.3	54%	54%
Liquidity risk	C.4	0%	0%
Operational risk	C.5	12%	12%
Other risks	C.6	0%	0%
<b>Total</b>		<b>100%</b>	<b>100%</b>

There is very little movement in the above table versus 2019 for the overall risk groups. Credit risk has been included within the Market Risk category for the purposes of QRT reporting, with Credit Risk making up 27% of the undiversified SCR in 2020 versus 22% in 2019. The Market Risk category now also includes Concentration Risk which makes up less than 1% of the overall Market Risk module. The Company does not hold SCR for liquidity or other risks, as explained further in Section C.4.1 and C.6.1.

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

### C.1 UNDERWRITING RISK

#### C.1.1 Risk exposure

Underwriting risk refers to the risk that the frequency or severity of insured events may be worse than expected and includes expense risk. Contracts underwritten by the 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	31 December 2020	31 December 2019
Lapse Risk	22%	25%
Mortality Risk	0%	1%
Longevity Risk	4%	4%
Catastrophe Risk	0%	0%
Expense Risk	7%	5%
<b>Total Underwriting Risk</b>	<b>34%</b>	<b>34%</b>

During the year ended 31 December 2020, the key changes to the Company's exposure to underwriting risk include:

- The inclusion of investment management expenses in the scope of expense risk following updated guidance from EIOPA.
- The update of modelling of the charging structure on the Wrap Offshore bond, reducing exposure across all underwriting risks.
- The update of underwriting assumptions across a variety of products to reflect the results of experience analysis.

The ongoing consequences of the Coronavirus pandemic on health and longevity are not yet known, but may eventually have an effect on the Company's exposure to mortality and longevity risk.

# SECTION C RISK PROFILE

## CONTINUED

### C.1 UNDERWRITING RISK *continued*

#### 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 2020, 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.

#### C.1.4 Risk mitigation

Reinsurance is used within the Company primarily to reduce risk exposures arising on With-Profits policies. The reinsurance arrangements (including those with SLAL) covering these policies reduce the Company's underwriting risk exposure in respect of these policies. There are also some rider benefits on this reinsured book that are reinsured with external parties. If the external agreements were to default, the liability would be captured by the SLAL reinsurance treaty. There is also a small amount of reinsurance on the retained German business, where some rider benefits on policies are reinsured to third parties.

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 2020	446,634	132%
Following 6% decrease in annuitant mortality rates	447,655	129%
Following 10% increase in assurance mortality rates	445,388	132%
Following a 10% increase in lapse rates	435,128	132%
Following a 10% decrease in lapse rates	460,244	131%

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

# SECTION C RISK PROFILE

## CONTINUED

### 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
<b>Equity Risk</b>	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).
<b>Property Risk</b>	The risk of adverse property market movements which could result in a financial loss.
<b>Interest Rate Risk</b>	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.
<b>Spread Risk</b>	The risk of reduction in earnings and/or value, from unfavourable movements in the spread between corporate bond yields and swap rates used to discount insurance liabilities.
<b>Currency Risk</b>	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.
<b>Concentration Risk</b>	The risk that holdings in single assets or groups of associated assets magnify the market risk due to the concentrated nature of the exposure, due to a lack of diversification.

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

Components of Market Risk	31 December 2020	31 December 2019
Equity Risk	13%	18%
Property Risk	0%	0%
Interest Rate Risk	1%	1%
Spread Risk	7%	6%
Currency Risk	5%	6%
Concentration Risk	0%	n/a
<b>Total Market Risk</b>	<b>27%</b>	<b>31%</b>

During the year ended 31 December 2020, the following are the key changes to the Company's exposure to market risk:

- The update of modelling of the charging structure on the Wrap Offshore bond, reducing exposure across all market risks.
- Concentration risk has been included for completeness of coverage of the Standard Formula, but has never been a material risk for the Company.

#### 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 2020, market risk represented 27% of the Company's total undiversified SCR.

#### 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.

# SECTION C RISK PROFILE

## CONTINUED

### C.2 MARKET RISK *continued*

#### C.2.4 Risk mitigation

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

Risk Mitigation Technique	Description
<b>Diversification</b>	Where possible investments are diversified across class, industries and counterparties.
<b>Cashflow Matching</b>	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.
<b>Hedging</b>	Hedging programmes are in place within the with profits funds of the Company to reduce the exposure to equity risk on future policyholder charges, and to manage market risk (in particular equity and interest rate risk). To mitigate exposure to interest rate risk, assets with similar sensitivity to interest rate risk as the corresponding liabilities are selected where possible. Foreign Exchange forward contracts are used to mitigate currency risk on charges on the unit-linked funds.

#### C.2.5 Sensitivity analysis

As part of the Company's internal risk management processes, the impact of a number of market risk scenarios on the SCR is monitored. 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 2020	446,634	132%
Following a 20% fall in equity markets	402,984	138%
Following a 15% fall in property values	444,726	132%
Following a 60bps interest rates rise	409,925	157%
Following a 80bps interest rates fall	515,910	93%

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 both 2019 and 2020 and a number of management actions were implemented to increase the solvency ratio.

The Company is also making preparations to submit an application to the CBI for use of a PIM in calculating its capital requirements. The use of an approved PIM will reduce the sensitivity of the SCR to market risks.

### 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 material sources of credit risk:

Risk Source	Description
<b>Spread Risk</b>	The risk of reduction in earnings and/or value, from unfavourable movements in the spread between corporate bond yields and swap rates used to discount insurance liabilities.
<b>Investment counterparty risk</b>	The risk of reduction in earnings and/or value, arising from counterparty defaults on investments such as bonds, derivatives and cash deposits.
<b>Reinsurance counterparty risk</b>	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 2020 there were no key changes to the Company's credit risk exposures; the following remain the key exposures to credit risk:

- The reinsurance arrangements of the Irish and German business with SLAL.
- Corporate bond assets held to back the annuity liabilities.
- The two currency hedges in place, initially implemented in September 2019 and extended in 2020.

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.



# SECTION C RISK PROFILE

## CONTINUED

### C.3 CREDIT RISK *continued*

#### 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.

#### 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 Company's exposure to credit risk can be illustrated using the credit rating of the counterparty that issued bonds that we hold or that we have a reinsurance arrangement with. The table below provides information regarding the aggregate credit exposure split by credit rating, for direct holdings (other than assets held for unit-linked contracts) in government and corporate bonds and reinsurance counterparties.

Rating	Market Value €'000	Percentage of Total %
AAA	81,127	2%
AA	268,005	7%
A	3,130,903	87%
BBB	76,060	2%
BB	-	0%
B and below	23,265	1%
Non-rated		0%
<b>Total</b>	<b>3,579,359</b>	<b>100%</b>

As at 31 December 2020, 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 <sup>1</sup>	2,621,595
Standard Chartered Bank	51,257
Government of France	42,030
Qatar National Bank QPSC	38,121
Republic of Austria	32,194
First Abu Dhabi Bank PJSC	30,790
Sumitomo Mitsui Trust Bank Ltd	30,622
BPCE SA	24,879
Mitsubishi UFJ Financial Group Inc	21,121
China Construction Bank Corp	18,471

<sup>1</sup> The exposure to SLAL shown here is the expected recoverable, adjusted for collateral, risk-mitigating effects and a market risk adjustment.

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.

# SECTION C RISK PROFILE

## CONTINUED

### C.3 CREDIT RISK *continued*

#### C.3.4 Risk mitigation

The Company manages its exposure to credit risk, including concentration risk in-line with its Credit Risk Policy. This helps to mitigate the Company's credit risk by ensuring that appropriate processes, controls and governance is in place to monitor, report and manage all aspects of credit risk (including concentration risk).

The large exposure that the Company has to SLAL through the internal reinsurance arrangements is mitigated by two security arrangements that were entered into at the same time as the reinsurance arrangement. A 'fixed charge' provides the Company with a charge over specified assets in SLAL and acts as collateral for the majority of the reinsurance asset with SLAL. The remaining 'uncollateralised' reinsurance asset is secured with a floating charge that the Company has over the remainder of the assets of SLAL.

The ongoing effectiveness of credit risk mitigation is monitored on a regular basis by the Investment and Credit Committee.

#### 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. This sensitivity incorporates some modelling approximations and results are indicative. The result of such stress testing on the Company's SCR is provided below.

