



Solvency and Financial Condition Report

31 December 2017

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

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

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Directors' statement

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

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

By order of the Board,

James H. Sutcliffe

Chair of the Board

22 March 2018

Report of the external independent auditor to the Directors of SLF of Canada UK Limited and to the Directors of Sun Life Assurance Company of Canada (U.K.) Limited ('the Company') pursuant to rule 4.1 (2) of the external audit chapter of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the relevant elements of the Solvency and Financial Condition Report ("SFCR")

Opinion

Except as stated below, we have audited the following documents prepared by the Company as at 31 December 2017:

- the 'Valuation for solvency purposes' and 'Capital Management' sections of the SFCR of the Company as at 31 December 2017, ('the Narrative Disclosures subject to audit');
- Group templates S.02.01.02, S.23.01.22, S.25.01.22, S.32.01.22 ('the Templates subject to audit'); and
- Solo templates S.02.01.02, S.12.01.02, S.23.01.01, S.25.01.21, S.28.01.01 ('the Templates subject to audit').

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the 'relevant elements of the SFCR'.

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

- the 'Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the SFCR;
- Group templates S.05.01.02 and S.05.02.01;
- Solo templates S.05.01.02 and S.05.02.01;
- the written acknowledgement by management of their responsibilities, including for the preparation of the SFCR ('the Responsibility Statement'); and
- information which pertains to an undertaking that is not a Solvency II undertaking and has been prepared in accordance with PRA rules other than those implementing the Solvency II Directive or in accordance with a European Union instrument other than the Solvency II regulations ('the sectoral information').

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

In our opinion, the information subject to audit in the relevant elements of the SFCR of the Company as at 31 December 2017 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion

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

Emphasis of Matter – Basis of Accounting

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

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in relation to these matters.

Other Information

The Directors are responsible for the Other Information.

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

In connection with our audit of the SFCR, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the SFCR, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the SFCR or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact.

We have nothing to report in relation to these matters.

Responsibilities of Directors for the Solvency and Financial Condition Report

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the relevant elements of the SFCR are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the SFCR.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. The same responsibilities apply to the audit of the SFCR.

Use of our Report

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

Relevant elements of the SFCR that are not subject to audit

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

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

Report on Other Legal and Regulatory Requirements

Sectoral information

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

Other information

In accordance with Rule 4.1 (3) of the External Audit Chapter of the PRA Rulebook for Solvency II firms we are required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of the Company's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in relation to this matter.

Paul Stephenson BA FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London, UK
22 March 2018

Summary

Sun Life Financial of Canada business in the UK

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

The business is profitable. SLOC UK profit after tax per the financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union for 2017: £21 million.

Solvency and financial condition

The Pillar 1 solvency ratio of SLOC UK as at 31 December 2017 is 162%, with a Solvency Capital Requirement (“SCR”) of £288.5 million and eligible own funds to cover it of £466.6 million. The majority is Tier 1 capital, the highest quality of capital in terms of permanence and ability to absorb losses should they arise. The total assets measured on a Solvency II basis amount to £15.4 billion. Dividends paid in 2017 to SLF of Canada UK Limited, its parent, totalled £100.0 million and it is expected that a dividend of £51.5 million will be paid in 2018. It is also expected that SLOC UK will repay £7.5m preference share capital in 2018 to SLF of Canada UK Limited, its parent.

The EEA Group containing SLOC UK has a solvency ratio of 168% as at 31 December 2017 with an SCR of £288.5 million and eligible own funds of £485.9 million which, as for SLOC UK, is mainly Tier 1 capital. The total assets on a Solvency II basis amount to £15.4 billion. £100.0 million was repatriated to the World-Wide Group of Sun Life Financial of Canada companies (“WWG”) in 2017 by means of a dividend. It is expected that a dividend of £34.5 million will be paid in 2018. It is also expected that SLF of Canada UK Limited will repay £24.5m preference share capital in 2018 to SLACC, its parent.

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

System of governance

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

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

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

Own Risk and Solvency Assessment (“ORSA”) results

The 2017 ORSA process for the EEA Group and SLOC UK took into account all material risks of the business. The 2017 ORSA showed that the company is expected to remain above its solvency risk appetite threshold and generate surplus throughout the five-year ORSA projection period. In respect of sensitivities and scenario analyses, SLOC UK is well placed to withstand shocks over the five-year ORSA period, remaining above regulatory solvency requirements and the internal risk appetite threshold, albeit with reduced dividend payments.

Regulatory and other externally driven changes are considered the most significant risks facing the company. The top contributors to both Pillar 1 and Pillar 2 risk capital are expense, equity, operational and lapse risk, all of which are closely monitored and managed. Expense, equity and lapse risk are within risk appetite and are expected to remain so for at least the five-year ORSA projection period. Operational risk is within risk appetite on both a process driven and external event driven basis and declines more slowly than other risks when projected forward.

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

A. Business and Performance

A.1 Business

A.1.1 Introduction

The SLOC UK business is a closed book life insurance business consisting of a portfolio of life, pension and annuity products materially all of which are in the UK. The business most recently closed to new business from 2010, except for issuing annuity contracts arising from the vesting of individual pension plans already within the business, and the majority of this activity ceased in 2013. Management is therefore focused on managing the existing in force business in a controlled way whilst ensuring fair outcomes for customers.

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

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

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

A.1.2 Subsidiaries and branches

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

The EEA Group consists of the following subsidiary undertakings:

Name of subsidiary undertaking	Principal activity
SLF of Canada UK Limited	Top holding company of various wholly owned subsidiary undertakings in the EEA Group
Sun Life Assurance Company of Canada (U.K) Limited	Insurance company which manages individual life, pension and annuity policies
Sun Life of Canada UK Holdings Limited	Intermediate holding company of various wholly owned subsidiary undertakings
SLFC Services Company (UK) Limited	Provision of management and administrative services to the EEA Group
Laurtrust Limited	Pension Trustee company
Barnwood Properties Limited	Property investment

SLFC Assurance (UK) Limited, an intermediate holding company, was placed into Members Voluntary Liquidation 2 August 2016 and was dissolved on 7 March 2018.

All companies in the EEA Group are limited by shares.

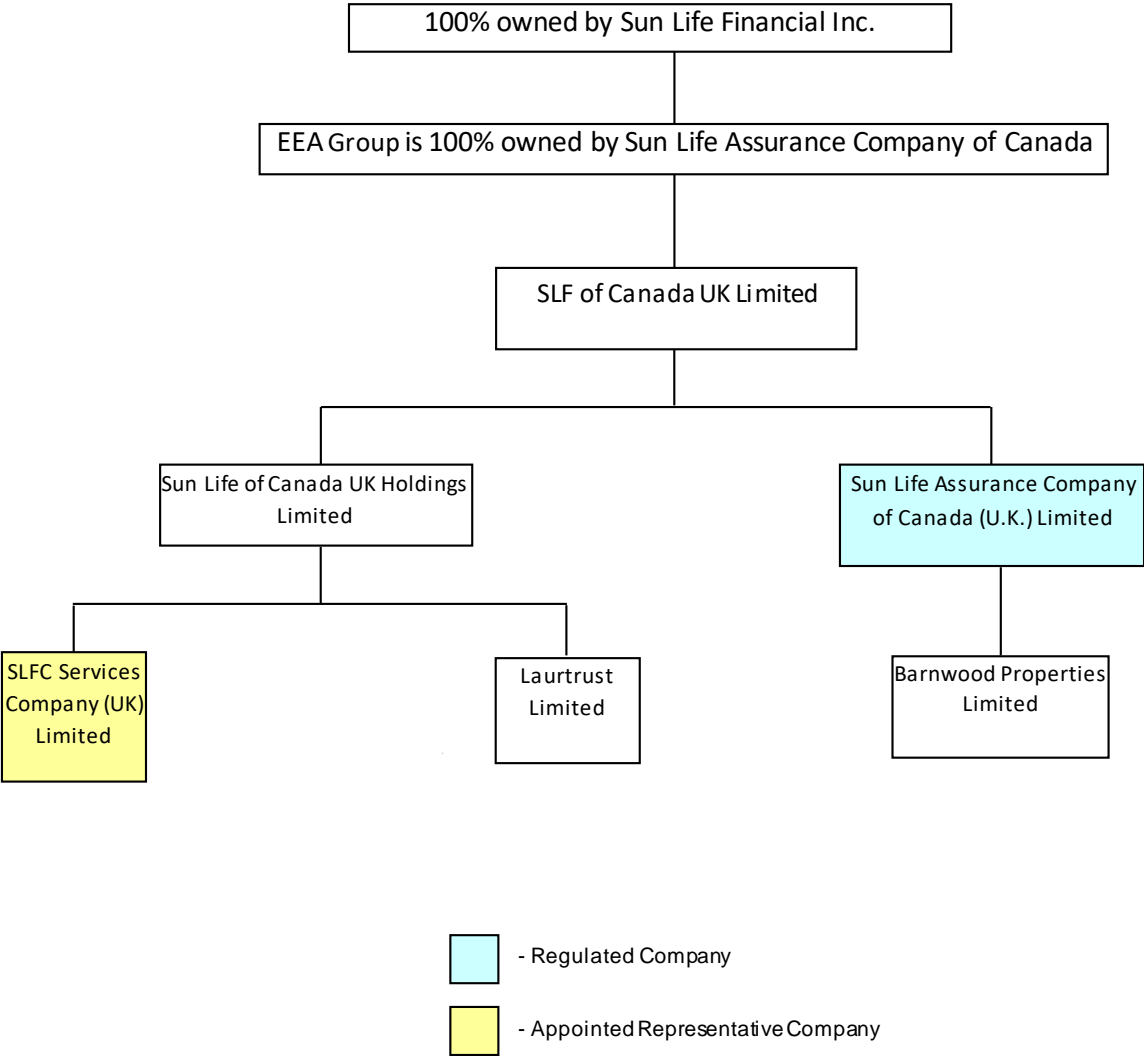
SLOC UK is authorised by the PRA, Threadneedle Street, London EC2R 8AH and regulated by the Financial Conduct Authority (“FCA”), 25, The North Colonnade, London E14 5HS and the PRA. The EEA Group supervisors are the FCA and the PRA.

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

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

During 2018 it is expected that a dividend of £51.5 million will be paid from SLOC UK to SLF of Canada UK Limited and that SLF of Canada UK Limited will pay a dividend of £34.5 million to SLACC. It is also expected that SLOC UK will repay £7.5m preference share capital to SLF of Canada UK Limited, and SLF of Canada UK Limited will repay £24.5m preference share capital to SLACC.

