

Schroders

Schroder Pension Management Limited

Solvency and Financial Condition Report as at 31 December 2019



Contents

Background and executive summary	4
1.1 Business and performance	4
1.2 System of governance	4
1.3 Risk profile	5
1.4 Valuation for solvency purposes	6
1.5 Capital management	6
1.6 Governance	7
Section A Business and performance	8
A.1 Business	8
A.2 Underwriting performance	10
A.3 Investment performance	11
A.4 Performance of other activities	12
A.5 Any other information	12
Section B System of governance.....	13
B.1 General information on the system of governance	13
B.2 Fit and proper requirements	15
B.3 Risk management system including the own risk and solvency assessment....	17
B.4 Internal control	19
B.5 Internal audit function	20
B.6 Actuarial function.....	20
B.7 Outsourcing.....	20
B.8 Any other information.....	21
Section C Risk profile.....	22
C.1 Underwriting risk	23
C.2 Market risk.....	23
C.3 Credit risk.....	24
C.4 Liquidity risk	25
C.5 Operational risk.....	25
C.6 Other material risks	27
C.7 Any other information	28
Section D Valuation for solvency purposes.....	29
D.1 Assets	30
D.2 Technical provisions	32
D.3 Other liabilities	36
D.4 Alternative methods for valuation	36
D.5 Any other information	36

Section E Capital management	37
E.1 Own funds	37
E.2 Solvency capital Requirement (SCR) and Minimum Capital Requirement (MCR).....	38
E.3 Use of the duration-based equity risk sub-module in the calculation of the SCR.....	40
E.4 Differences between the standard formula and any internal model used.....	40
E.5 Non-compliance with the MCR and non-compliance with the SCR.....	40
E.6 Any other information.....	40
Section F Governance	41
F.1 Directors' confirmation.....	41
F.2 Independent Auditor's report.....	42
Appendix 1 Annual QRTs as at 31 December 2019	45

Background and executive summary

This Solvency and Financial Condition Report (SFCR or the Report) has been prepared to enable the clients, and other stakeholders, of Schroder Pension Management Limited (SPML or the Company) to assess the financial position of the Company. SPML is a life insurance company authorised by the Prudential Regulation Authority (PRA) and regulated by the PRA and the Financial Conduct Authority (FCA).

The Report contains the public disclosures required under the reporting section of the PRA Rulebook, 'Solvency II Firms'. The PRA Rulebook incorporates the requirements set out in Article 51 (1) of Directive 2009/138/EC (the Solvency II Directive) and all directly applicable EU Regulations adopted in accordance with the Solvency II Directive (the Solvency II Regulations).

1.1 Business and performance

SPML is a limited company, incorporated and domiciled in the United Kingdom. Its ultimate parent company is Schroders plc and it operates as part of the Schroders Group (Schroders or the Group). In 2019, SPML generated profit before tax of £1.5 million (31 December 2018: £1.7 million). The Company paid a dividend of £2 million in June 2019 and as at 31 December 2019 held £26.0 million of own funds.

The Company's principal activity is the provision of long-term life insurance services through unit-linked insurance and unit-linked reinsurance contracts. These contracts provide a tax efficient solution that enables SPML's clients to access a range of Schroders investment strategies. The Company's contracts do not include any financial options, other than surrenders, or guarantees, other than charge guarantees, and the Company is not exposed to mortality or morbidity risks.

Unit-linked insurance contracts are issued to policyholders who are trustees of registered pension schemes, the trustees of common investment funds which pool the assets of registered pension schemes, or administering authorities of local government pension scheme funds. Unit-linked reinsurance is accepted from other life insurance companies wishing to expand the range of funds available to their unit-linked pension policyholders. All of SPML's business is carried out in the United Kingdom.

Revenue is earned as a percentage of assets under management (AUM), which represent assets backing unit-linked liabilities. The Company delegates the active management of these assets to another Group company, Schroder Investment Management Limited (SIM), together with the majority of its other operating activities. 96% of revenues are paid to SIM in exchange for the services received.