	SCR (€'000)	SCR Ratio (%)
Base: 31 December 2020	446,634	132%
Following credit spread widening (equivalent to average widening of 120bps)	442,487	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 which support the Company's annuity liabilities
- Very short-term pre-funding of large investments or switches
- Changes in the amount of collateral posted to track the movement in the value of foreign exchange forward contracts

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.

# SECTION C RISK PROFILE

## CONTINUED

### C.4 LIQUIDITY RISK *continued*

#### 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. These liquid asset requirements are monitored against available liquidity and tangible assets across various time horizons, with the outcomes reported through regular management information. This mitigates the risk that the Company does not have appropriate liquidity under severe stress conditions

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 committed £1.25bn (currently undrawn) Revolving Credit Facility.

The Company adopted its own risk policy framework in 2018 and in 2020 did a full refresh of its policies in line with the harmonisation of the risk management frameworks across the entities in the Phoenix Group; 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

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.

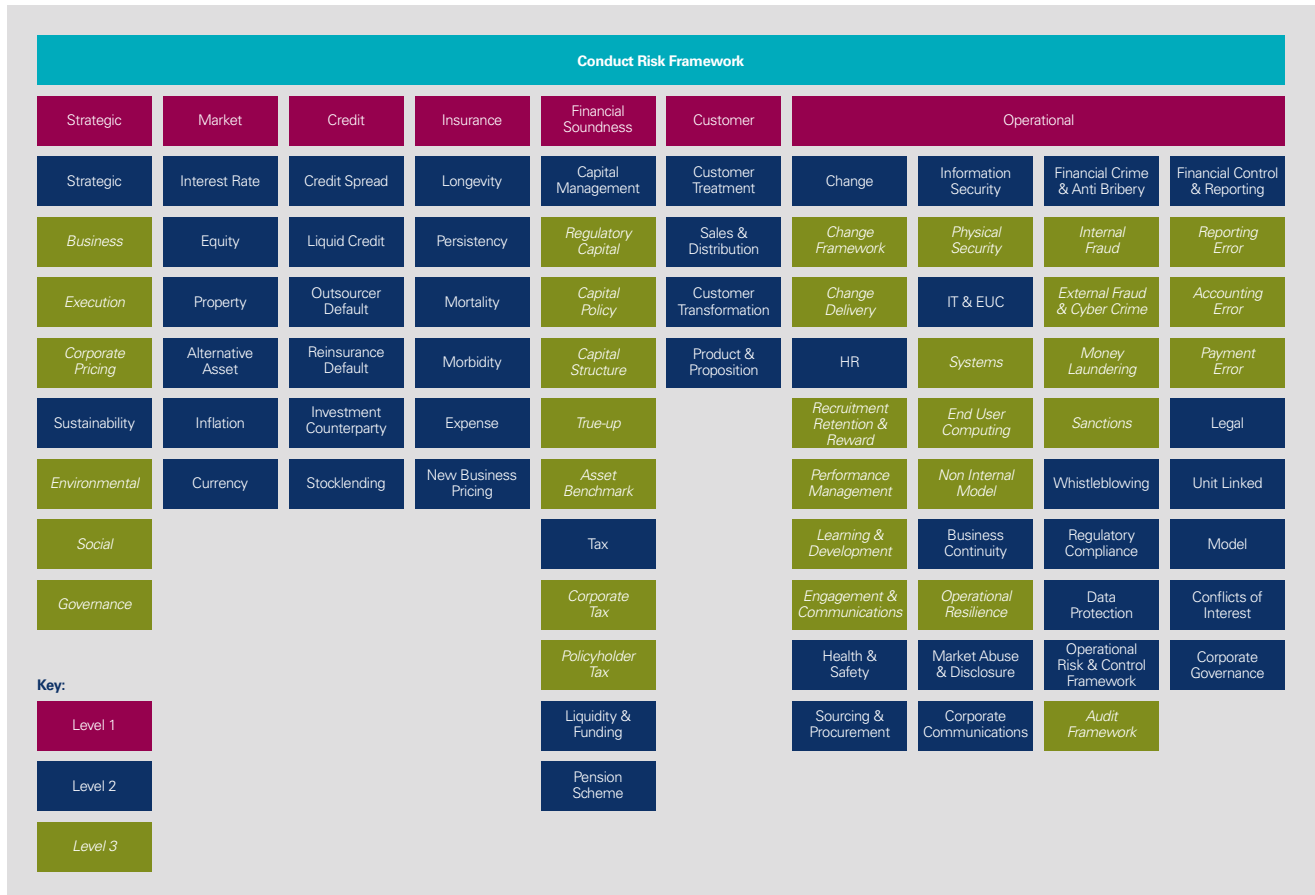
As at 31 December 2020, the Company's EPIFP (Gross of Reinsurance) is shown below. This is comprised of future profits arising across all lines of business.

	31 December 2020 (€'000)	31 December 2019 (€'000)
EPIFP (gross of tax and reinsurance)	596,944	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. The Company has developed a 'Risk Universe', illustrated in the diagram above, which classifies the various risk exposures under categories in three levels of detail. Conduct risk is an overarching risk that spans all of the categories, but operational risk most closely reflects the different sources of conduct risk.

# SECTION C RISK PROFILE

## CONTINUED

### C.5 OPERATIONAL RISK continued

#### C.5.1 Risk exposure continued

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 / Information Security** – the risk of financial or reputational loss that can result from failing to ensure confidentiality of information, failing to protect the integrity of information and/or, failing to secure and maintain availability of information.
- **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 technology** – the risk of reductions in earnings and/or value through financial, operational or reputational loss associated with inappropriate use of Information Technology, including failing to manage service availability or to design appropriate services.
- **Human resources** – the risk of reduction in earnings and/or value, through financial or reputational loss from inappropriate staff behaviour, industrial action or Health & Safety issues. Loss can also be incurred through failure to recruit, retain, train, reward or incentivise appropriately skilled staff to achieve objectives and/or through failure to take appropriate action as a result of staff under performance.
- **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).
- **Operational risk and control framework** – this captures the additional operational risk the Company would be exposed to due to an ineffective risk management framework, from inadequacies or failures. This may be at any level, from the policies and objectives, to resources, processes and activities carried out.

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: minimum control standards, Risk and Control Self-Assessment, key risk indicators, breach and incident recording and action plan management. The process is supported by the GCM system.

During the year ended 31 December 2020, the key changes to the Company’s exposure to operational risk included:

- the coronavirus pandemic caused the Company to switch the vast majority of staff to remote working, with only essential staff required to be present in our offices (mail scanning, IT infrastructure maintenance, etc.). This has changed the nature and relative sizes of exposures of the risk categories but the types of operational risks faced remain the same;
- the end of the UK’s withdrawal period from the European Union has removed the UK from the single market. This changes the ways that SLIDAC can operate across borders, both in terms of servicing customers but also in how shared services across the Group are arranged; 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 SCR. 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 €83,387k at 31 December 2020 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 under the ERM 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 SLIDAC 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 PGH and SLAL have developed for use in the harmonised Group for their 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.

SLIDAC is preparing to submit an application to the CBI to use a PIM, to allow the specific features of the reinsurance arrangement with SLAL to be recognised in the calculation of the SCR. This includes using the calculation of the Operational Risk contribution to own solvency needs outlined above instead of the Standard Formula.

#### C.5.3 Risk concentration

Within SLIDAC, operational risks are not significantly concentrated into any of the categories listed above. The largest exposures lie within the financial control & reporting, financial crime, data protection and regulatory compliance categories. SLIDAC 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. With the majority of staff currently working from home, the availability of premises generally is not an issue; however, IT infrastructure is still based in these offices and so service availability is still a key focus and subject to testing.

#### 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.

# SECTION C RISK PROFILE

## CONTINUED

### C.6 OTHER MATERIAL RISKS

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

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

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

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

Customer risk is the risk arising from the failure to have a customer centric culture, including failure to meet reasonable customer expectations, failure to design and/or manage products/propositions appropriately, or inappropriate (unclear, unfair or misleading) financial promotions, sales practices and/or distribution agreements resulting in poor customer outcomes. The types of scenarios leading to these outcomes are included in the assessment of operational risk, and so there is no requirement to hold additional capital in respect of these risks.