EEA GROUP STRUCTURE AND OWNERSHIP
AS AT 31 DECEMBER 2017



A.1.3 Distributions to shareholders

During 2017 SLOC UK paid a £100 million dividend to SLF of Canada UK Limited, its parent.

SLF of Canada UK Limited paid a dividend of £100 million to SLACC, its parent.

A.2 Underwriting performance as per the financial statements

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

Premiums as per the financial statements, shown in the tables below, exclude premiums on linked investment contracts. The premiums shown in the quantitative reporting templates in the appendices include premiums on linked investment contracts.

Underwriting performance for the year ended 31 December 2017

£ million	SLOC UK TOTAL	Linked	With- profits	Non- linked, non- profit
<i>Earned premiums, net of reinsurance</i>	59	48	9	2
<i>Net claims and benefits paid</i>	(426)	(341)	(83)	(2)
<i>Administrative and other expenses (excluding investment management expenses)</i>	(47)	(35)	(3)	(9)

The change in insurance and investment contract liabilities in the year was a reduction of £473 million. Their value is sensitive to changes in market factors, policyholder activity and changes in the methodologies and assumptions used in their calculation.

Underwriting performance for the year ended 31 December 2016

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

Premiums have decreased in the period, consistent with the reduction in existing business. Claims and benefits paid have decreased by less than expected from the natural reduction in existing business, this predominantly being due to the impact of strong market performance on unit funds.

The reduction in premiums, claims and administration expenses for with-profits business is largely due to the conversion of all policies in the SLFC Assurance UK With-Profits fund to non-profit on 1 February 2017.

A.3 Investment performance as per the financial statements

Investment performance for the year ended 31 December 2017 by line of business

£ million	SLOC UK TOTAL	Linked	With- profits	Non- linked, non- profit
<i>Investment return, net of reinsurance</i>	908	892	37	(21)
<i>Investment management expenses</i>	(21)	(17)	(1)	(3)

Investment performance for the year ended 31 December 2017 by asset class, including performance ceded to reinsurers

£ million	Income	Gains/(losses)
Asset Class		
<i>Bonds</i>	158	34
<i>Equities</i>	167	678
<i>Property</i>	12	27
<i>Other</i>	9	16
TOTAL Investment Performance	346	755

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

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

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

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

Investment income by asset class is similar in 2017 to 2016, reflecting the stability of the investment portfolios which is consistent with the stability of the closed book of business. Gains and losses are driven by markets and the differences between gains and losses on bonds, equities and property in 2017 compared with those of 2016 reflect the performance of the bond, equities and property markets in 2017 and 2016.

Securitisations

SLOC UK's investment manager guidelines do not allow new purchases in securitisations. However, a small amount of legacy holdings (£91 million as at 31 December 2017) remains (£128 million at 31 December 2016). Trading is monitored for any breach of the guidelines.

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

Tax

In 2017 the tax charge was £24 million. This compares with a tax charge of £49 million in 2016. The lower tax charge incurred in the year was primarily due to factors as follows:

- Lower taxable pension business profits arising in the year, 2016 included the impact of renegotiation of reinsurance treaties and subsequent reserve release; and
- Lower levels of taxable income arising on investments.

Lease arrangements

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

The rent paid by SLOC UK in 2017 was £0.3 million (2016: £0.5 million) and the rent received was £0.2 million (2016: £0.2 million).

Fees and commission income

Fees from non-profit investment contracts, commissions and other income from arrangements with reinsurers and introduction fees from a third party annuity provider were £45 million (2016: £45 million).

A.5 Any other information

Related party transactions

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

In 2017 the value of services provided by SLFC Services Company (UK) Ltd was £25 million. The outstanding balance at 31 December 2017 was £4 million.

B. System of governance

B.1 General information on the system of governance

B.1.1 The Board and delegations of authority

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

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

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

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

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

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

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

The CEO has also delegated authority, through the Chief Operating Officer (“COO”), to the Investment Management Committee (“IMC”) to implement and monitor the investment strategies approved by the Board, and to the Customer Outcomes Management Committee to ensure delivery of good customer outcomes. The CEO also delegates authority to the Risk and Compliance Management Committee (“RCMC”), chaired by the Chief Risk Officer (“CRO”), to review and challenge the appropriateness and effectiveness of:

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

Individuals in the Risk, Finance, Compliance and Actuarial functions are granted authority to carry out their tasks through their role profiles. They ultimately report into their line manager, a member of the UKMC. These functions may also directly report into various Management Committees as required, for example the IMC or RCMC, for onwards reporting to the Board or one of its Committees.

The Internal Audit function is granted authority to carry out its tasks through the WWG Chief Internal Auditor’s mandate.

B.1.2 Risk management

The “Three Lines of Defence” governance model is adopted for risk management and is used to assign specific risk management responsibilities across the business. This is described further in *Section B.4 Internal control system*.

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

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

B.1.3 Internal audit

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

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

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

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

B.1.4 Compliance

Compliance is a second line of defence function that is responsible for ensuring regulatory requirements are understood and implemented within the business (including where these requirements are fulfilled on behalf of SLOC UK by outsourced service providers), and for conducting a risk-based compliance monitoring programme. This includes the management of regulatory relationships, the provision of some regulatory reporting (a responsibility shared with the Chief Financial Officer (“CFO”)), the provision of compliance advice, and the performance of compliance monitoring to assess and report on the effectiveness of the measures in place to detect and minimise compliance risk. The Compliance function is described in more detail in *Section B.4.2 The Compliance function*.

The Compliance function is regarded as independent, a status protected by its head being a regulatory-approved controlled function and with the following additional features provided within the SLOC UK system of governance:

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

B.1.5 Governance across the EEA Group

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

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

B.1.6 Day to day management

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

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

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

Delegations of authority are made on consistent terms with those specified above to direct reports in order for them to properly fulfil their duties and responsibilities as specified in their role profiles. They may delegate authority to other individuals and committees on such terms as they deem

appropriate. Any such delegation must be in writing and must specify the recipient, extent and any limitations, including the ability to onwards delegate. Delegations must be reviewed and confirmed no less frequently than annually. Copies of all delegations are provided to the company Secretary.

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

B.1.7 Key responsibilities of the CFO

- The CFO is responsible for presenting and analysing financial reports and performance at Board meetings and ensuring the maintenance of good corporate governance practices and a good control environment.
- The CFO ensures the sound financial management of the business, including the production and integrity of financial information and regulatory reporting and sign-off of tax controls.
- The CFO is responsible for the allocation and maintenance of the firm's capital and liquidity, and management of financial resources.
- The CFO provides leadership and direction to the Finance team.
- The CFO manages internal relationships and accountabilities required to integrate UK results and financial activity with the WWG financial statements and strategies and contributes to internal global forums.

B.1.8 Key responsibilities of the CRO

- The CRO is responsible for ensuring the risks faced by the businesses are transparent to those responsible for the management of those businesses.
- The CRO discharges this responsibility by establishing and leading the operation of a risk management system that enhances and protects the interests of shareholders, customers, regulators and employees in the activities of the business. "Risk" in this context includes compliance (or regulatory) risk, including conduct risk. The CRO leads the operation of the 2nd line of defence role (described in *Section B.4.1 Three Lines of Defence*).
- The CRO has unfettered access to the Board and its Committees to raise any concerns about the risk profile of the business that are not being adequately addressed by management.
- The CRO oversees data protection and records management.
- The CRO has responsibility for the performance of the annual ORSA process.

B.1.9 Key responsibilities of the COO

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

B.1.10 Key responsibilities of the Chief Actuary

- The Chief Actuary manages the day to day operations of the Actuarial function, including actuarial valuation, experience studies, assumption setting, asset liability management, in force product management, capital calculations and with-profits management.
- The Chief Actuary provides actuarial perspective and reporting to management, the Board, and to other Board-level committees.
- The Chief Actuary manages internal relationships and accountabilities required to align actuarial activity with that of the WWG.

B.1.11 Remuneration

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

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

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

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

B.1.11.1 Pay mix

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

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

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

B.1.11.2 Pay for performance

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

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

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

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

B.2 Fit and proper requirements

B.2.1 Fitness and propriety

Nominated individuals in the business, by virtue of their regulatory designation as 'Approved Persons', 'Key Function Holders' or 'Notified Non-Executive Directors', are deemed to satisfy fitness and propriety requirements on an ongoing basis through the following processes and policies:

- Approved Persons performing a 'Controlled Function' must be approved by the FCA and the PRA, collectively the "Regulators", before they begin to perform that function. An Approved Person is considered a generic term for the separate regulatory designations of those individuals fulfilling FCA Significant Influence Functions and PRA Senior Insurance Management Functions. A Controlled Function is one that can exert significant influence over the business's regulatory conduct.
- The evidence supporting their original appointment and approval is retained by the business on an individual employee's files.
- Approved Persons may be required by the Regulators to submit for interview prior to their initial approval to allow a deeper assessment of that individual's fitness and propriety for the role.
- Key Function Holders and Notified Non-Executive Directors are individuals in the business who do not require separate regulatory approval to perform their role, but have been identified by the business as having a status needing to conform with fit and proper requirements.
- Approved Persons, Key Function Holders and Notified Non-Executive Directors must ensure that they remain fit and proper for that designated role. This is documented primarily through an individual's annual self-assessment and self-declaration to that effect, which is reviewed by the respective Heads of Compliance and Human Resources for approval or remediating action and/or disclosure to the Regulators.

B.2.2 Role requirements

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

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

B.2.3 Performance management

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

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

B.2.4 Competencies

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

During the recruitment process, evidence of the competencies considered critical for the particular role is assessed, in addition to functional knowledge, experience and skill. The robust recruitment process aims to ensure that there is a good cultural fit between the candidate and the business.

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

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

B.3.1 RMS and the ORSA

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

- The ORSA Policy – this describes the commitments and standards of the company with respect to the ORSA.
- The ORSA Report - the consolidated output of the ORSA process presented to the Risk Committee and the Board that addresses the principal risks currently facing the organisation and the forward-looking analysis of how these and other risks may develop. This includes other outputs of the RMS which may be presented on a stand-alone basis throughout the year.

- The ORSA Record - this reconciles the process to the annual report through evidencing or signposting the underpinning risk management and controls documentation enabling the assessments and conclusions within the ORSA Report.

B.3.2 RMS and its components

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

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

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

Operation of the RMS is the responsibility of the CEO and the UKMC.