The Schroders Group remains well positioned to manage the challenges that may arise as a result of Brexit, regardless of the outcome of the negotiations. Whilst all the legal and regulatory challenges of Brexit are as yet unclear, the Group's structure provides it with flexibility in deciding how best to respond and continue to service its clients. We believe that the Company is well placed to weather these challenges and to adapt to ongoing changes in the political, economic and regulatory environment.

Other than the dividend referred to above, there were no significant changes to the Company's business operations or other events that had a material impact on the solvency and financial condition of the Company during 2019.

1.2 System of governance

SPML operates as part of the Schroders Group and is subject to the Schroders governance framework. The Schroders plc Annual Report and Accounts, which contains details of the Group's governance framework on page 56, is available on the Schroders' corporate website at: www.schroders.com. The Board of Directors of SPML (the Board) is responsible for ensuring that an appropriate system of governance is in place for the Company.

The Board has established company specific risk management and internal control processes that align with the overall Schroders governance framework and extend this where relevant to the Company. The Board is supported by the SPML Risk Committee (SRC), which is responsible for reviewing and monitoring the adequacy and effectiveness of the process for the identification, assessment, mitigation, monitoring and management of all risks faced by SPML.

The Company has identified a range of key functions that are important for the sound management of the Company. Individuals performing key functions are established as fit and proper through a robust framework of initial and ongoing assessment.

There have been no material changes to the governance structure of SPML in the year ended 31 December 2019, although there were a number of changes to individuals in key roles. Two new directors were appointed to the Board during the year, with a new Chairman and a new director appointed subsequent to year end. Further information about these changes and the Company's system of governance is provided in section B.

The Company has access to the Group's internal audit function, which provides independent and objective challenge to and assurance over the Group's control environment.

The Company carries out an Own Risk and Solvency Assessment (ORSA) annually and more frequently in response to major business changes. The ORSA process identifies, monitors and reports on both short and long term risks and determines the amount of capital required to support the business.

1.3 Risk profile

The Company's principal risk exposures relate to operational risk, market risk, surrender risk and credit risk.

- Operational risk is the risk of loss resulting from inadequate or failed processes, people and systems or from external events. The risk is mitigated under the terms of agreements between SPML and SIM whereby SPML is expected to be compensated in full for all material operational risk losses incurred.
- Market risk is the risk that the value of an investment will decrease due to market factors. SPML has exposure to market risk on its linked and non-linked assets. The risk in relation to linked assets arises as a fall in the value of the linked assets will result in a reduction in the Company's revenue. The impact of such a reduction on the Company's capital is mitigated to a large extent as the Company's expenses are defined primarily as a percentage of revenue and therefore expenses fall as revenue falls. The Company is directly exposed to market risk on its non-linked assets but investments are typically held in cash and other highly liquid investments that do not expose the Company to significant market risk.
- Surrender risk, also referred to as lapse risk, is the risk that policyholders move their investments to another provider, thereby reducing the Company's revenue. Again, the impact of this risk on the Company's capital is largely mitigated by the Company's expenses being defined primarily as a percentage of revenue.
- Credit risk is the risk that a counterparty to a financial instrument will cause the Company financial loss by failing to discharge an obligation. SPML has exposure to credit risk from its holdings in assets, other than those allocated to unit-linked contracts, where the risk is that a counterparty will be unable to pay in full amounts when due.

SPML has limited exposure to other types of risks which are set out in C.6. There have been no significant changes to the risk profile of the company during 2019. Further details on the Company's risk profile are set out in section C of this Report, and a quantitative analysis of the risk exposures in the SCR is set out in section E.2.