### 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 policy framework, which includes Market Risk, Insurance Risk, Credit Risk, Liquidity & Funding, 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 are invested in External Fund options. 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.



# SECTION C RISK PROFILE

## CONTINUED

### C.7 ANY OTHER INFORMATION continued

#### C.7.1 Prudent Person Principle continued

##### With-profits business

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

The with-profits assets are managed in a collection of funds and are invested according to the currency, term and nature of the underlying liabilities. These investments include some assets backing non-profit business that was written prior to SLAL's demutualisation and is owned by the Heritage With-Profit Fund. 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 SLIDAC Board on its use of discretion for the with-profits funds and on the reasonable expectations and fair treatment of policyholders in the SLAL with-profits funds. The With-Profits Actuary is supported in this aim by the SLAL 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.

##### Shareholder funds

Shareholder funds are directly exposed to investment profits and losses. The most significant funds are the assets backing annuities and the liquidity fund. 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.

The Investment and Credit Risk Committee has a key role in ensuring that shareholder investment strategy and investment performance are fully aligned to expectations and are within risk appetite.

##### 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 EFL. Our internal funds are managed by Aberdeen Standard Investments ('ASI').

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

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

To ensure the quality, security and liquidity of our funds, we predominantly invest in liquid securities that are listed or traded on regulated exchanges, or in daily priced funds that are authorised or recognised by the financial regulators in the markets where we operate. 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 2020	446,634	132%
Following a 20% fall in equity markets	402,984	138%
Following a 15% fall in property values	444,726	132%
Following a 60bps interest rates rise	409,925	157%
Following a 80bps interest rates fall	515,910	93%
Following credit spread widening (equivalent to average widening of 120bps)	442,487	122%
Following 6% decrease in annuitant mortality rates	447,655	129%
Following 10% increase in assurance mortality rates	445,388	132%
Following a 10% increase in lapse rates	435,128	132%
Following a 10% decrease in lapse rates	460,244	131%

#### 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 immediate impacts experienced were that equity markets fell, interest rates fell and credit spreads widened. Recovery was subsequently seen for equity markets and credit spreads through Q2 2020. Interest rates remained low through to the end of 2020, but have seen increases to date in Q1 2021.

Falls in interest rates and increases in credit spreads had an immediate impact on SCR and the Company's solvency coverage in March 2020. Impacts were in line with the sensitivities shown above.

In response to these impacts, the Company has sought, and received, capital support 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 a capital injection and a capital contribution totalling €57m from PGH during Q1 2020.

As noted above, interest rates remained low through to the end of 2020, with the Company seeking further support in the form of Ancillary Own Funds to bring its solvency position back within risk appetite ahead of year end.

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.

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

# SECTION D

## VALUATION FOR SOLVENCY PURPOSES

<b>VALUATION FOR SOLVENCY PURPOSES</b>	<b>49</b>
D.1 Assets and Liabilities	51
D.2 Technical Provisions	56
D.3 Other Liabilities	68
D.4 Alternative Methods for Valuation	69
D.5 Any Other Information	69

# 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 2020	Note	Solvency II Value €'000	Statutory Accounts Value €'000	Difference €'000
Deferred acquisition costs	1	–	219,245	219,245
Intangible assets	2	–	3,332	3,332
Deferred tax assets	3	–	3,339	3,339
Property, plant and equipment held for own use	4	882	882	–
<b>Investments (other than assets held for index-linked and unit-linked contracts)</b>	5			–
Holdings in related undertakings, including participations		528,454	528,454	–
Bonds		377,605	377,605	–
Collective Investment Undertakings		2,151	2,151	–
Derivatives		8,812	8,812	–
Deposits other than cash equivalents		2,732	2,732	–
Assets held for index-linked and unit-linked contracts	6	14,801,105	14,801,105	–
Loans and mortgages	7	42,127	42,127	–
Reinsurance recoverables	8	17,462,536	18,891,199	1,428,663
Insurance and intermediaries receivables	9	6,791	6,791	–
Reinsurance receivables	9	55,736	55,736	–
Receivables (trade, not insurance)	10	46,458	49,346	2,888
Cash and cash equivalents	11	28,468	28,468	–
<b>Total Assets</b>		<b>33,363,856</b>	<b>35,021,323</b>	<b>1,657,467</b>
Technical provisions (BEL plus risk margin)	12	32,560,793	34,032,304	1,471,511
Provisions other than technical provisions	13	11,389	11,389	–
Deferred tax liabilities	3	403	403	–
Derivatives	14	7,363	7,363	–
Debts owed to credit institutions	15	275	275	–
Insurance and intermediaries payables	16	121,964	121,964	–
Reinsurance payables	16	28	98,498	98,470
Payables (trade, not insurance)	17	126,991	126,991	–
Any other liabilities not elsewhere shown	18	–	52,083	52,083
<b>Total Liabilities</b>		<b>32,829,207</b>	<b>34,451,271</b>	<b>1,622,065</b>
<b>Excess of Assets over Liabilities</b>		<b>534,650</b>	<b>570,052</b>	<b>35,402</b>

# SECTION D VALUATION FOR SOLVENCY PURPOSES

## CONTINUED

### D.1 ASSETS AND LIABILITIES continued

#### D.1.1 Overview continued

The table above reflects reallocation adjustments which have been applied to assets and liabilities in the Company's IFRS statutory accounts at 31 December 2020. These adjustments relate to the following:

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

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

The Company's Solvency II valuation principles (including the bases, methods and main assumptions) for each asset and liability class are set out below. Unless otherwise stated (i.e. where there are differences to the 'Statutory accounts value' column) the valuation methods for IFRS are consistent with the valuation methods of the regulations. Further details on the IFRS valuation principles are set out in the Notes to the IFRS financial statements in the SLIDAC Annual Reports and Accounts for the year ended 31 December 2020. 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	<b>Deferred acquisition costs</b>	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	<b>Intangible assets</b>	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	<b>Deferred tax assets</b>	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. Differences in the value of deferred tax balances between the Solvency II and IFRS balance sheets arise as a consequence of differences in the carrying values of the underlying assets and liabilities.  Further details on the origin of the deferred tax assets are provided in section D.1.3.

# 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
4	Property, plant and equipment held for own use	<p><b>Property held for own use</b> 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><b>Plant and equipment held for own use</b> 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. 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.</p> <p>There is no valuation difference between the Solvency II balance sheet and the IFRS statutory accounts in property, plant and equipment held for own use.</p>
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"> <li>• 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;</li> <li>• Where quoted market prices are not available, quoted market prices for similar assets or liabilities are used to determine the fair value;</li> <li>• 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</li> <li>• 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.</li> </ul> <p><b>Holdings in related undertakings, including participations</b> comprise 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.</p> <p>In both the Company's IFRS statutory accounts and the Solvency II balance sheet, <b>Government bonds</b> are valued using quoted market prices provided by recognised pricing sources. For <b>corporate bonds</b> 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.</p> <p>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 <b>Collective Investments Undertakings</b> 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.</p> <p>In both the Company's IFRS statutory accounts and the Solvency II balance sheet, <b>derivative assets</b> 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. <b>Deposits other than cash and cash equivalents</b> comprise short-term deposits that cannot be used to make payments before a specific maturity date or without any penalty.</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
6	<b>Assets held for index-linked and unit-linked contracts</b>	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	<b>Loans and mortgages</b>	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	<b>Reinsurance recoverables</b>	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	<b>Insurance and intermediaries receivables, Reinsurance receivables</b>	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	<b>Receivables (trade, not insurance)</b>	No value is ascribed for certain prepayments under Solvency II, where they cannot be sold separately to a third party.  In contrast under IFRS, prepayments are recognised as an asset at amount paid less expenses incurred.
11	<b>Cash and cash equivalents</b>	Cash and cash equivalents comprise of cash balances that are usable for all forms of payments without penalty or restriction.
12	<b>Technical provisions (BEL plus risk margin)</b>	Details regarding the valuation of technical provisions are covered in section D.2.
13	<b>Provisions other than technical provisions</b>	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	<b>Derivatives</b>	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	<b>Debts owed to credit institutions</b>	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.
16	<b>Insurance and intermediaries payables, Reinsurance payables</b>	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. The IFRS amount includes a €98m negative reinsurance asset held within the Germany Heritage With-Profit Fund, which is removed for Solvency II as it is included within reinsurance recoverables.
17	<b>Payables (trade, not insurance)</b>	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	<b>Any other liabilities not elsewhere shown</b>	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.