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

B.3.3 Risk Framework

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

- **Risk philosophy** – as an insurance company, SLOC UK is in the business of accepting certain risks provided there is an appropriate level of return.
- **Risk strategy** – definition of the core, non-core, and collateral risks facing SLOC UK. The risk strategy is expressed through the risk appetite, which defines key capital, income and operational metrics whereby the business is run on a prudent and commercially successful basis. This is aligned with the risk philosophy.
- **Risk appetite** – shows a clear link between risk and business decisions and is a means by which activity can be directed to those areas that will benefit most from close management of both opportunities and risks. Risk appetite is articulated in terms of statements, limits and early warning thresholds such that the risk profile can be monitored to ensure it remains within the risk appetite. If necessary, action is taken to ensure the limits are not exceeded. The point at which action is taken is often when a pre-determined threshold is reached.
- **Governance** – the RMS uses a ‘Three Lines of Defence’ model described in *Section B.4.1 Three Lines of Defence*. The **risk universe** provides a structure and common terminology for grouping and reporting on risk.
- **Risk policies** – the Board adopts, on the recommendation of the Board sub committees, or in some limited cases executive committees¹, policies that govern the activity of the business. These are supplemented by operating guidelines and other procedures which explain how the relevant policy should be implemented.

¹ Approval protocols are set by the governance framework.

- **Risk culture** – a set of shared attitudes, values and practices that characterise how risk is managed on a daily basis. Accountability and the set of values passed to SLOC UK as part of the WWG are key to the culture of SLOC UK.

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

B.3.4 Risk management processes

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

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

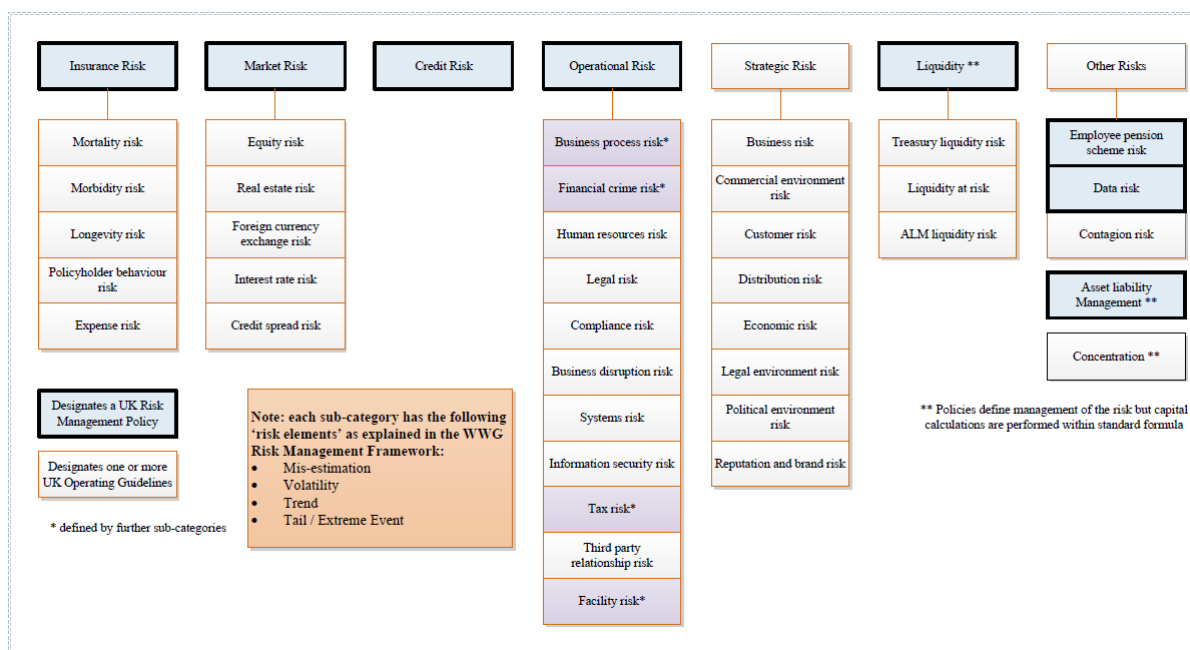
Collectively, this is known as the IMMMR process.

B.3.5 Risk universe

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

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

The management of the risks within the risk universe is defined by the application of a suite of risk management policies.



B.3.6 Risk management policies

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

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

B.3.7 Prudent Person Principle in relation to investments

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

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

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

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

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

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

Where the use of derivatives is permitted, it is restricted to efficient portfolio management and risk management.

Any investments that result in one or more of the investment guidelines not being met are reported as a breach.

The IMC, which forms part of the governance framework, is responsible for reporting and remediating any breach.

All Investment Managers are required to maintain a conflicts of interest policy to ensure that:

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

B.3.8 ORSA

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

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

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

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

As part of the ORSA, the Board will review and assess the overall ORSA Report and recommendations provided by the Risk function. The Board will comment on the suitability of the

assessment, considering the manner in which the assessment of overall solvency needs reflects the management of risks through overall capital requirements or other mitigation techniques. This takes into consideration the risk profile, approved risk appetite and business and risk strategies.

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

Based on the forward looking perspective of the operating environment, own funds and capital requirements are projected under both expected and stressed conditions. Through this projection, the ORSA provides an assessment of SLOC UK’s ability to execute its Long Term Business Plan while maintaining sufficient funds to cover both its regulatory capital requirements and its OCM. Exposure against risk appetite statements and tolerances is also assessed as part of these projections.

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

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

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

B.4 Internal control system

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

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

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

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

B.4.1 Three Lines of Defence

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



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

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

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

B.4.2 The Compliance function

The Compliance function is responsible for:

- Supporting the business through regulatory analysis and advice;
- Working with management to establish and maintain an appropriate control environment to monitor compliance with the regulatory obligations;
- Working with management to counter the risk that the business might be used to further financial crime;

- Maintaining processes for adherence to the requirements of the Compliance Risk Management Policy;
- Reporting to the ACC of SLOC UK and, if appropriate, the Board, any concerns about compliance with regulatory requirements and anti-money laundering and financial crime systems and controls that are not being adequately addressed by management;
- Reporting to the ACC of SLOC UK on the effectiveness of compliance and financial crime controls and the activities of the Compliance function;
- Oversight of adherence of the Business to the requirements of the WWG Fraud Risk Management Policy, Regulatory Compliance Management Policy, Anti-Money Laundering and Anti-Terrorist Financing Policy and Prevention of Bribery and Corruption Policy;
- Promotion of a compliance culture across the business; and
- Oversight of the compliance arrangements of outsourced partner companies.

B.4.3 The Risk function

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

The Risk function is responsible for:

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

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

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

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

B.4.4 ICFR

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

B.4.5 Ownership of processes

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

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

B.4.6 Operational control

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

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

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

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

B.4.7 System and data control

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

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

B.4.8 Control activities

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

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

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

B.5 Internal Audit function

B.5.1 Internal audit implementation

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

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

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

A WWG audit manual governs the day to day working practices and methodology applied within Internal Audit supported by a centralised professional practices group.

B.5.2 Internal audit independence

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

B.6 Actuarial function

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

- A model risk management policy was followed under which material models are periodically independently reviewed to ensure both the appropriateness of the methodologies and assumptions used and the accuracy of the calculations. More frequent reviews are carried out for models of greater materiality. Additionally, the material methodologies used in the determination of technical provisions by the Actuarial function are reviewed by a cross-functional technical steering group prior to their use. The Actuarial function conducted appropriate experience investigations to develop proposals for non-economic assumptions, which were submitted to the Board for approval. The models used for these experience investigations are also subject to the model risk management policy described above. The Actuarial function has applied appropriate methodologies and assumptions by line of business.
- A data policy was followed to ensure the data used to calculate technical provisions and capital requirements is appropriate, complete and accurate. For each quarterly Pillar 1 valuation, the policy data used by the actuarial models were reconciled to data extracts from the policy administration systems. Periodic checks of sample data have been carried out to verify the accuracy of data held by the policy administration systems and the policy data used by the actuarial models.

- Assumptions used in each quarterly Pillar 1 valuation and each Pillar 2 valuation were documented and appropriate checks were carried out to ensure these assumptions were correctly entered into the actuarial models.
- An analysis of change exercise was carried out at each quarterly Pillar 1 valuation and each Pillar 2 valuation to identify the sources of profits and losses. Additionally, this exercise provided a further check on the accuracy of the calculations and the appropriateness of the assumptions and methodology used.

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

The Actuarial function is responsible for the measurement and monitoring of insurance and market risks. Data is captured at least quarterly as part of the risk measurement process and draws upon the valuation and capital assessments described above. Additionally the operational risks inherent within the Actuarial function are assessed on a quarterly basis as part of the same process.

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

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

B.7 Outsourcing

B.7.1 The outsourcing model

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

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

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

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

B.7.2 Fund administration and global custody

Fund administration and global custody are primarily outsourced to State Street Bank & Trust Company (“State Street”). The fund administration for a small block of business, the private funds, is outsourced to Capita Life and Pensions Regulated Services Limited (“Capita”), and property fund administration is outsourced to Aberdeen Asset Management.

B.7.3 Life, pension and annuity servicing outsourcing

All life and pensions servicing, plus the support services and facilities required to perform the services are outsourced to Diligenta Life and Pensions Limited (“Diligenta”) and Capita, with annuity servicing outsourced to Equiniti, Paymaster (1836) Limited.

B.7.4 Asset liability management services provided by the WWG

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

B.8 Any other information

In addition to our principal outsourcing arrangements discussed above, and in common with other WWG business groups, the EEA Group receives some centralised services from its corporate parent, defined as ‘intra group service provisions’. These arrangements are typically central ‘decision to supply’ IT services consistent across the WWG, creating economies of scale and subject to corporate-wide risk management procedures that may not always be achievable through outsourced arrangements with other providers. A charge back for each itemised intra group service provision is made to the EEA group, and the service standards are set according to WWG policy that is appropriately modified to meet the local requirements of the EEA Group where necessary.

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

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

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

C. Risk profile

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

C.1 Underwriting risk

For Solvency II Pillar 1 lapse risk and expense risk are the most significant underwriting risks making up £124 million and £79 million of the £226 million undiversified capital requirement for life underwriting risk.

C.1.1 Lapse risk

Lapse risk arises for profitable contracts because higher than anticipated lapses will result in reduced future expected profit. For with-profits contracts, lower lapses increase the exposure in scenarios where guarantees bite, and the impact of lower lapses generally increases with-profits capital requirements immediately.