1.4 Valuation for solvency purposes

The assets and liabilities of the Company are valued for solvency purposes in accordance with the Solvency II Regulations. The Solvency II balance sheet is consistent with the Company's financial statements, which are prepared under International Financial Reporting Standards (IFRS), except for the items set out in the table below:

	As at 31 Dec 2019 £'000	As at 31 Dec 2018 £'000
Excess of assets over liabilities (IFRS basis)	26,238	27,030
Items not recognised in the financial statements:		
Present value of future profits (PVFP)	313	307
Risk margin	(536)	(569)
Excess of assets over liabilities (Solvency II basis – own funds)	26,015	26,768

The PVFP is the best estimate of the excess of policy charges over expenses, which is determined using a cash-flow projection model over a period of three months. This reflects the Company's ability to terminate all contracts subject to a three month notice period.

Given all business has a three month projection period, the risk margin has been determined over a one year period (the minimum permitted under Solvency II regulations), and has been calculated on the result of the SCR at the valuation date but with the result of the market risk module and counterparty default risk module for bank counterparties set to equal zero on the assumption that these risks could be hedged if required.

1.5 Capital management

The Board of SPML reviews the Company's capital position on a regular basis and determines the appropriate capital to be maintained by the Company. It is the Board's risk appetite that the Company will maintain a target level of solvency coverage of no less than the higher of 200% of the Company's Pillar 1 Solvency Capital Requirement (SCR) (with an early warning indicator of 215%) and the capital requirement calculated under the Own Risk and Solvency Assessment (ORSA).

	As at 31 Dec 2019 £'000	As at 31 Dec 2018 £'000
Solvency Capital Requirement (SCR)	9,088	8,410
Total eligible amount of own funds to cover the SCR, of which:	26,015	26,768
– Tier 1 Unrestricted	26,015	26,765
– Tier 3	-	3
Minimum Capital Requirement (MCR)	4,090	3,785
Total eligible amount of basic own funds to cover the MCR (all Tier 1 Unrestricted)	26,015	26,765
Solvency ratio of SPML (own funds divided by the SCR)	286%	318%

The SCR has increased by £0.7 million to £9.1 million at 31 December 2019 (31 December 2018: £8.4 million). This is due to the offsetting effects of:

- A reduction of £1.2 million in the loss absorbing capacity of deferred tax (LACDT or tax adjustment) as a result of, following a change in Commission Delegated Regulation (EU) 2015/35 (the Delegated Regulation), the need to seek regulatory approval for an element of the approach taken in previous years; and
- A decrease of £0.6 million in the operational risk component of the SCR, which is a function of expenses incurred over the year and reflects lower revenue related expenses in 2019 compared to 2018.

Own funds have decreased by £0.8 million in 2019, primarily driven by the payment of a dividend of £2 million in June 2019 offset by profits after tax earned over the period of £1.2 million. While the Solvency ratio has decreased, it remains significantly above the Board's risk appetite level.

There have been no instances of non-compliance with the Minimum Capital Requirement (MCR) or SCR during 2019. See section E.1 for further details on the Company's own funds.

The Company does not use volatility or matching adjustments, or transitional arrangements.

1.6 Governance

The Directors have certified that the SFCR has been properly prepared in all material respects in accordance with the PRA rules and Solvency II regulations and that SPML has complied and will continue to comply with the PRA rules and Solvency II in the future.