## SECTION D VALUATION FOR SOLVENCY PURPOSES CONTINUED

### D.1 ASSETS AND LIABILITIES continued

#### D.1.3 Analysis of deferred tax

Deferred tax on the Solvency II balance sheet is recognised by reference to expected future taxable profits and valued based on the differences between the carrying value in the balance sheet and its tax base. Under Solvency II, the Deferred Tax Liability exceeds the Deferred Tax Asset, leading to a net liability position at 31 December 2020.

From a Statutory Accounts perspective at 31 December 2020, the SLIDAC Deferred Tax Asset ('DTA') is made up of €3,339k of DTA on historic losses within SLIDAC.

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 and Depreciable Tax Asset Carried Forward	148,604	195,154		343,758	25,535
Potential Deferred Tax Asset (12.5% of Losses Carried Forward, 32% for Germany)	18,575	62,449		81,025	
<b>Actual deferred tax asset (capped to DTL)</b>	<b>13,648</b>	<b>9,027</b>		<b>22,674</b>	<b>3,339</b>
Timing Differences between S2 and IFRS:					
- Remove DAC/DIR	(102,072)			(102,072)	
- Remove Intangibles	(597)			(597)	
- Remove IFRS Reserves	230,222	306,987		537,209	
- Add Solvency II Best Estimate Liabilities	51,739	(46,347)		5,391	
- Add Solvency II Risk Margin	(70,111)	(232,432)		(302,543)	
Total Timing Differences	109,180	28,208		137,388	
Deferred Tax Liability (12.5% of Timing Differences for Ireland, 32% for Germany)	13,648	9,027		22,674	
Statutory Accounts Deferred Tax Liability – Unit Linked					8,465
Policyholder Deferred Tax			403	403	403
<b>Total Deferred Tax Liability</b>	<b>13,648</b>	<b>9,027</b>	<b>403</b>	<b>23,077</b>	<b>8,868</b>
<b>Net Deferred Tax Position</b>			<b>403</b>	<b>403</b>	<b>5,529</b>



# 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 ('TPs') 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 liability, 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 liability 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 2020 including the amount of BEL and TPs as a whole, and the 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 2020, the contribution to technical provisions from each LoB 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	16,040,497	(373,388)	174,931	770,649	16,612,688
Risk margin	204,167	74,558	2,212	21,605	302,543
Technical Provisions as a whole	–	15,645,562	–	–	15,645,562
<b>Gross technical provisions</b>	<b>16,244,664</b>	<b>15,346,732</b>	<b>177,143</b>	<b>792,254</b>	<b>32,560,793</b>

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.

The Company writes business 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.2.2 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	Note	Insurance with-profit participation €'000	Index-linked and unit-linked insurance €'000	Health insurance €'000	Other Life insurance €'000	Total technical provisions €'000
<b>– IFRS to Solvency II reconciliation</b>						
<b>Statutory accounts value technical provisions – gross</b>		<b>17,271,619</b>	<b>15,720,016</b>	<b>172,421</b>	<b>759,175</b>	<b>33,923,230</b>
Statutory accounts value reinsurance		(17,279,714)	(844,711)	(171,435)	(387,794)	(18,683,654)
<b>Statutory accounts value technical provisions – net</b>		<b>(8,095)</b>	<b>14,875,304</b>	<b>986</b>	<b>371,381</b>	<b>15,239,576</b>
Change to discount curve	1	(0)	7,663	21	7,164	14,847
Change in restriction for negative sterling reserves	2	–	(435,430)	–	(0)	(435,430)
Demographic margin	3	–	–	–	(16,768)	(16,768)
Other	4	(26,934)	–	71	20,352	(6,511)
<b>Solvency II Best Estimate Liabilities – net</b>		<b>(35,029)</b>	<b>14,447,536</b>	<b>1,078</b>	<b>382,128</b>	<b>14,795,714</b>
Add Risk Margin	5	204,167	74,558	2,212	21,605	302,543
<b>Solvency II technical provisions – net</b>		<b>169,138</b>	<b>14,522,095</b>	<b>3,290</b>	<b>403,734</b>	<b>15,098,257</b>
Solvency II reinsurance		16,075,526	824,637	173,853	388,520	17,462,536
<b>Solvency II technical provisions – gross</b>		<b>16,244,664</b>	<b>15,346,732</b>	<b>177,143</b>	<b>792,254</b>	<b>32,560,793</b>

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	<b>Change to discount curve</b>	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	<b>Change in restriction for negative sterling reserves</b>	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, unit-linked present value of in-force business (‘PVIF’) are allowed as a reduction to technical provisions. For IFRS, negative sterling reserves are disallowed and set to zero except in cases where the policy has a surrender penalty. This effectively includes removing Sterling reserves calculated under IFRS and adding PVIF.
3	<b>Demographic margin</b>	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	<b>Other</b>	The ‘other’ line contains the profit margin which is an asset under SII, the counterparty default adjustment on the reinsurance arrangements the Company has with SLAL and external reinsurers (for PHI in payment in respect of Unit Linked business) and the planned investment provision.
5	<b>Risk Margin</b>	Risk margin is included in the SII technical provisions to allow for market consistent valuation.

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

- TP's as a whole
- 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.

#### D.2.3.3 Discount Rates

The valuation of future policyholder liabilities requires best estimate economic assumptions, and in particular a future interest rate assumption (i.e. yield curve). A risk free yield curve is the base curve used to value liabilities but with an allowance for credit risk. The risk free yield curves are based on swap rates, and specified by EIOPA. 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. The Company has submitted an application to the CBI to apply the Volatility Adjustment in the calculation of its Technical Provisions going forward.

An adjustment (also specified by EIOPA) is made to the swap curve for credit risk. At 31 December 2020, the Sterling credit risk adjustment was minus 10bps, and for Euros minus 10bps at each duration.

# 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.2.3.4 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. The effectiveness of such grouping is regularly reviewed to ensure appropriateness.

#### D.2.4 Calculation

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

##### D.2.4.1 Insurance with-profit participation

The Company has written a number of contract variations on a with-profits basis in Germany, Austria and Ireland. While these contracts may differ in certain aspects of the product features, they share the common feature in 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.
- German / Austrian 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.

# 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

Some German and Austrian unit-linked contracts also offer guaranteed annuity factors applicable to the accrued fund at maturity.

The 'asset share' is a measure of the with-profits policy value at the valuation date. In addition to the asset share, BEL includes 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).

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

- Asset share.

Less present value of:

- Deduction for guarantees.
- Future profits.

Plus present value of:

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

Asset shares are derived from a policy by policy retrospective roll-up of premiums allowing for investment returns on with-profits assets backing this business, guarantee deductions, 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 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 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.

# 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

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 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 respectively.

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, payment frequency and dependant's benefits. Expenses include renewal, termination and investment expenses, allowing for expense inflation as appropriate.

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

# SECTION D VALUATION FOR SOLVENCY PURPOSES

## CONTINUED

### D.2 TECHNICAL PROVISIONS continued

#### D.2.4 Calculation continued

##### 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)

BEL 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 including 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-profit unit-linked fund values meet the requirements to be a replicating portfolio. Under Solvency II, unit-linked contracts are unbundled and the unit liabilities are technically defined as "technical provisions calculated as a whole" as per the examples provided for Guideline 65 Reliable Replication (Calculation of Technical Provisions as a whole) in the "Guidelines on Valuation of Technical Provisions" as described below.

Insurance and reinsurance undertakings should not consider future cash-flows associated with insurance or reinsurance obligations to be reliably replicated if:

- (a) One or several features of the future cash-flow, inter alia its expected value, its volatility or any other feature, depend on risks whose specific pattern in the undertaking cannot be found in instruments actively traded in financial markets;
- (b) Current trade and price information are not normally readily available to the public, due to the fact that one or several features of the future cash-flow depend to any extent on the development of factors specific to the undertakings, such as expenses or acquisition costs; or,
- (c) One or more features of the future cash-flow depend on the development of factors external to the undertaking for which there are no financial instruments for which reliable market values are observable.

Therefore the gross unit fund value with no associated risk margin, is treated as 'technical provisions as a whole'.



# 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

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

- Technical provisions as a whole (unit fund).
- BEL component (PVIF) plus risk margin on PVIF.