Control and monitoring of lapse risk

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

C.1.2 Expense risk

Expense risk arises because any future increased costs of policy administration (either outsourcer costs or internal governance expenses) or investment management expenses immediately increases technical provisions. This is mitigated by the portion of expenses that can be met by with-profits business or charged to policyholders.

Control and monitoring of expense risk

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

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

C.1.3 Longevity risk

Longevity risk on the annuity and GAO business is reinsured as described in *Section C.1.5 Material underwriting risk mitigation techniques*. Longevity risk is retained in relation to the staff pension scheme and pension policies with GAOs that are not covered by a reinsurance treaty.

Control and monitoring of longevity risk

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

C.1.4 Concentrations of underwriting risk

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

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

C.1.5 Material underwriting risk mitigation techniques

Material reinsurance treaties

There is a payout annuity treaty with the Bermuda Branch of Sun Life Assurance Company of Canada (“Sun Life Bermuda”), which transfers all risks other than expense risk. The SLOC UK business incepted prior to 31 December 2008 is subject to a cap on payments, which is covered by a stop loss treaty with SLACC.

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

Other reinsurance treaties

There are a total of 77 treaties with other reinsurers.

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

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

C.1.6 Underwriting risk stresses

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

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

The underwriting risk stresses are as follows:

£ million	Net SCR (including the loss-absorbing capacity of technical provisions)	Gross SCR (excluding the loss-absorbing capacity of technical provisions)
Mortality risk	10	15
Longevity risk	-	6
Disability-morbidity risk	11	11
Life-expense risk	79	88
Lapse risk	124	124
Life catastrophe risk	2	2
Diversification within module	(44)	(51)
Total capital requirement for underwriting risk	182	195

C.2 Market risk

C.2.1 Background

Market risk arises from fluctuations in values of, or income from, assets, interest rates and exchange rates. The strategy for addressing this risk is approved by the Board and implemented by the IMC.

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

C.2.2 Equity risk

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

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

C.2.3 Interest rate risk

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

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

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

C.2.4 Currency risk

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

C.2.5 Property risk

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

A proportion of the assets backing with-profits business is invested in property.

C.2.6 Concentration of risks

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

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

C.2.7 Market risk stress tests and scenario analysis

The standard formula approach is used for assessing market risk.

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

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

The market risk stresses are as follows:

£ million	Net SCR (including the loss-absorbing capacity of technical provisions)	Gross SCR (excluding the loss-absorbing capacity of technical provisions)
Interest rate risk		
interest rate up shock	43	50
Equity risk		
type 1 equities	83	131
type 2 equities	17	17
Property risk	3	14
Spread risk		
bonds and loans	21	38
Market risk concentrations	4	7
Currency risk	27	34
Diversification within module	(63)	(83)
Total capital requirement for market risk	135	208

Interest rate risk

Interest rate shocks are specified by the standard formula.

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

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

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

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

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

Equity risk

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

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

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

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

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

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

Property risk

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

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

Concentration risk

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

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

Currency risk

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

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

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

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

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

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

C.3 Credit risk

Credit risk profile

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

- Fixed income securities - Exposure to losses from credit migrations, changes in credit spreads or defaults;
- Derivative trades - default of trade counterparties; and
- Reinsurance arrangements - default of reinsurance counterparties.

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

Management of credit risk – fixed income securities

In order to benefit from their experience, resources and knowledge a number of investment managers are employed to invest in fixed income securities. As at 31 December 2017, £4.3 billion of fixed income securities were held in the non-linked business.

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

The investment guidelines include the following restrictions relating to:

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

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

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

As described in *Section C.1.5 Material underwriting risk mitigation techniques*, the reinsurance treaties with SLACC cover all risks other than expense risk. As described below in the section *Management of reinsurance counterparty default risk*, the reinsurer is required to deposit back assets in respect of these treaties. £3.0 billion, or 70%, of the total fixed income securities relate to assets deposited back and therefore the only exposure is to default by the reinsurance counterparty.

Management of credit risk – derivative trades

SLOC UK has a derivative portfolio to hedge material economic risks, such as those relating to GAOs. Where business is reinsured with other companies in the WWG, the derivative performance is passed on to the reinsurer. As at 31 December 2017, the derivatives in SLOC UK's non-linked business had a total market value of £90 million and a total notional value of £1.7 billion. £25 million of the total market value is for derivatives cleared through a central clearing counterparty ('cleared' derivatives). For uncleared derivatives, SLOC UK is exposed to losses from the default of the derivative counterparty if the derivative has a positive market value to SLOC UK.

In order to mitigate this risk, for uncleared derivatives SLOC UK exchanges collateral on a daily basis. The exchange of collateral is governed by market standard International Swaps and Derivatives Association and Credit Support Annex agreements with each counterparty, which conform to the requirements of the European Market Infrastructure Regulation. Collateral is restricted to cash and high quality government bonds, with haircuts applied to the market values of the latter. The market value of derivatives and collateral is monitored monthly at the Asset Liability Management Group. As at 31 December 2017, SLOC UK's non-linked business held an aggregate collateral balance of £55 million in respect of uncleared derivatives with £65 million total market value.

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

Management of reinsurance counterparty default risk

As described in *Section C.1.5 Material underwriting risk mitigation techniques* SLOC UK has entered into reinsurance agreements with other entities in the WWG. In order to limit counterparty credit exposure, the reinsurer is required to ring-fence investments approximating to the value of the reserves of the reinsured business. On a quarterly basis the value of these ring-fenced assets is compared to the reserves on both a Solvency II Pillar I and an IFRS basis. If the ring-fenced assets fall below prescribed limits the reinsurer is obliged to top up the funds to the required levels. A liability to repay amounts the reinsurer has deposited back to SLOC UK is presented as 'deposits received from reinsurers' in the balance sheet, and amounted to £3,472 million as at 31 December 2017 (2016 £3,487 million).

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

SLOC UK has significant counterparty exposure to SLACC, particularly in respect of the deterioration of SLOC UK's capital position that would occur should SLACC become financially impaired, necessitating recapture of these agreements. Whilst substantial diminution of the financial capacity of SLACC appears to be a remote possibility at present, should this not continue to be the case a number of actions are available to management:

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

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

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

SLOC UK has no material credit risk concentrations.

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

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

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

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

Credit risk mitigation techniques

SLOC UK invests in credit default swaps in order to mitigate credit risk in the non-linked business. As at 31 December 2017, the credit default swaps had a total market value of £1.1 million and a total notional value of £31 million. The credit default swaps are held for the purposes of hedging and efficient portfolio management only, as required by the Investment Management Agreement, and the positions are monitored for compliance with the Investment Management Agreement on a monthly basis.

Credit risk stress tests and scenario analysis

Spread risk

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

The spread risk sub-module covers credit derivatives that are not held as part of a recognised risk mitigation policy.

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

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

The impact of this stress was £21 million net of the loss absorbing capacity of the technical provisions. Under Pillar 1 standard formula, spread risk is included with the market risks not within counterparty default risk.

Counterparty risk

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

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

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

C.4 Liquidity risk

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

C.4.1 Liquidity profile

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

C.4.2 Objectives of liquidity management

Liquidity is managed to achieve the following goals:

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

C.4.3 Liquidity/cash management at the fund level

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

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

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

C.4.4 Liquidity risk appetite

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

shareholder. Cash and cash equivalents are held to cover three month liquidity requirements. One year liquidity requirements are covered by cash, cash equivalents and UK government bonds.

The table includes the liquidity ratios calculated at 31 December 2017:

	Threshold	Limit	2017
Liquidity ratio:			
- one year (non-profit business)	110%	105%	183%
- one year (with-profits business)	110%	105%	331%
- three months (non-profit business)	110%	105%	177%
- three months (with-profits business)	110%	105%	244%

C.4.5 Unit-linked funds

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

C.4.6 Liquidity Contingency Plan (“LCP”)

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

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

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

C.4.7 Controlling and monitoring liquidity risk

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

C.4.8 Expected profit included in future premiums

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

The figure for 31 December 2017 was £62 million.

C.4.9 Pillar 2 liquidity risk

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

C.4.10 Liquidity risk stresses

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

C.5 Operational risk

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

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

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

Those risks considered to have a sufficiently high score are reported to the Risk Committee of the Board as part of the key risk reporting pack.

C.5.1 Operational risk calculations

C.5.1.1 Pillar 1 operational risk

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

The Pillar 1 capital requirement for operational risk is £31 million.

C.5.1.2 Pillar 2 operational risk

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

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

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

The capital requirement for each of the risk events is calculated by allowing for diversification benefits between the individual risks within each event. The overall capital requirement for operational risk is then calculated by aggregating the capital requirements under Solvency II operational risk taxonomy using a further correlation matrix.

Management of operational risk

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

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

C.5.2 Pillar 2 operational risk stress testing

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

The process concluded that it is unlikely that any single operational risk would fulfil the business model failure criteria. Whilst some combinations of scenarios were sufficiently extreme to warrant significant management actions, the probability of their occurrence is remote.

C.6 Other material risks

The use of derivatives

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

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

GAO hedge

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

Solvency II hedge

The objective of this hedge is to manage the sensitivity of the Solvency II position against movements in interest rates and swap spreads within Board approved thresholds. This is achieved by use of fixed income assets and derivatives.

SLOC UK with-profits hedge

The objective of this hedge is to manage the sensitivity of the Solvency II position of the with-profits business against movements in interest rates and swap spreads within limits set in the investment guidelines. Fixed income assets are used to match liability cash flows whilst interest rate derivatives are applied to manage any residual interest rate risk and manage the swap spread sensitivity arising on a Solvency II basis.

Other

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

SLOC UK does not perform any securitised lending.

C.7 Any other information

C.7.1 Tax and risk profile

Financial tax risk

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

Legislative tax risk

We consider all possible legislative change and assess the likelihood of any adverse tax risk.

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

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

Transactional tax risk

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

Reputational tax risk

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

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

C.7.2 Scenario analyses

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

- Severe Economic Shock – beyond the 99.9th percentile;
- A flu Pandemic Scenario; and
- A significant permanent alteration to lapse rates.

These scenarios are judged to be reasonable situations that test the robustness of the business. None of the scenarios resulted in failure to meet regulatory solvency requirements. In all cases, capital resources exceeded risk appetite. The impact of the scenarios can therefore be fully offset by reducing future dividends.

In addition, two extreme “three-stage” scenarios, one environmental, one operational, were developed to test the limits of the business model and explore appropriate management actions.