Section A Business and performance

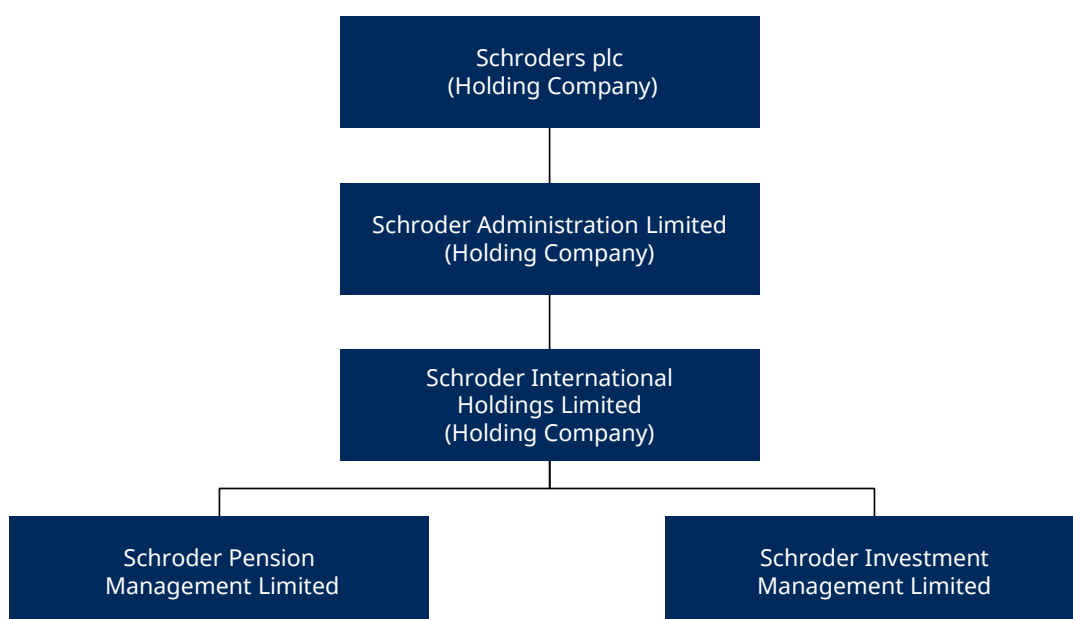
A.1 Business

SPML is a company limited by shares and is incorporated and domiciled in England and Wales. The registered address of the Company is 1 London Wall Place, London, EC2Y 5AU.

SPML is a wholly owned subsidiary of Schroder International Holdings Limited (SIHL). The Company's ultimate controlling entity is Schroders plc. SIHL and Schroders plc are both incorporated and domiciled in England and Wales. Schroders plc and its subsidiaries combine to form the Schroders Group. Neither SIHL, nor any parent entities above SIHL within the Group, meet the definition of an insurance holding company or a mixed financial holding company. As such the Group is not required to produce Solvency II reports at a group level.

In 2019, SPML generated profit before tax of £1.5 million (31 December 2018: £1.7 million). The Company paid a dividend of £2.0 million to its shareholder during the year ended 31 December 2019 (31 December 2018: £8.5 million).

Simplified Group Structure as at 31 December 2019



Supervision and external audit

SPML is authorised by the PRA and regulated by the PRA and the Financial Conduct Authority (FCA). Financial supervision is undertaken by the Retail Life department of the PRA. They can be contacted at:

- PRA: Bank of England, 20 Moorgate, London, EC2R 6DA.
- FCA: 12 Endeavour Square, London, E20 1JN.

SPML is audited by Ernst & Young LLP (EY), statutory auditors, 25 Churchill Place, London, E14 5EY.

Lines of business

SPML writes:

- Unit-linked insurance contracts that are issued to policyholders who are trustees of UK registered pension schemes, the trustees of common investment funds which pool the assets of registered pension schemes, or administering authorities of local government pension scheme funds; and
- Unit-linked reinsurance that is accepted from other life insurance companies wishing to expand the range of funds available to their unit-linked UK pension policyholders.

All business is carried out in the United Kingdom. Contracts issued by SPML do not contain any financial options, other than surrenders, or guarantees, other than charge guarantees.

SPML's operating model

SPML outsources almost all functions to SIM. The outsourcing arrangement is governed by an investment management agreement and a services agreement between SPML and SIM. SIM sub-contracts certain activities to third-party companies including J.P. Morgan Europe Limited (JPMorgan) for fund accounting services and DST Financial Services (DST) for transfer agency services.

SPML outsources the actuarial function role to Barnett Waddingham LLP (BW). The services provided are set out in an agreement between SPML and BW.

SPML also contracts directly with JPMorgan Chase Bank, N.A. (JPMorgan Chase) for custody services.