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

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

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

### D.2.5 Demographic and expense assumptions

Non-economic assumptions are determined from annual experience investigations, are subject to detailed internal review and approved by the Board. Best estimate assumptions are made in respect of future levels of longevity, mortality, morbidity, surrenders, withdrawals, premium indexation, annuity take up rates 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.

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. This is an industry standard model and is a convenient 'currency' to allow direct comparison of assumptions to other companies through the use of benchmarking. Specific adjustments are made to the parameterisation of the CMI model to allow for socio-demographic differences between population and annuitant experience.

Assumptions regarding surrender and withdrawal reflect recent experience, with expert judgement applied to set long term rates where there is little experience.

Best estimate expense assumptions on a product 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 ASI reflecting current investment management agreements ('IMA'), varying by the nature of assets backing technical provisions. The overall expense is the sum of a weighted average basis point fee (based on the IMA rate card and assets under management), plus additional fees in relation to such items as performance, ancillary services, real estate support etc. Custody fees paid to the custodian are also included.

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. Expert judgement is applied where there is limited data or to remove one-off events and allow for future known changes.

# 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, early 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, early retirement, withdrawal and paid-up rates. Depending on the assumption, they vary by: product type, duration of business, policyholder age and territory.
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

##### 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	Take-up rates are also required for the valuation of guaranteed annuity factors applicable to the accrued fund at maturity.
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.2.5.4 Expense assumptions

##### Expense Assumptions

Insurance with-profit participation	<p><b>Maintenance Expenses</b> 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.</p> <p><b>Investment Expenses</b> Varies by territory and long-term business fund.</p>
Unit-linked	<p><b>Maintenance Expenses</b> These include an allowance for both renewal and termination expenses, and vary by: product and territory.</p> <p><b>Investment Expenses</b> Varies by: product grouping; territory, long-term business fund.</p>
Health	These products are rolled up with other lines of business when setting expense assumptions.
Other life insurance	<p><b>Maintenance Expenses</b> These include an allowance for both renewal and termination expenses.</p> <p><b>Investment Expenses</b> Varies by territory and long-term business fund.</p>

The only additional provision held is the best estimate expense provision held within the "Other life insurance" technical provisions. This is called the Planned Investments provision and applies to German and Irish expenses. This is essentially a reserve for development projects which are one-off in nature and represent a significant change in the business or fundamental, strategic change of direction. Given the nature of these projects we would not expect to incur these costs on an ongoing basis and so these costs should not be allowed for when setting best estimate long term expense assumptions.

#### D.2.6 Stochastic model

##### D.2.6.1 Economic Scenario Generators

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

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

##### D.2.6.2 Management actions

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

##### D.2.7.1 Matching Adjustment and Volatility Adjustment

The Company does not currently use a matching adjustment or a volatility adjustment. The Company has submitted an application to the CBI to apply the Volatility Adjustment in the calculation of its Technical Provisions going forward.

##### D.2.7.2 Transitional Measures for Technical Provisions

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

# SECTION D VALUATION FOR SOLVENCY PURPOSES

## CONTINUED

### D.2 TECHNICAL PROVISIONS *continued*

#### D.2.8 Recoverables on reinsurance contracts

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

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. It also entered into a number of external reinsurance arrangements with GenRe and Partner Re at this time.

Reinsurance recoverables are calculated using the same models and assumptions as the corresponding BELs. 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 19 of the Company's Annual Financial Statements 2020.

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	882	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	42,127	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

<b>CAPITAL MANAGEMENT</b>	<b>70</b>
E.1 Own Funds	71
E.2 Solvency Capital Requirement & Minimum Capital Requirement	76
E.3 Duration-Based Equity Risk SCR	77
E.4 Differences Between Standard Formula and Internal Model	77
E.5 Compliance with Capital Requirements	77
E.6 Any Other Information	77

# 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 MCR.

#### Key Solvency Metrics

At 31 December 2020, the capital position for the Company is presented in the table below:

	31 December 2020 €'000	31 December 2019 €'000
Eligible Own Funds	589,650	568,599
SCR	446,634	438,349
<b>Solvency II surplus</b>	<b>143,015</b>	<b>130,250</b>
<b>Ratio of Eligible Own Funds to SCR</b>	<b>132%</b>	<b>130%</b>

As at 31 December 2020, the Company's Solvency II surplus over the Company SCR is €143,015k, with a ratio of Eligible Own Funds to SCR of 132%. 91% 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. The remaining 9% (€55,000k) are Tier 2 Ancillary Own Funds which will become Tier 1 if called upon. The Company has sufficient Tier 1 Own Funds to cover the SCR.

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 continued to adopt its existing capital framework. Harmonisation with the PGH Group capital management framework is ongoing and a proposal to improve consistency with the Group framework was approved by the Board in March 2021. There remains differences between this new framework for SLIDAC and the PGH Group framework reflecting the different size and risk profile of SLIDAC relative to the other group entities. It also reflects differences arising from SLIDAC's Standard Formula capital calculation compared to the Group's Internal Model. SLIDAC is planning on submitting an application for a PIM and the harmonisation of the framework will be further considered on conclusion of the PIM project. 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.



# SECTION E CAPITAL MANAGEMENT

## CONTINUED

### **E.1 OWN FUNDS** continued

#### **E.1.2 Management of Own Funds** continued

The Company primarily manages its capital position by reference to its Capital Targets Framework ('CTF'). A revised CTF was approved by the SLIDAC Board in March 2021. The new framework involves an All Risk approach, whereby the Company will hold capital against a scenario which encompasses all the risks to which SLIDAC is exposed. The risks to which SLIDAC is most sensitive (based on univariate analysis) have higher weightings in the All Risk scenario. The All Risk scenario will be calibrated and fully modelled annually. Sensitivity analysis will be performed quarterly to ensure that the risk profile has not changed significantly and that the All Risk scenario remains valid. The Framework is used to inform all key Board decisions with capital implications, in particular dividend proposals, investment strategy, capital planning and other management actions.

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

The solvency position, risk exposures versus limits, and CTF status will be 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 Ancillary Own Funds included at 31 December 2020 are Tier 2 funds, which will become restricted Tier 1 if called upon.

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

The Company has ample Tier 1 funds to cover its capital requirements, with the Tier 2 Ancillary Own Funds providing an additional layer of security.

## SECTION E CAPITAL MANAGEMENT CONTINUED

### E.1 OWN FUNDS continued

#### E.1.4 Analysis of solvency position

The table below summarises the SLIDAC solvency position at 31 December 2020. 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 2020 Total €'000	31 December 2019 Total €'000
Ordinary Share Capital	E.1.4.1	50,020	–	–	50,020	50,020
Share Premium account related to Ordinary Share Capital	E.1.4.1	382,358	–	–	382,358	348,168
Reconciliation reserve (pre-availability restrictions)	E.1.4.1	102,271	–	–	102,271	170,411
Net Deferred Tax Assets	E.1.4.1	–	–	–	–	–
<b>Excess of Assets over Liabilities</b>		<b>534,650</b>	<b>–</b>	<b>–</b>	<b>534,650</b>	<b>568,599</b>
Subordinated Liabilities	E.1.4.1	–	–	–	–	–
<b>Total Basic and Available Own Funds</b>		<b>534,650</b>	<b>–</b>	<b>–</b>	<b>534,650</b>	<b>568,599</b>
Ancillary Own Funds	E.1.4.1	–	55,000	–	55,000	–
<b>Eligible Own Funds to meet SCR</b>		<b>534,650</b>	<b>55,000</b>	<b>–</b>	<b>589,650</b>	<b>568,599</b>
SCR	E.2.1				(446,634)	(438,349)
<b>Solvency II surplus</b>					<b>143,015</b>	<b>130,250</b>
<b>Ratio of Eligible own funds to SCR</b>	E.1.1				<b>132%</b>	<b>130%</b>
<b>Eligible Own Funds to meet MCR</b>					<b>534,650</b>	<b>568,599</b>
<b>MCR</b>					<b>(111,659)</b>	<b>(109,587)</b>
<b>Excess over MCR</b>					<b>422,991</b>	<b>459,012</b>
<b>Ratio of Eligible own funds to MCR</b>					<b>479%</b>	<b>519%</b>

#### E.1.4.1 Eligible Own Funds

The Company's Eligible Own Funds total €589,650k (2019: €568,599k) and comprise of ordinary share capital, share premium account related to ordinary share capital, ancillary own funds and a reconciliation reserve. Further details regarding each Basic Own Funds item are set out below.