Scenario stress testing against risk appetite

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

D. Valuation for solvency purposes

D.1 Assets

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

D.1.1 SLOC UK deferred tax asset calculation

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

Valuation differences between Solvency II and IFRS and other deferred tax items	Gross (taxable)/ deductible difference £ million	Associated deferred tax asset / (liability) £ million
Investment differences	(243)	(11)
Accounting differences	(45)	(8)
Actuarial differences – pension business reserves	(7)	(1)
Actuarial differences – life business reserves	(45)	1
New life tax regime transitional adjustments	(91)	(2)
Onerous contracts provision	(5)	(1)
Pension business losses carried forward	139	24
SLOC UK Total	(297)	2

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

Recognition and measurement on the Solvency II balance sheet of the deferred tax asset of £24 million relating to unused tax losses are based on management projections of future profits disclosed in the Long Term Business Plan, which indicates that losses are able to be fully recovered.

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

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

Reconciliation of deferred tax calculated on Solvency II and IFRS basis

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

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

This gives rise to the following differences:

	Deferred tax asset £ million
Net deferred tax assets per Solvency II balance sheet	2
Net deferred tax liability per IFRS balance sheet	(33)
Less deferred tax liability in the linked funds*	<u>37</u>
	4
Difference	2

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

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

Assessment of any additional deferred tax assets within the EEA Group

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

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

D.1.2 Pensions benefit surplus and obligations

SLOC UK operates two pension schemes.

Main scheme (approved)

The company operates a funded defined benefit plan, which closed to new entrants in March 2002 and closed to future accrual from 31 December 2011.

The most recent full actuarial valuation for funding purposes was carried out by Hymans Robertson LLP, independent actuarial advisers to the scheme, as at 31 December 2016 using the projected unit method.

The surplus in the scheme valued on an IAS19 basis at 31 December 2017 was £41 million (2016: £24 million).

Unfunded scheme (unapproved)

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

Full actuarial valuations for funding purposes are not required for the unfunded plan. The most recent actuarial valuation for accounting purposes was carried out by Hymans Robertson LLP as at 31 December 2017. The market value of the scheme's assets at the valuation date was £nil (2016: £nil) and the value of the liabilities was £2.9 million (2016: £3.1 million).

D.1.3 Investments

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

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

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

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

D.1.4 Investment property

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

D.1.5 Participations

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

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

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

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

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

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

D.1.7 Loans on policies

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

D.1.8 Reinsurance recoverables

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

D.1.9 Reinsurance and trade receivables

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

D.2 Technical provisions

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

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

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

The amounts recoverable from reinsurance contracts are calculated separately from technical provisions. The calculations are based on projected cashflows relating to the reinsurer, using the same boundaries as the relevant insurance contracts, with an adjustment to allow for expected losses due to default of a reinsurer.

D.2.1 Methods and simplifications

Unit-linked

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

Calculations are performed at a policy level.

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

- The model does not allow for indexation of premiums and benefits;
- A single yield curve is used for all business including non-UK policies;
- Incurred but not reported claims, claims in payment and certain rider benefits are calculated within other reserves; and
- Some smaller reinsurance treaties are not modelled.

Annuities

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

Calculations are performed at policy level and cashflows are monthly.

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

- No allowance is made for the possibility that the second life of a joint-life annuity may have died prior to the valuation date; and
- A UK yield curve is used for all business including non-UK policies.

SLOC With-Profits Fund

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

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

The following immaterial simplifications are made:

- Policies are grouped using appropriate categories (policy term, calendar year of maturity, elapsed duration, age at inception).
- All plans are modelled on a single life basis with joint life cases assumed to be males with an equivalent single age.
- No allowance is made for policies becoming paid-up within the projection. Paid-up policy rates are very low in practice.
- The model has an annual time-step.
- The ESG is limited to modelling bonds, equities, property and cash. Any more complex instruments require approximations to be made. Any derivatives are therefore usually modelled as if they were of the class of their underlying asset.
- The model does not allow for indexation relief in the calculation of the tax on realised capital gains.

GAO model

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

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

The following immaterial simplifications are made:

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

- The model has an annual time-step

Health products

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

Term products

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

Conventional non-profit products

- Policies administered by Diligenta are modelled using a cashflow based gross premium method.
- Policies administered by Capita which were not converted from with-profits policies are valued using a net premium method.

Group pension products

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

D.2.2 Level of uncertainty in value of technical provisions

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

The impact of stressing each of the major risk factors is shown in the table below. This allows for the loss absorbing effect of future discretionary benefits on with profits business:

Solvency II Pillar 1 (£ million)	2017	2016
BEL at 31 December (non-unit liabilities, net of reinsurance)	716	788
Sensitivity of BEL to a change in the following risk factors (each change is shown in isolation), net of loss absorbency of technical provisions:		
Lapses One-off discontinuance of 40% of policies (for policies where this increases the BEL)	124	122
Equity market levels Instantaneous decrease of 40.9% (2016: 37.6%) for type 1 equities (listed in markets in EEA or OECD countries) and 37.6% (2016: 47.6%) for type 2 equities (other equities)	97	92
Expenses One-off increase of 10% in current expense levels and an addition of 1% point to future expense inflation	79	88

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

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

£ million	2017	2016
At 31 December	101	117
Sensitivity of risk margin to a change in the following factors (each change is shown in isolation):		
Level of non-hedgeable risk (increase of 10%)	10	12
Change in discount rate (decrease of 0.5%)	7	10

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

D.2.3 Assumptions

Changes in assumptions

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

Economic

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

No credit is taken for a volatility or matching adjustment.

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

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

Base expenses

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

Investment expenses are also taken from expense analyses.

Policyholder options

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

- Lapse/transfer from premium paying;
- Lapse/transfer from paid-up;
- Paid-up policy from premium paying;
- Retirement rates; and
- Take-up rate assumption for plans with GAOs.

Mortality/morbidity

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

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

D.2.4 ESG

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

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

Category	Model
Nominal interest rates	Libor Market Model plus
Real interest rates	Two-factor Vasicek model
Equity returns	Stochastic Volatility and Jump Diffusion
Property returns	Fixed Volatility
Foreign exchange rates	Not modelled stochastically
Credit spreads	Cox-Ingersoll-Ross model

D.2.5 Risk margin

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

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

D.2.6 EIOPA requirements inapplicable to SLOC UK

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

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

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

The IFRS reserves are different from Solvency II technical provisions, with Solvency II being £72 million lower. The main reasons are (net of reinsurance):

- Solvency II uses a risk margin which is an addition to the BEL. IFRS does not use a risk margin. Solvency II technical provisions are £101 million higher for this reason.
- Under Solvency II the insurance and investments contract definitions and valuation restrictions do not apply. The Solvency II technical provisions are £154 million lower for this reason.

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

D.3 Other liabilities

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

D.3.1 Deposits from reinsurers

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

D.3.2 Insurance and intermediaries payables

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

D.3.3 Payables (trade, not Insurance)

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

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

D.4 Alternative methods for valuation

D.4.1 Illiquid bonds

At 31 December 2017, SLOC UK held £109 million of bonds where the fund administrator had been unable to source an updated market price for more than 5 continuous business days.

Unless a stale price is not used, a discounted cash flow approach is used to place a mark-to-model value on bonds.

The significant assumptions in the model are:

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

D.4.2 Property

The property portfolio is managed by a specialist fund manager (Aberdeen Asset Managers Limited) who employs an independent third party specialist valuation agent (Savills UK Limited (“Savills”). Regular meetings with the fund manager keep SLOC UK informed of the level of market activity. Valuations are undertaken monthly by Savills, and reported to SLOC UK by Aberdeen Asset Managers Limited.

Property is valued by Savills in accordance with the Royal Institution of Chartered Surveyors’ (“RICS”) Valuation – Global Standards 2017, incorporating the International Valuation Standards issued in June 2017 and effective from 1 July 2017 (the “RICS Red Book”).

The unique nature of properties and infrequent sales make property valuations subjective. Independent property valuations are specific to a property and take account of the circumstances of the property e.g. location, sector, state of repair, quality of tenants, length of outstanding leases. Property valuations also take account of regional factors, such as a scarcity of certain types of

properties, and national trends, such as an increase in demand for industrial properties. Experienced valuation agents can accurately value properties allowing for these factors.

The value of a property is the price the property would be expected to sell at in the open market at the date of valuation given the assumptions and guidelines set out in the 'RICS Red Book'. The rental income stream is capitalised at a discount rate that reflects the qualities and risks of the income. The discount rate will be in line with comparable sales and expected market trends.

The monthly valuation takes into account all significant events that occur e.g. the amendment of a lease, change of tenants or the refurbishment of a property. The value of a property would also be reviewed in the light of other similar sales in the region. Each property is visited in-person once a year by Savills.

D.4.3 Policy facilities

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

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

No valuation assumptions are required.

D.5 Any other information

None

E. Capital management

E.1 Own funds

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

E.1.1 SLOC UK

Capital instruments

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

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

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

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

The preference shares are classified as tier 1 (restricted) own funds. Whilst they do not meet the tier 1 classification requirements due to their terms, they do meet the requirements to be classified as tier 1 (restricted) under Solvency II transitional measures and must be classified as such for up to 10 years from 1 January 2016.

On 22 March 2018, the directors of SLOC UK approved the repayment of the £7.5 million preference share capital to its immediate parent company, SLF of Canada UK Limited.

Movement of own funds in the year

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

	2017	2016
	£ million	£ million
Available own funds at 1 January	452.3	486.4
Impact of operating assumption changes	6.3	42.5
Foreseeable dividend	(51.5)	(100.0)
Other movements in own funds	59.5	23.4
Available own funds at 31 December	466.6	452.3

The structure of own funds at 1 January 2017 is identical to that at 31 December 2017. The value of share capital did not change in the year. The net deferred tax asset decreased from £15 million to £2 million. The reconciliation reserve increased from £407 million to £434 million.

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

£ million							
Financial Statements Equity	Reserves Difference	Deferred Acquisition Costs	Deferred Income Liability	Onerous Contracts Provision	Valuation Adjustment for Private Debt Securities	Deferred Tax Difference	Solvency II Net Assets
444	72	(4)	7	5	5	(2)	528

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

Deferred acquisition costs, deferred income liability and onerous contracts provisions are all excluded for solvency purposes.

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

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

E.1.2 The EEA Group

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

Capital instruments

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

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

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

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

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

The structure of own funds at 1 January 2017 is identical to that at 31 December 2017. The value of share capital did not change in the year. The net deferred tax asset decreased from £17 million to £4 million. The reconciliation reserve increased from £163 million to £208 million.