SPML has no employees. Staff involved in the management and operating activities of SPML are employed by SIM and the costs of these staff are largely met by SIM, reflecting its delegated responsibilities. Costs specifically associated with managing the business of SPML are recharged to SPML from SIM, or are borne directly by SPML. The costs borne directly by SPML are minimal, reflecting that most operating activities are performed by SIM through the outsourcing arrangements.

SIM receives 96% of the annual management fees earned by the Company for taking delegated responsibilities in respect of the SPML business in accordance with the Group's transfer pricing policy. In turn, SIM pays fees to other Group companies for services provided. These can arise through investor introductions and investment management activities, or through investing via a mutual fund where contractual investment management fees may arise.

The terms of the fee sharing arrangements between SPML and SIM recognise the commercial value of the Company and its insurance licenses to the Group. Under the terms of the agreements the profitability of the company is protected in the event of a significant decline in business levels. The agreements provide for a phased increase in the proportion of management fees retained by SPML where the assets backing unit linked liabilities fall by over a third. Immediately following the value of assets backing unit linked liabilities reducing by a third, the SPML retention increases from 4% to 6%. This threshold applies when comparing AUM with the previous quarter end value. The retention increases to 7% in the event of a cumulative decline from the relevant quarter end AUM by 40% and to 8% following a cumulative decline of 50%. The changes to the fee retention also apply if AUM falls at any time by the same proportion from £10 billion.

Significant business and events

In June 2019, the Company paid a £2.0 million dividend to its shareholder which was the primary driver of the reduction in own funds. The reduction in own funds combined with an increase in the SCR resulted in a decrease in the Solvency ratio by 32% during 2019. The Solvency ratio remains above the Board's risk appetite of a minimum target level of solvency coverage of no less than the higher of 200% of the Pillar 1 SCR (with an early warning indicator of 215%) and the capital requirement determined under the ORSA.

Two new directors were appointed to the Board during 2019. Although these key individuals have changed in the year, there were no significant changes to the Company's system of governance.

There have been no other material changes during the reporting period with respect to the Company's business and performance, system of governance or risk profile.

Events since 31 December 2019

Since 31 December 2019, the Covid-19 pandemic has created considerable uncertainty for economies and markets. SPML's management has assessed the potential for this to impact on SPML's business model and financial position.

The most significant impact of this global event on the Company is a reduction in the value of AUM. As SPML's income is derived from its AUM, falling markets also impact the Company's revenues. SPML outsources almost all functions to another Group company, SIM. The costs of these outsourced services are linked to the value of AUM. This arrangement significantly reduces the impact of falls in AUM on SPML's profitability. Consequently, SPML's capital position – as measured through its SCR coverage ratio – is resilient to large falls in AUM.

The Company's non-linked shareholder assets are invested conservatively in accordance with the Company's Capital Policy and the Group's Counterparty and Credit Risk Policy Framework. The Company is not exposed to significant market risk on its non-linked assets. From a credit risk perspective, the Company's capital position is sensitive to the credit rating of its counterparties, in particular in relation to a loan to Schroders PLC. Section C.3 discusses this risk in more detail and illustrates the limited capital impact that would arise should Schroders PLC's credit rating be downgraded by one step.

From an operational perspective, the Schroders Group has robust contingency plans in place and business continuity measures have been activated in response to Covid-19. To date there has been no significant impact on the Company's operational capabilities. However, there is the potential for Covid-19 to cause disruption and this is being monitored closely by management.

Other events to note:

- Stephen Reedy was appointed to the Board as the SMF 24 Chief Operations (split) Function on 20 January 2020.
- Paul Forshaw was appointed to the Board as the SMF 9 Chairman on 27 March 2020.
- Following a review of the Group's transfer agency operating model the decision was made to change transfer agency providers from DST to HSBC Bank Plc (HSBC), effective from June 2020.