#### Ordinary Share Capital

The Company's issued and fully paid ordinary share capital is €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 of €382,358k relates to the ordinary share capital and is treated as Tier 1 unrestricted Own Funds.

# SECTION E CAPITAL MANAGEMENT

## CONTINUED

### E.1 OWN FUNDS *continued*

#### E.1.4 Analysis of solvency position *continued*

##### E.1.4.1 Eligible Own Funds *continued*

#### Reconciliation Reserve

The reconciliation reserve is the amount of excess assets over liabilities (valued in accordance with the Solvency II regulations and guidance) that remain once all the other identified elements of basic own funds have been deducted. As such, it serves to ensure that the total of all the individual basic own funds items are equal to the total excess of assets over liabilities and subordinated liabilities. The 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 2020 €'000	31 December 2019 €'000
<b>Reconciliation Reserve</b>		
Excess of Assets over Liabilities	534,650	568,599
<b>Deduct other Basic Own Fund Items</b>		
Ordinary Share Capital	(50,020)	(50,020)
Share Premium Account related to ordinary share capital	(382,358)	(348,168)
Net deferred tax asset – Tier 3	–	–
<b>Reconciliation Reserve pre-availability restrictions</b>	<b>102,271</b>	<b>170,411</b>
Ring Fenced Fund Restriction	–	–
<b>Reconciliation Reserve Total (as shown on Own Funds QRT)</b>	<b>102,271</b>	<b>170,411</b>

#### 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 2020, there was no recognition of net deferred tax asset as Tier 3 Capital.

#### Ancillary Own Funds

During December 2020 €55,000k of ancillary own funds were made available to the Company from PGH for a term of 5 years. These funds are classified as Tier 2 amounts until they are called upon, at which point they will become restricted Tier 1 funds. Previously the Company had no Tier 2 funds.

#### 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
<b>Opening position at 1 January 2020</b>		568,599	438,349	130,250
Capital Items	1	111,860	–	111,860
Expected Run-Off	2	–	(25,460)	25,460
New Business	3	4,878	19,400	(14,522)
Demographic Experience Variances (including changes to assumptions)	4	(1,580)	173	(1,753)
Economic Variances on Long-Term Business	5	(10,016)	26,460	(36,476)
Model and Methodology Changes	6	(41,615)	(12,288)	(29,327)
Movement in Risk Margin	7	(42,477)	–	(42,477)
<b>Closing position at 31 December 2020</b>		<b>589,650</b>	<b>446,634</b>	<b>143,015</b>

# 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 continued

Note	Item	Information
1	<b>Capital Items</b>	This relates to a capital injection (€34m) and a capital contribution (€23m) received from PGH in Q1 2020, along with €55m in Ancillary Own Funds provided in Q4 2020.
2	<b>Expected Run-Off</b>	Policy run-off over the year resulted in the release of the related SCR requirements and increased the Solvency II surplus.
3	<b>New Business</b>	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	<b>Demographic Experience Variances</b>	This item covers variances in experience versus plan and also the impact of assumption changes made in the second half of 2020 to more accurately reflect recent and expected persistency, mortality and expense experience.
5	<b>Economic Variances on Long-Term Business</b>	Economic variances on long-term business decreased the Solvency II surplus. The movement in Own Funds was a result of market movements throughout 2020. 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.
6	<b>Model and Methodology Changes</b>	This item covers a number of model adjustments made to the Offshore bond business in the second half of 2020, including the impact on the risk margin.
7	<b>Movement in Risk Margin</b>	Changes in risk margin as a result of SCR impacts, along with interest rate movements throughout the year, decreased the overall Solvency II surplus.

##### 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.

		31 December 2020 €'000	31 December 2019 €'000
Total Equity per IFRS		570,052	535,894
<b>Valuation differences:</b>			
Assets increase/(decrease):			
Intangible Assets/Deferred Acquisition Costs	D.1.2	(222,577)	(234,331)
Reinsurance Recoverables	D.1.2	(1,428,663)	(1,061,143)
Deferred Tax Assets	D.1.2	(3,339)	(4,036)
Receivables (trade, not insurance)	D.1.2	(2,888)	(2,974)
Liabilities increase/(decrease):			
Technical Provisions	D.2.2	1,471,511	1,282,805
Deferred Tax Liabilities	D.1.2	-	(1,566)
Reinsurance Payables	D.1.2	98,470	-
Any other liabilities not elsewhere shown	D.1.2	52,083	53,951
<b>Excess of assets over liabilities</b>	D.1.2	<b>534,650</b>	<b>568,599</b>

# SECTION E CAPITAL MANAGEMENT

## CONTINUED

### E.2 SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT

#### E.2.1 Solvency capital requirement

The Company's capital position is governed by the Solvency II regulatory regime. Under Solvency II, every insurer is required to identify its key risks – e.g. that equity markets fall – and hold sufficient capital to withstand adverse outcomes from those risks. The capital required to withstand these outcomes is the 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 2020 is presented below.

Analysis of SCR – 31 December 2020	Note	SLIDAC Standard Formula €'000
Underwriting Risk (i.e. insurance risk)	1	227,845
Market and credit risk	2	365,238
Liquidity risk	3	
Operational risk	4	83,387
Other risks	5	
<b>Total undiversified SCR</b>		<b>676,471</b>
Diversification benefits	6	229,836
<b>Total SCR</b>		<b>446,634</b>

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

The 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	<b>Underwriting risk</b>	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	<b>Market and credit risk</b>	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	<b>Liquidity risk</b>	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	<b>Operational risk</b>	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	<b>Other risks</b>	There are no other material risks to which SLIDAC is exposed.
6	<b>Diversification benefits</b>	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 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 2020 is €111,659k (2019: €109,587k). The components of the overall calculation of the MCR as at 31 December 2020 are:

Calculation of MCR – 31 December 2020	€'000
MCR before the application of floors of caps	110,179
MCR cap (45% of SCR)	200,985
MCR floor (higher of 25% of SCR or €3.7m)	111,659
<b>MCR (post application of floors of caps)</b>	<b>111,659</b>

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

Analysis of change in MCR	31 December 2020 €'000	31 December 2019 €'000
Technical Provisions for Index-linked and unit-linked insurance business	14,447,536	14,151,316
Technical Provisions for Other business	383,206	345,275
Capital at Risk	1,427,436	1,466,680
<b>Linear MCR</b>	<b>110,179</b>	<b>107,337</b>
25% of SCR	111,659	109,587
Linear MCR	110,179	107,337
45% of SCR	200,985	197,257
<b>Combined MCR</b>	<b>111,659</b>	<b>109,587</b>

As the 25% of SCR 'bites' for SLIDAC, the increase in MCR is a result of the increase in SCR as described in section E.1.4.2.

#### 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 SCR.

#### 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 SCR.

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

Throughout 2020 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

Impacts observed in 2020 in relation to the COVID-19 pandemic have been covered in C.7.3.