On 22 March 2018, the directors of SLF of Canada UK Limited approved the repayment of £24.5 million preference share capital to its parent company, SLACC, subject to the receipt of capital payments of £59.0 million from SLOC UK, including £7.5 million from the redemption of preference shares held by the company in that subsidiary.

Movement of EEA Group own funds in the year

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

	2017	2016
	£ million	£ million
Available own funds at 1 January	454.9	603.1
Repatriations of funds during the year not already recognised in opening own funds	-	(112.0)
Impact of operating assumption changes	6.3	42.5
Foreseeable dividend	(34.5)	(100.0)
Other movements in own funds	59.2	21.3
Available own funds at 31 December	485.9	454.9

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

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

E.1.3 Deferred tax assets

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

E.1.4 Reconciliation reserve

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

E.1.5 Restrictions to own funds

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

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

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

E.1.6 Objectives, policies and processes for capital management

Capital management, maintenance of a suitable capital structure and capital monitoring work is undertaken by the Capital Management Group ("CMG"), working closely with the RCMC, in

accordance with the Capital Management Policy. On a day to day basis, the Head of Business Planning and Capital Management is responsible for ensuring that matters affecting capital are identified and addressed on a timely basis and that capital is considered in all significant business decisions.

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

The policy sets out the capital management principles including:

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

The policy also sets out:

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

Capital planning and the overall strategy

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

E.2 Solvency capital requirement and minimum capital requirement

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

E.2.1 Minimum capital requirement

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

The Minimum Capital Requirement (“MCR”) floor of 25% of the SCR bites. Changes in MCR are therefore driven by changes in SCR.

E.2.2 Solvency capital requirement

SLOC UK uses the standard formula approach to calculate capital requirements, so the inputs used to calculate the SCR are provided by the standard formula. The table below shows how the SCR has changed over the period by risk module, before and after consideration of future discretionary benefits (gross and net, respectively):

£ million	2017		2016		Change	
	Gross	Net	Gross	Net	Gross	Net
Before Diversification						
Market	208	135	200	125	8	10
Default	11	11	16	16	(5)	(5)
Life	195	182	206	189	(11)	(7)
Health	4	4	4	4	0	0
Diversification	(84)	(75)	(87)	(76)	3	1
Basic SCR	334	257	339	258	(5)	(1)
Operational Risk	31	31	34	34	(3)	(3)
Adjustment included for loss absorbing capacity of technical provisions	-	(77)	-	(81)	-	4
SCR - Modular	366	288	373	292	(7)	(4)

The SCR has decreased over the year as a result of the natural reduction in existing business being partially offset by higher market risk. The market risk has increased as a result of an increase in both equity risk due to higher than expected equity returns and an increase in interest rate risk.

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

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

No transitional measures have been used.

The supervisor has not specified a capital add-on.

E.2.4 Simplifications used in calculation of the SCR

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

E.2.5 Allowance for reinsurance

Reinsurance arrangements are allowed for within the technical provisions and SCR. The overall impact of reinsurance is to reduce BEL by £3.4 billion. It also significantly reduces the impact of some of the SCR stresses.

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

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

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

E.2.6 Allowance for future management actions in SCR calculation

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

E.2.6.1 Varying of future bonus payments for with-profits policies

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

E.2.6.2 SLOC With-Profits Fund investment strategy

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

E.2.6.3 Reducing overhead expenses in a mass lapse event

In an event that results in a large number of policyholders lapsing their policies, management would take action to reduce SLOC UK's overhead expenses in response to the smaller customer base.

E.2.6.4 Adjustable policy charges

Allowance (up or down) is made for policy charges that are contractually variable, allowing for a short time delay in implementation.

E.2.7 Allowance for financial risk mitigation techniques in SCR calculation

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

- The holding of collateral in respect of annuities and GAOs reinsured with Sun Life Bermuda and SLACC - credit is taken for this collateral in the counterparty default risk calculation; and
- The use of derivatives.

The deposit back fund for the reinsurance collateral holds assets of £3,472 million at 31 December 2017. A 10% reduction in the value of that collateral would increase the undiversified counterparty default risk by £5 million. Derivative hedges for the SLOC UK GAO and annuity risk exist within this.

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

In the SLOC With-Profits Fund there are currency forwards which aim to reduce currency exposure. £5 million of credit is taken for this in the currency risk calculation within the gross SCR.

An interest rate hedge is in place to help protect the overall solvency position of SLOC UK against falls in interest rates. The hedge is structured by a combination of an interest rate swap and a swaption.

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

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

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

An internal model is not used.

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

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

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

E.6 Any other information

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

Sun Life Assurance Company of Canada (U.K.) Limited

Solvency and Financial Condition Report

Disclosures

31 December

2017

(Monetary amounts in GBP thousands)

General information

Undertaking name	Sun Life Assurance Company of Canada (U.K.) Limited
Undertaking identification code	549300NZ227BVL5W4E72
Type of code of undertaking	LEI
Type of undertaking	Life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 December 2017
Currency used for reporting	GBP
Accounting standards	IFRS
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

- S.02.01.02 - Balance sheet
- S.05.01.02 - Premiums, claims and expenses by line of business
- S.05.02.01 - Premiums, claims and expenses by country
- S.12.01.02 - Life and Health SLT Technical Provisions
- S.23.01.01 - Own Funds
- S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula
- S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

S.02.01.02

Balance sheet

		Solvency II value
		C0010
Assets		
R0030	Intangible assets	0
R0040	Deferred tax assets	17,011
R0050	Pension benefit surplus	43,103
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	4,635,225
R0080	<i>Property (other than for own use)</i>	44,789
R0090	<i>Holdings in related undertakings, including participations</i>	3,121
R0100	<i>Equities</i>	117,708
R0110	<i>Equities - listed</i>	117,708
R0120	<i>Equities - unlisted</i>	0
R0130	<i>Bonds</i>	4,303,697
R0140	<i>Government Bonds</i>	1,342,633
R0150	<i>Corporate Bonds</i>	2,871,299
R0160	<i>Structured notes</i>	0
R0170	<i>Collateralised securities</i>	89,765
R0180	<i>Collective Investments Undertakings</i>	69,874
R0190	<i>Derivatives</i>	96,036
R0200	<i>Deposits other than cash equivalents</i>	0
R0210	<i>Other investments</i>	0
R0220	Assets held for index-linked and unit-linked contracts	7,282,088
R0230	Loans and mortgages	19,103
R0240	<i>Loans on policies</i>	19,103
R0250	<i>Loans and mortgages to individuals</i>	0
R0260	<i>Other loans and mortgages</i>	0
R0270	Reinsurance recoverables from:	3,398,603
R0280	<i>Non-life and health similar to non-life</i>	0
R0290	<i>Non-life excluding health</i>	0
R0300	<i>Health similar to non-life</i>	0
R0310	<i>Life and health similar to life, excluding index-linked and unit-linked</i>	3,397,494
R0320	<i>Health similar to life</i>	0
R0330	<i>Life excluding health and index-linked and unit-linked</i>	3,397,494
R0340	<i>Life index-linked and unit-linked</i>	1,109
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	108
R0370	Reinsurance receivables	3,229
R0380	Receivables (trade, not insurance)	17,373
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	14,037
R0420	Any other assets, not elsewhere shown	0
R0500	Total assets	15,429,879

S.02.01.02

Balance sheet

		Solvency II value
		C0010
Liabilities		
R0510	Technical provisions - non-life	0
R0520	<i>Technical provisions - non-life (excluding health)</i>	0
R0530	<i>TP calculated as a whole</i>	0
R0540	<i>Best Estimate</i>	0
R0550	<i>Risk margin</i>	0
R0560	<i>Technical provisions - health (similar to non-life)</i>	0
R0570	<i>TP calculated as a whole</i>	0
R0580	<i>Best Estimate</i>	0
R0590	<i>Risk margin</i>	0
R0600	Technical provisions - life (excluding index-linked and unit-linked)	4,162,628
R0610	<i>Technical provisions - health (similar to life)</i>	0
R0620	<i>TP calculated as a whole</i>	0
R0630	<i>Best Estimate</i>	0
R0640	<i>Risk margin</i>	0
R0650	<i>Technical provisions - life (excluding health and index-linked and unit-linked)</i>	4,162,628
R0660	<i>TP calculated as a whole</i>	0
R0670	<i>Best Estimate</i>	4,127,712
R0680	<i>Risk margin</i>	34,916
R0690	Technical provisions - index-linked and unit-linked	7,104,954
R0700	<i>TP calculated as a whole</i>	0
R0710	<i>Best Estimate</i>	7,039,290
R0720	<i>Risk margin</i>	65,664
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	198
R0760	Pension benefit obligations	2,918
R0770	Deposits from reinsurers	3,472,251
R0780	Deferred tax liabilities	14,829
R0790	Derivatives	6,291
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	92,634
R0830	Reinsurance payables	0
R0840	Payables (trade, not insurance)	45,454
R0850	Subordinated liabilities	0
R0860	<i>Subordinated liabilities not in BOF</i>	0
R0870	<i>Subordinated liabilities in BOF</i>	0
R0880	Any other liabilities, not elsewhere shown	0
R0900	Total liabilities	14,902,155
R1000	Excess of assets over liabilities	527,723

Premiums, claims and expenses by line of business

Life

[illegible]

S.05.02.01

Premiums, claims and expenses by country

Life

	C0150 Home Country	Top 5 countries (by amount of gross premiums written) - life obligations			Top 5 countries (by amount of gross premiums written) - life obligations			Total Top 5 and home country
		C0160	C0170	C0180	C0190	C0200	C0210	
	C0220	C0230	C0240	C0250	C0260	C0270	C0280	
R1400								
Premiums written								
R1410	95,221	0	0	0				95,221
R1420	15,214	0	0	0				15,214
R1500	80,006	0	0	0	0	0	0	80,006
Premiums earned								
R1510	95,221	0	0	0				95,221
R1520	15,214	0	0	0				15,214
R1600	80,006	0	0	0	0	0	0	80,006
Claims incurred								
R1610	928,908	0	0	0				928,908
R1620	204,772	0	0	0				204,772
R1700	724,136	0	0	0	0	0	0	724,136
Changes in other technical provisions								
R1710	0	0	0	0				0
R1720	0	0	0	0				0
R1800	0	0	0	0	0	0	0	0
R1900	0	0	0	0				0
R2500								67,862
R2600								67,862

S.12.01.02
Life and Health SLT Technical Provisions

Insurance with profit participation	Index-linked and unit-linked insurance		Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, including Unit-Linked)	Health Insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health reinsurance similar to life insurance)
	C0030	C0040	C0050	C0060	C0070	C0080	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
								0						0
								0						0

Technical provisions calculated as a whole
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole

Technical provisions calculated as a sum of BE and RM

Best estimate	595,588	5,610,390	1,428,900		2,936,834	593,234	2,055	11,167,001		0	0			0
Gross Best Estimate														
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	0	-158	1,268		3,178,214	219,280	0	3,398,603		0	0			0
Best estimate minus recoverables from reinsurance/SPV and Finite Re	595,588	5,610,548	1,427,632		-241,380	373,955	2,055	7,768,398		0	0		0	0
Risk margin	1,968	65,664					19	100,590	0					0
Amount of the transitional on Technical Provisions														
Technical Provisions calculated as a whole	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Best estimate	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Risk margin	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Technical provisions - total	597,556	7,104,954		3,562,997			2,074	11,267,582	0				0	0

S.23.01.01
Own Funds

Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/235

R0010	Ordinary share capital (gross of own shares)
R0020	Share premium account related to ordinary share capital
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings
R0050	Subordinated mutual member accounts
R0070	Surplus funds
R0090	Preference shares
R0110	Share premium account related to preference shares
R0130	Reconciliation reserve
R0140	Subordinated liabilities
R0160	An amount equal to the value of net deferred tax assets
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above

Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds

Deductions for participations in financial and credit institutions

Total basic own funds after deductions

Ancillary own funds

R0300	Unpaid and uncalled ordinary share capital callable on demand
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand
R0320	Unpaid and uncalled preference shares callable on demand
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC
R0390	Other ancillary own funds
R0400	Total ancillary own funds

Available and eligible own funds

R0500	Total available own funds to meet the SCR
R0510	Total available own funds to meet the MCR
R0540	Total eligible own funds to meet the SCR
R0550	Total eligible own funds to meet the MCR
R0580	SCR
R0600	MCR
R0620	Ratio of Eligible own funds to SCR
R0640	Ratio of Eligible own funds to MCR

Reconciliation reserve

R0700	Excess of assets over liabilities
R0710	Own shares (held directly and indirectly)
R0720	Foreseeable dividends, distributions and charges
R0730	Other basic own fund items
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds
R0760	Reconciliation reserve

Expected profits

R0770	Expected profits included in future premiums (EPFP) - Life business
R0780	Expected profits included in future premiums (EPFP) - Non- life business
R0790	Total Expected profits included in future premiums (EPFP)

Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
C0010	C0020	C0030	C0040	C0050
22,500	22,500			
0	0		0	0
0	0		0	0
0	0		0	0
0	0		0	0
7,500		7,500	0	0
0		0	0	0
434,407	434,407			
0		0	0	0
2,182				2,182
0	0	0	0	0
0				
0	0	0	0	0
466,589	456,907	7,500	0	2,182
0				
0				
0				
0				
0				
0				
0				
0				
0				
0				
0				
466,589	456,907	7,500	0	2,182
464,407	456,907	7,500	0	2,182
464,407	456,907	7,500	0	
288,468				
72,117				
161,75%				
643,96%				
C0060				
527,723				
0				
51,500				
32,182				
9,634				
434,407				
61,875				
61,875				

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

	Gross solvency capital requirement	USP	Simplifications
	C0110	C0080	C0090
R0010 Market risk	207,631		0
R0020 Counterparty default risk	10,991		
R0030 Life underwriting risk	195,357	0	0
R0040 Health underwriting risk	4,026	0	0
R0050 Non-life underwriting risk	0	0	0
R0060 Diversification	-83,511		
R0070 Intangible asset risk	0		
R0100 Basic Solvency Capital Requirement	334,493		
	C0100		
Calculation of Solvency Capital Requirement			
R0130 Operational risk	31,221		
R0140 Loss-absorbing capacity of technical provisions	-77,246		
R0150 Loss-absorbing capacity of deferred taxes	0		
R0160 Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0		
R0200 Solvency Capital Requirement excluding capital add-on	288,468		
R0210 Capital add-ons already set	0		
R0220 Solvency capital requirement	288,468		
Other information on SCR			
R0400 Capital requirement for duration-based equity risk sub-module	0		
R0410 Total amount of Notional Solvency Capital Requirements for remaining part	285,788		
R0420 Total amount of Notional Solvency Capital Requirements for ring fenced funds	2,680		
R0430 Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0		
R0440 Diversification effects due to RFF nSCR aggregation for article 304	0		

S.28.01.01

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

Linear formula component for non-life insurance and reinsurance obligations

C0010

R0010 MCR_{nl} Result

0

Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
---	---

C0020

C0030

R0020	Medical expense insurance and proportional reinsurance
R0030	Income protection insurance and proportional reinsurance
R0040	Workers' compensation insurance and proportional reinsurance
R0050	Motor vehicle liability insurance and proportional reinsurance
R0060	Other motor insurance and proportional reinsurance
R0070	Marine, aviation and transport insurance and proportional reinsurance
R0080	Fire and other damage to property insurance and proportional reinsurance
R0090	General liability insurance and proportional reinsurance
R0100	Credit and suretyship insurance and proportional reinsurance
R0110	Legal expenses insurance and proportional reinsurance
R0120	Assistance and proportional reinsurance
R0130	Miscellaneous financial loss insurance and proportional reinsurance
R0140	Non-proportional health reinsurance
R0150	Non-proportional casualty reinsurance
R0160	Non-proportional marine, aviation and transport reinsurance
R0170	Non-proportional property reinsurance

	0	0
	0	0
	0	0
	0	0
	0	0
	0	0
	0	0
	0	0
	0	0
	0	0
	0	0
	0	0
	0	0
	0	0
	0	0
	0	0

Linear formula component for life insurance and reinsurance obligations

C0040

R0200 MCR_l Result

58,092

Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
---	--

C0050

C0060

R0210	Obligations with profit participation - guaranteed benefits
R0220	Obligations with profit participation - future discretionary benefits
R0230	Index-linked and unit-linked insurance obligations
R0240	Other life (re)insurance and health (re)insurance obligations
R0250	Total capital at risk for all life (re)insurance obligations

	403,777
	191,811
	7,038,180
	134,630
	1,474,226

Overall MCR calculation

C0070

R0300	Linear MCR
R0310	SCR
R0320	MCR cap
R0330	MCR floor
R0340	Combined MCR
R0350	Absolute floor of the MCR
R0400	Minimum Capital Requirement

	58,092
	288,468
	129,811
	72,117
	72,117
	3,251
	72,117

SLF of Canada UK Limited

Solvency and Financial Condition Report

Disclosures

31 December

2017

(Monetary amounts in GBP thousands)

General information

Participating undertaking name	SLF of Canada UK Limited
Group identification code	213800LBGGLJPBQ4P08
Type of code of group	LEI
Country of the group supervisor	GB
Language of reporting	en
Reporting reference date	31 December 2017
Currency used for reporting	GBP
Accounting standards	IFRS
Method of Calculation of the group SCR	Standard formula
Method of group solvency calculation	Method 1 is used exclusively
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

- S.02.01.02 - Balance sheet
- S.05.01.02 - Premiums, claims and expenses by line of business
- S.05.02.01 - Premiums, claims and expenses by country
- S.23.01.22 - Own Funds
- S.25.01.22 - Solvency Capital Requirement - for groups on Standard Formula
- S.32.01.22 - Undertakings in the scope of the group

S.02.01.02

Balance sheet

		Solvency II value
		C0010
Assets		
R0030	Intangible assets	0
R0040	Deferred tax assets	18,536
R0050	Pension benefit surplus	43,103
R0060	Property, plant & equipment held for own use	286
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	4,632,354
R0080	<i>Property (other than for own use)</i>	45,039
R0090	<i>Holdings in related undertakings, including participations</i>	0
R0100	<i>Equities</i>	117,708
R0110	<i>Equities - listed</i>	117,708
R0120	<i>Equities - unlisted</i>	0
R0130	<i>Bonds</i>	4,303,697
R0140	<i>Government Bonds</i>	1,342,633
R0150	<i>Corporate Bonds</i>	2,871,299
R0160	<i>Structured notes</i>	0
R0170	<i>Collateralised securities</i>	89,765
R0180	<i>Collective Investments Undertakings</i>	69,874
R0190	<i>Derivatives</i>	96,036
R0200	<i>Deposits other than cash equivalents</i>	0
R0210	<i>Other investments</i>	0
R0220	Assets held for index-linked and unit-linked contracts	7,282,088
R0230	Loans and mortgages	19,103
R0240	<i>Loans on policies</i>	19,103
R0250	<i>Loans and mortgages to individuals</i>	0
R0260	<i>Other loans and mortgages</i>	0
R0270	Reinsurance recoverables from:	3,398,603
R0280	<i>Non-life and health similar to non-life</i>	0
R0290	<i>Non-life excluding health</i>	0
R0300	<i>Health similar to non-life</i>	0
R0310	<i>Life and health similar to life, excluding index-linked and unit-linked</i>	3,397,494
R0320	<i>Health similar to life</i>	0
R0330	<i>Life excluding health and index-linked and unit-linked</i>	3,397,494
R0340	<i>Life index-linked and unit-linked</i>	1,109
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	108
R0370	Reinsurance receivables	3,229
R0380	Receivables (trade, not insurance)	18,093
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	18,321
R0420	Any other assets, not elsewhere shown	0
R0500	Total assets	15,433,824

S.02.01.02

Balance sheet

		Solvency II value
		C0010
Liabilities		
R0510	Technical provisions - non-life	0
R0520	<i>Technical provisions - non-life (excluding health)</i>	0
R0530	<i>TP calculated as a whole</i>	
R0540	<i>Best Estimate</i>	
R0550	<i>Risk margin</i>	
R0560	<i>Technical provisions - health (similar to non-life)</i>	0
R0570	<i>TP calculated as a whole</i>	
R0580	<i>Best Estimate</i>	
R0590	<i>Risk margin</i>	
R0600	Technical provisions - life (excluding index-linked and unit-linked)	4,162,628
R0610	<i>Technical provisions - health (similar to life)</i>	0
R0620	<i>TP calculated as a whole</i>	0
R0630	<i>Best Estimate</i>	0
R0640	<i>Risk margin</i>	0
R0650	<i>Technical provisions - life (excluding health and index-linked and unit-linked)</i>	4,162,628
R0660	<i>TP calculated as a whole</i>	0
R0670	<i>Best Estimate</i>	4,127,712
R0680	<i>Risk margin</i>	34,916
R0690	Technical provisions - index-linked and unit-linked	7,104,954
R0700	<i>TP calculated as a whole</i>	0
R0710	<i>Best Estimate</i>	7,039,290
R0720	<i>Risk margin</i>	65,664
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	945
R0760	Pension benefit obligations	2,918
R0770	Deposits from reinsurers	3,472,251
R0780	Deferred tax liabilities	14,829
R0790	Derivatives	6,291
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	92,653
R0830	Reinsurance payables	0
R0840	Payables (trade, not insurance)	46,328
R0850	Subordinated liabilities	0
R0860	<i>Subordinated liabilities not in BOF</i>	0
R0870	<i>Subordinated liabilities in BOF</i>	0
R0880	Any other liabilities, not elsewhere shown	0
R0900	Total liabilities	14,903,797
R1000	Excess of assets over liabilities	530,027