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

# APPENDICES

<b>APPENDIX AND ADDITIONAL INFORMATION</b>	<b>78</b>
<b>Appendix 1 – Quantitative reporting templates (31 December 2020)</b>	<b>79</b>
SE.02.01.16 Balance sheet	79
S.05.01.01 Premiums, claims and expenses by line of business	81
S.05.02.01 Premiums, claims and expenses by country	82
S.12.01.01 Life and health technical provisions	83
S.23.01.01 Own funds	85
S.25.01.01 Solvency capital requirement – using the standard formula	87
S.28.01.01 Minimum capital requirement for life or non-life insurance	88
<b>Appendix 2 – Glossary</b>	<b>89</b>

# APPENDIX 1 QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2020)

## APPENDIX 1.1 – SE.02.01.16 BALANCE SHEET

		Solvency II value C0010 €'000
<b>Assets</b>		
Intangible assets	R0030	–
Deferred tax assets	R0040	–
Pension benefit surplus	R0050	–
Property, plant & equipment held for own use	R0060	882
<b>Investments (other than assets held for index-linked and unit-linked contracts)</b>	<b>R0070</b>	<b>919,754</b>
Property (other than for own use)	R0080	–
Holdings in related undertakings, including participations	R0090	528,454
Equities	R0100	–
Equities – listed	R0110	–
Equities – unlisted	R0120	–
Bonds	R0130	377,605
Government Bonds	R0140	127,912
Corporate Bonds	R0150	249,693
Structured notes	R0160	–
Collateralised securities	R0170	–
Collective Investments Undertakings	R0180	2,151
Derivatives	R0190	8,812
Deposits other than cash equivalents	R0200	2,732
Other investments	R0210	–
Assets held for index-linked and unit-linked contracts	R0220	14,801,105
<b>Loans and mortgages</b>	<b>R0230</b>	<b>42,127</b>
Loans on policies	R0240	132
Loans and mortgages to individuals	R0250	–
Other loans and mortgages	R0260	41,995
<b>Reinsurance recoverables from:</b>	<b>R0270</b>	<b>17,462,536</b>
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	16,637,899
Health similar to life	R0320	173,853
Life excluding health and index-linked and unit-linked	R0330	16,464,046
Life index-linked and unit-linked	R0340	824,637
Deposits to cedants	R0350	–
Insurance and intermediaries receivables	R0360	6,791
Reinsurance receivables	R0370	55,736
Receivables (trade, not insurance)	R0380	46,458
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	28,468
Any other assets, not elsewhere shown	R0420	–
<b>Total assets</b>	<b>R0500</b>	<b>33,363,856</b>



# APPENDIX 1 QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2020) CONTINUED

## APPENDIX 1.1 – SE.02.01.16 BALANCE SHEET continued

		Solvency II value C0010 €'000
<b>Liabilities</b>		
<b>Technical provisions – non-life</b>	<b>R0510</b>	–
<b>Technical provisions – non-life (excluding health)</b>	<b>R0520</b>	–
TP calculated as a whole	R0530	–
Best Estimate	R0540	–
Risk margin	R0550	–
<b>Technical provisions – health (similar to non-life)</b>	<b>R0560</b>	–
TP calculated as a whole	R0570	–
Best Estimate	R0580	–
Risk margin	R0590	–
<b>Technical provisions – life (excluding index-linked and unit-linked)</b>	<b>R0600</b>	<b>17,214,061</b>
Technical provisions – health (similar to life)	R0610	177,143
TP calculated as a whole	R0620	–
Best Estimate	R0630	174,931
Risk margin	R0640	2,212
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	17,036,918
TP calculated as a whole	R0660	–
Best Estimate	R0670	16,811,146
Risk margin	R0680	225,772
<b>Technical provisions – index-linked and unit-linked</b>	<b>R0690</b>	<b>15,346,732</b>
TP calculated as a whole	R0700	15,645,562
Best Estimate	R0710	(373,388)
Risk margin	R0720	74,558
Contingent liabilities	R0740	–
Provisions other than technical provisions	R0750	3,294
Pension benefit obligations	R0760	8,095
Deposits from reinsurers	R0770	–
Deferred tax liabilities	R0780	403
Derivatives	R0790	7,363
Debts owed to credit institutions	R0800	275
Financial liabilities other than debts owed to credit institutions	R0810	–
Insurance & intermediaries payables	R0820	121,964
Reinsurance payables	R0830	28
Payables (trade, not insurance)	R0840	126,991
<b>Subordinated liabilities</b>	<b>R0850</b>	–
Subordinated liabilities not in BOF	R0860	–
Subordinated liabilities in BOF	R0870	–
Any other liabilities, not elsewhere shown	R0880	–
<b>Total liabilities</b>	<b>R0900</b>	<b>32,829,207</b>
<b>Excess of assets over liabilities</b>	<b>R1000</b>	<b>534,650</b>

# APPENDIX 1 QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2020) CONTINUED

## APPENDIX 1.2 – S.05.01.01 PREMIUMS, CLAIMS AND EXPENSES BY LINE OF BUSINESS

	Line of Business for: life insurance obligations							Life reinsurance obligations		
	Health insurance 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	Total C0300
<b>Premiums written</b>										
Gross	R1410	–	786,093	1,378,593	31,587	–	–	–	18,115	2,214,388
Reinsurers' share	R1420	–	783,430	24,236	73	–	–	–	–	807,739
Net	R1500	–	2,663	1,354,358	31,514	–	–	–	18,115	1,406,649
<b>Premiums earned</b>										
Gross	R1510	–	786,093	1,378,593	31,587	–	–	–	18,115	2,214,388
Reinsurers' share	R1520	–	783,430	24,236	73	–	–	–	–	807,739
Net	R1600	–	2,663	1,354,358	31,514	–	–	–	18,115	1,406,649
<b>Claims incurred</b>										
Gross	R1610	2,335	755,799	1,259,709	43,120	–	–	–	87,030	2,147,992
Reinsurers' share	R1620	2,335	737,195	110,095	26,968	–	–	–	–	876,593
Net	R1700	–	18,603	1,149,614	16,152	–	–	–	87,030	1,271,399
<b>Changes in other technical provisions</b>										
Gross	R1710	(9,262)	(1,577,301)	(811,003)	(20,325)	–	–	–	68,854	(2,349,037)
Reinsurers' share	R1720	(9,015)	(1,586,526)	69,511	16,465	–	–	–	–	(1,509,565)
Net	R1800	(247)	9,225	(880,514)	(36,790)	–	–	–	68,854	(839,472)
<b>Expenses incurred</b>	R1900	2	62,878	142,555	3,882	–	–	–	–	209,317
<b>Other expenses</b>	R2500	–	–	–	–	–	–	–	–	–
<b>Total expenses</b>	R2600	–	–	–	–	–	–	–	–	209,317

# APPENDIX 1 QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2020) CONTINUED

## APPENDIX 1.2- S.05.02.01 PREMIUMS, CLAIMS AND EXPENSES BY COUNTRY

		Top 5 countries (by amount of gross premiums written) – life obligations						Total Top 5 and home country
		Home country						
		C0150	C0160	C0170	C0180	C0190	C0200	C0210
R1400	IE	DE	GB					
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
<b>Premiums written</b>								
Gross	R1410	688,979	871,561	556,234	97,614	–	–	2,214,388
Reinsurers' share	R1420	28,655	705,286	–	73,798	–	–	807,739
Net	R1500	660,324	166,275	556,234	23,816	–	–	1,406,649
<b>Premiums earned</b>								
Gross	R1510	688,979	871,561	556,234	97,614	–	–	2,214,388
Reinsurers' share	R1520	28,655	705,286	–	73,798	–	–	807,739
Net	R1600	660,324	166,275	556,234	23,816	–	–	1,406,649
<b>Claims incurred</b>								
Gross	R1610	964,298	618,091	425,119	140,485	–	–	2,147,992
Reinsurers' share	R1620	182,997	559,610	–	133,986	–	–	876,593
Net	R1700	781,301	58,481	425,119	6,498	–	–	1,271,399
<b>Changes in other technical provisions</b>								
Gross	R1710	(12,964)	(1,745,064)	(546,046)	(44,964)	–	–	(2,349,037)
Reinsurers' share	R1720	121,535	(1,609,369)	–	(21,731)	–	–	(1,509,565)
Net	R1800	(134,499)	(135,695)	(546,046)	(23,233)	–	–	(839,472)
<b>Expenses incurred</b>	R1900	91,752	79,031	26,793	11,741	–	–	209,317
<b>Other expenses</b>	R2500	–	–	–	–	–	–	–
<b>Total expenses</b>	R2600	–	–	–	–	–	–	<b>209,317</b>

# APPENDIX 1 QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2020) CONTINUED

## APPENDIX 1.3 – S.12.01.01 LIFE AND HEALTH SLT TECHNICAL PROVISIONS

		Index-linked and unit-linked insurance				Other life insurance			Annuitants stemming from non-life insurance contracts other than health	Accepted reinsurance	Total (life other than health insurance, incl. unit-linked)
		Insurance with profit participation	Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees		C0090		
		C0020	C0030	C0040	C0050	C0060	C0070	C0080		C0100	C0150
<b>Technical provisions calculated as a whole</b>	R0010	- 14,801,105	-	-	-	-	-	-	-	844,457	15,645,562
Total Recoverables from reinsurance/SPV and Finite Re after adjustment	R0020	- 844,457	-	-	-	-	-	-	-	-	844,457
Technical provisions calculated as a sum of BE and RM		-	-	-	-	-	-	-	-	-	-
<b>Best Estimate</b>		-	-	-	-	-	-	-	-	-	-
<b>Gross Best Estimate</b>	R0030	16,040,497	-	- (373,388)	-	-	- 770,649	-	-	-	16,437,757
Total Recoverables from reinsurance/SPV and Finite Re before adjustment	R0040	16,075,526	-	- (19,820)	-	-	407,021	-	-	-	16,462,727
Total Recoverables from reinsurance/SPV and Finite Re after adjustment	R0080	16,075,526	-	- (19,820)	-	-	388,520	-	-	-	16,444,226
Best estimate minus recoverables from reinsurance/SPV and Finite Re-total	R0090	(35,029)	-	- (353,569)	-	-	382,128	-	-	-	(6,469)
<b>Risk Margin</b>	R0100	204,167	74,558	-	-	21,605	-	-	-	-	300,331
<b>Amount of the transitional on Technical Provisions</b>		-	-	-	-	-	-	-	-	-	-
Technical provisions calculated as a whole	R0110	-	-	-	-	-	-	-	-	-	-
Best estimate	R0120	-	-	-	-	-	-	-	-	-	-
Risk margin	R0130	-	-	-	-	-	-	-	-	-	-
<b>Technical provisions-total</b>	R0200	16,244,664	14,502,275	-	-	792,254	-	-	-	844,457	32,383,650

# APPENDIX 1 QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2020) 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	Health reinsurance (reinsurance accepted)	Total Health (similar to Life)
		C0160	Contracts without options and guarantees C0170	Contracts with options or guarantees C0180			
<b>Technical provisions calculated as a whole</b>	R0010	-	-	-	-	-	-
Total Recoverables from reinsurance/SPV and Finite Re after adjustment	R0020	-	-	-	-	-	-
Technical provisions calculated as a sum of BE and RM		-	-	-	-	-	-
<b>Best Estimate</b>		-	-	-	-	-	-
<b>Gross Best Estimate</b>	R0030	-	-	<b>174,931</b>	-	-	<b>174,931</b>
Total Recoverables from reinsurance/SPV and Finite Re before adjustment	R0040	-	-	173,924	-	-	173,924
Total Recoverables from reinsurance/SPV and Finite Re after adjustment	R0080	-	-	173,853	-	-	173,853
Best estimate minus recoverables from reinsurance/SPV and Finite Re–total	R0090	-	-	1,078	-	-	1,078
<b>Risk Margin</b>	R0100	<b>2,212</b>	-	-	-	-	<b>2,212</b>
<b>Amount of the transitional on Technical Provisions</b>		-	-	-	-	-	-
Technical provisions calculated as a whole	R0110	-	-	-	-	-	-
Best estimate	R0120	-	-	-	-	-	-
Risk margin	R0130	-	-	-	-	-	-
<b>Technical provisions–total</b>	R0200	<b>177,143</b>	-	-	-	-	<b>177,143</b>

# APPENDIX 1 QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2020) 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
<b>Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35</b>						
Ordinary share capital (gross of own shares)	R0010	50,020	50,020	–	–	–
Share premium account related to ordinary share capital	R0030	382,358	382,358	–	–	–
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	102,271	102,271	–	–	–
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	–	–	–	–	–
<b>Deductions</b>						
Deductions for participations in financial and credit institutions	R0230	–	–	–	–	–
<b>Total basic own funds after adjustments</b>	<b>R0290</b>	<b>534,650</b>	<b>534,650</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Ancillary own funds</b>						
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	55,000	–	–	55,000	–
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	–	–	–	–	–
<b>Total ancillary own funds</b>	<b>R0400</b>	<b>55,000</b>	<b>–</b>	<b>–</b>	<b>55,000</b>	<b>–</b>
<b>Available and eligible own funds</b>						
Total available own funds to meet the SCR	R0500	589,650	534,650	–	55,000	–
Total available own funds to meet the MCR	R0510	534,650	534,650	–	–	–
Total eligible own funds to meet the SCR	R0540	589,650	534,650	–	55,000	–
Total eligible own funds to meet the MCR	R0550	534,650	534,650	–	–	–
<b>SCR</b>	<b>R0580</b>	<b>446,634</b>				
<b>MCR</b>	<b>R0600</b>	<b>111,659</b>				
<b>Ratio of eligible own funds to SCR</b>	<b>R0620</b>	<b>132%</b>				
<b>Ratio of eligible own funds to MCR</b>	<b>R0640</b>	<b>479%</b>				

# APPENDIX 1 QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2020) CONTINUED

## APPENDIX 1.4– S.23.01.01 OWN FUNDS continued

		C0060
<b>Reconciliation reserve</b>		
Excess of assets over liabilities	R0700	534,650
Own shares (held directly and indirectly)	R0710	–
Foreseeable dividends, distributions and charges	R0720	–
Other basic own fund items	R0730	432,379
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring-fenced funds	R0740	–
<b>Reconciliation reserve</b>	R0760	102,271
<b>Expected profits</b>		
Expected profits included in future premiums (EPIFP) – Life business	R0770	596,944
Expected profits included in future premiums (EPIFP) – Non-life business	R0780	–
<b>Total EPIFP</b>	R0790	596,944

# APPENDIX 1 QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2020) 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	142,445	142,445	–
Counterparty default risk	R0020	183,533	183,533	–
Life underwriting risk	R0030	186,528	186,528	–
Health underwriting risk	R0040	–	–	–
Non-life underwriting risk	R0050	–	–	–
Diversification	R0060	(148,856)	(148,856)	–
Intangible asset risk	R0070	–	–	–
<b>Basic Solvency Capital Requirement</b>	<b>R0100</b>	<b>363,650</b>	<b>363,650</b>	<b>–</b>
<b>Calculation of Solvency Capital Requirement</b>				<b>C0100 €'000</b>
Operational risk	R0130			83,387
Loss-absorbing capacity of technical provisions	R0140			–
Loss absorbing capacity of deferred taxes	R0150			(403)
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160			–
<b>Solvency capital requirement excluding capital add-on</b>	<b>R0200</b>			<b>446,634</b>
Capital add-on already set	R0210			–
<b>Solvency capital requirement</b>	<b>R0220</b>			<b>446,634</b>
<b>Other information on SCR</b>				
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			4 – No adjustment



# APPENDIX 1 QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2020) 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 <sub>L</sub> Result	R0200		110,179
		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	14,447,536	–
Other life (re)insurance and health (re)insurance obligations	R0240	383,206	–
Total capital at risk for all life (re)insurance obligation	R0250	–	1,427,436
<b>Overall MCR calculation</b>		<b>C0070</b>	
Linear MCR	R0300		110,179
SCR	R0310		446,634
MCR cap	R0320		200,985
MCR floor	R0330		111,659
Combined MCR	R0340		111,659
Absolute floor of the MCR	R0350		3,700
<b>Minimum Capital Requirement</b>	R0400		111,659

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

# APPENDIX 2 GLOSSARY

## **Ancillary own funds**

Ancillary own funds shall consist of items other than basic own funds which can be called up to absorb losses.

Ancillary own funds may comprise the following items to the extent that they are not basic own-fund items:

- (a) unpaid share capital or initial fund that has not been called up;
- (b) letters of credit and guarantees;
- (c) any other legally binding commitments received by insurance and reinsurance undertakings.

Where an ancillary own-fund item has been paid in or called up, it shall be treated as an asset and cease to form part of ancillary own-fund items.

## **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.

## APPENDIX 2 GLOSSARY

### CONTINUED

#### **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.

#### **PGH**

Phoenix Group Holdings plc.

#### **PIM**

Partial Internal Model.

#### **PRA**

Prudential Regulation Authority.

#### **Present value of in-force business (PVIF)**

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

#### **Reinsurance**

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

#### **Risk margin**

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

#### **SLAL**

Standard Life Assurance Limited.

#### **SLIDAC**

Standard Life International Designated Activity Company.

#### **Solvency II directive**

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

## **APPENDIX 2** GLOSSARY

### CONTINUED

#### **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.



**STANDARD LIFE INTERNATIONAL**

**Registered Address**

90 St. Stephen's Green  
Dublin 2  
D02 F653

**Registered Number**

408507

**[thephoenixgroup.com](http://thephoenixgroup.com)**