Premiums, claims and expenses by line of business

[illegible]

S.05.02.01

Premiums, claims and expenses by country

Life

	C0150 Home Country	Top 5 countries (by amount of gross premiums written) - life obligations			Top 5 countries (by amount of gross premiums written) - life obligations			Total Top 5 and home country
		C0160	C0170	C0180	C0190	C0200	C0210	
	C0220	C0230	C0240	C0250	C0260	C0270	C0280	
R1400								
Premiums written								
R1410 Gross	95,221						95,221	
R1420 Reinsurers' share	15,214						15,214	
R1500 Net	80,006	0	0	0	0	0	80,006	
Premiums earned								
R1510 Gross	95,221						95,221	
R1520 Reinsurers' share	15,214						15,214	
R1600 Net	80,006	0	0	0	0	0	80,006	
Claims incurred								
R1610 Gross	928,908						928,908	
R1620 Reinsurers' share	204,772						204,772	
R1700 Net	724,136	0	0	0	0	0	724,136	
Changes in other technical provisions								
R1710 Gross	0						0	
R1720 Reinsurers' share	0						0	
R1800 Net	0	0	0	0	0	0	0	
Expenses incurred								
R1900	67,901						67,901	
Other expenses								
R2500								
R2600 Total expenses							67,901	

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Own Funds

Basic own funds before deduction for participations in other financial sector

	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
	C0010	C0020	C0030	C0040	C0050
R0010 Ordinary share capital (gross of own shares)	250,050	250,050		0	
R0020 Non-avaliable called but not paid in ordinary share capital at group level	0	0			
R0030 Share premium account related to ordinary share capital	0	0		0	
R0040 Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050 Subordinated mutual member accounts	0		0	0	0
R0060 Non-avaliable subordinated mutual member accounts at group level	0				
R0070 Surplus funds	0	0			
R0080 Non-avaliable surplus funds at group level	0	0			
R0090 Preference shares	24,500		24,500	0	0
R0100 Non-avaliable preference shares at group level	0				
R0110 Share premium account related to preference shares	0		0	0	0
R0120 Non-avaliable share premium account related to preference shares at group level	0				
R0130 Reconciliation reserve	207,636	207,636			
R0140 Subordinated liabilities	0		0	0	0
R0150 Non-avaliable subordinated liabilities at group level	0				
R0160 An amount equal to the value of net deferred tax assets	3,707				3,707
R0170 The amount equal to the value of net deferred tax assets not available at the group level	0				0
R0180 Other items approved by supervisory authority as basic own funds not specified above	0	0	0	0	0
R0190 Non avaliable own funds related to other own funds items approved by supervisory authority	0				
R0200 Minority interests (if not reported as part of a specific own fund item)	0				
R0210 Non-avaliable minority interests at group level	0				
R0220 Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
R0230 Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities	0				
R0240 whereof deducted according to art 228 of the Directive 2009/138/EC	0				
R0250 Deductions for participations where there is non-availability of information (Article 229)	0				
R0260 Deduction for participations included by using DEA when a combination of methods is used	0	0	0	0	0
R0270 Total of non-avaliable own fund items	0	0	0	0	0
R0280 Total deductions	0	0	0	0	0
R0290 Total basic own funds after deductions	485,893	457,686	24,500	0	3,707
Ancillary own funds					
R0300 Unpaid and uncalled ordinary share capital callable on demand	0				
R0310 Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320 Unpaid and uncalled preference shares callable on demand	0				
R0330 A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340 Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350 Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360 Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370 Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0380 Non available ancillary own funds at group level	0				
R0390 Other ancillary own funds	0				
R0400 Total ancillary own funds	0			0	0
Own funds of other financial sectors					
R0410 Credit institutions, investment firms, financial institutions, alternative investment fund manager, financial institutions	0				
R0420 Institutions for occupational retirement provision	0				
R0430 Non regulated entities carrying out financial activities	0	0	0	0	0
R0440 Total own funds of other financial sectors	0	0	0	0	0

Basic own funds before deduction for participations in other financial sector

Own funds when using the DEA, exclusively or in combination of method 1

R0450 Own funds aggregated when using the DEA and combination of method

R0460 Own funds aggregated when using the DEA and combination of method net of IGT

R0520 Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via DEA)

R0530 Total available own funds to meet the minimum consolidated group SCR

R0560 Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via DEA)

R0570 Total eligible own funds to meet the minimum consolidated group SCR (group)

R0610 Minimum consolidated Group SCR

R0650 Ratio of Eligible own funds to Minimum Consolidated Group SCR

R0660 Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via DEA)

R0680 Group SCR

R0690 Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via DEA

Reconciliation reserve

R0700 Excess of assets over liabilities

R0710 Own shares (held directly and indirectly)

R0720 Forseeable dividends, distributions and charges

R0730 Other basic own fund items

R0740 Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

R0750 Other non available own funds

R0760 Reconciliation reserve

Expected profits

R0770 Expected profits included in future premiums (EPIFP) - Life business

R0780 Expected profits included in future premiums (EPIFP) - Non- Life business

R0790 Total Expected profits included in future premiums (EPIFP)

Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
C0010	C0020	C0030	C0040	C0050
	0			
	0			
	485,893	457,686	24,500	0
	482,186	457,686	24,500	0
	485,893	457,686	24,500	0
	482,186	457,686	24,500	0
	0			
	0.00%			
	485,893	457,686	24,500	0
	288,468			
	168.44%			
C0060				
	530,027			
	34,500			
	278,257			
	9,634			
	207,636			
	61,875			
	61,875			

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Solvency Capital Requirement - for groups on Standard Formula

	Gross solvency capital requirement	USP	Simplifications
	C0110	C0080	C0090
R0010 Market risk	207,631		0
R0020 Counterparty default risk	10,991		
R0030 Life underwriting risk	195,357	0	0
R0040 Health underwriting risk	4,026	0	0
R0050 Non-life underwriting risk	0	0	0
R0060 Diversification	-94,367		
R0070 Intangible asset risk	0		
R0100 Basic Solvency Capital Requirement	323,637		
Calculation of Solvency Capital Requirement	C0100		
R0130 Operational risk	31,221		
R0140 Loss-absorbing capacity of technical provisions	-77,246		
R0150 Loss-absorbing capacity of deferred taxes	0		
R0160 Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0		
R0200 Solvency Capital Requirement excluding capital add-on	277,612		
R0210 Capital add-ons already set	0		
R0220 Solvency capital requirement for undertakings under consolidated method	277,612		
Other information on SCR			
R0400 Capital requirement for duration-based equity risk sub-module	0		
R0410 Total amount of Notional Solvency Capital Requirements for remaining part	285,788		
R0420 Total amount of Notional Solvency Capital Requirements for ring fenced funds	2,680		
R0430 Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0		
R0440 Diversification effects due to RFF nSCR aggregation for article 304	0		
R0470 Minimum consolidated group solvency capital requirement	0		
Information on other entities			
R0500 Capital requirement for other financial sectors (Non-insurance capital requirements)	0		
R0510 Credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies	0		
R0520 Institutions for occupational retirement provisions	0		
R0530 Capital requirement for non-regulated entities carrying out financial activities	0		
R0540 Capital requirement for non-controlled participation requirements	0		
R0550 Capital requirement for residual undertakings	0		
Overall SCR			
R0560 SCR for undertakings included via DEA	0		
R0570 Solvency capital requirement	288,468		

Undertakings in the scope of the group

Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory Authority
GB	213800LBGGLPIBQ4P08	LEI	SLF of Canada UK Limited	Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC	Company limited by shares or by guarantee or unlimited	Non-mutual	
GB	549300NZ227BVLSW4E72	LEI	Sun Life Assurance Company of Canada (U.K.) Limited	Life insurance undertaking	Company limited by shares or by guarantee or unlimited	Non-mutual	Prudential Regulation Authority
GB	2939726	Specific code	Sun Life of Canada UK Holdings Limited	Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC	Company limited by shares or by guarantee or unlimited	Non-mutual	
GB	6997417	Specific code	SLFC Services Company (UK) Limited	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares or by guarantee or unlimited	Non-mutual	
GB	600319	Specific code	Barnwood Properties Limited	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares or by guarantee or unlimited	Non-mutual	
GB	2306074	Specific code	Laurtrust Limited	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares or by guarantee or unlimited	Non-mutual	

Country		Identification code of the undertaking	Type of code of the ID of the undertaking	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	Inclusion in the scope of group supervision		Group solvency calculation
C0010				C0030	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250
1	GB	213800LBGGLPBQ4P08	LEI	100.00%	100.00%	100.00%	Centralised management and governance	Dominant	100.00%	Included in the scope		Method 1: Full consolidation
2	GB	549300NZ2278VLSW4E72	LEI	100.00%	100.00%	100.00%	Centralised management and governance	Dominant	100.00%	Included in the scope		Method 1: Full consolidation
3	GB	2939726	Specific code	100.00%	100.00%	100.00%	Centralised management and governance	Dominant	100.00%	Included in the scope		Method 1: Full consolidation
4	GB	6997417	Specific code	100.00%	100.00%	100.00%	Centralised management and governance	Dominant	100.00%	Included in the scope		Method 1: Full consolidation
5	GB	600319	Specific code	100.00%	100.00%	100.00%	Centralised management and governance	Dominant	100.00%	Included in the scope		Method 1: Full consolidation
6	GB	2306074	Specific code	100.00%	100.00%	100.00%	Centralised management and governance	Dominant	100.00%	Included in the scope		Method 1: Full consolidation

Sun Life Assurance Company of Canada (U.K.) Limited, incorporated in England and Wales, registered number 959082, registered office at Matrix House, Basing View, Basingstoke, Hampshire, RG21 4DZ, trades under the name of Sun Life Financial of Canada and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.