A.2 Underwriting performance

SPML only writes unit-linked pension business and no policies include any financial options, other than surrenders, or guarantees, other than charge guarantees. The Company is not therefore exposed to any insurance risk.

Under the terms of the outsourcing arrangement, SIM is responsible for all activities related to the underwriting performance of the Company. The underwriting performance is solely dependent on the fee income earned on unit-linked assets invested by policyholders less expenses incurred in the management of the policies. The expenses incurred by SPML under the outsourcing agreement with SIM are correlated to the management fee income received meaning that ordinarily the Company will report a positive underwriting result. Management fees retained are sufficient to cover other operating expenses incurred directly by the Company.

Net management fees earned reduced by £3.3 million to £44.7 million (31 December 2018: £48.0 million), driven by a 3% fall in average AUM combined with a reduction in fee margin during 2019. The retained net revenue margin of 4%, after ceding to SIM, is in line with the Group's transfer pricing policy.

Description	2019			2018			Variance
	Index-linked and unit-linked insurance	Accepted reinsurance	Total	Index-linked and unit-linked insurance	Accepted reinsurance	Total	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Net management fees charged	30,660	13,997	44,657	33,617	14,339	47,956	(3,299)
Performance fees	312	142	454	158	68	226	228
Net fee income before Group charges	30,972	14,139	45,111	33,775	14,407	48,182	(3,071)
Fee cedes to SIM							
Management fees ceded to SIM	(29,520)	(13,476)	(42,996)	(32,340)	(13,794)	(46,134)	3,138
Performance fees ceded to SIM	(312)	(142)	(454)	(158)	(68)	(226)	(228)
Net fee income retained after fee share to SIM	1,140	521	1,661	1,277	545	1,822	(161)

Total operating expenses remained flat during the year at £0.4 million (year ended 31 December 2018: £0.4 million).

Description	2019 £'000	2018 £'000	Variance £'000
Professional fees	(272)	(276)	4
Non-recoverable indirect taxes	(26)	(49)	23
Other expenses	(143)	(101)	(42)
Total operating expenses	(441)	(426)	(15)

A.3 Investment performance

Financial highlights

SPML generated a profit before tax of £1.5 million for the year ended 31 December 2019 (2018: £1.7 million). Net fee income retained has fallen by £0.1 million to £1.7 million (31 December 2018: £1.8 million driven by a 3% fall in average AUM and a reduction in fee margin during 2019). Unit-linked liabilities increased by £1,002.9 million (11%) to £9,814.1 million as at 31 December 2019 (31 December 2018: £8,811.2 million). Direct costs were flat at £0.4 million during the year.

Investment activity with respect to unit-linked policyholders

SPML does not bear investment risk on behalf of policyholders. Investments held on behalf of unit-linked policyholders are made in line with the published objectives of the life funds and match liabilities exactly. However, as the Company earns fees as a percentage of AUM, future revenues may be impacted by investment returns on unit-linked assets.

The table below shows the movement in the Company's unit-linked liabilities. Premiums received and claims paid reflect new investments and withdrawals by policyholders in the Company's Life funds. The increase in unit-linked assets passed on to policyholders is offset by an equivalent change in unit-linked liabilities. Management fees are charged based on the unit-linked assets, and are either deducted directly from the Life funds or are billed to and collected directly from policyholders.

In the year ended 31 December 2019, unit-linked liabilities increased by £1,002.9 million (11%) to £9,814.1 million (31 December 2018: £8,811.2 million) on an IFRS basis. The movement in fund assets includes premiums received of £2,658.5 million less claims paid of £2,791.9 million with investment returns and management fees charged to the fund and other movements increasing unit-linked liabilities by £1,136.3 million.

Description	2019 £'000	2018 £'000	Variance £'000
Premiums received	2,658,533	1,352,994	1,305,539
Claims paid	(2,791,860)	(2,449,931)	(341,929)
Investment return	1,168,451	(573,765)	1,742,216
Management fees charged directly to the life funds	(32,201)	(36,360)	4,159
Increase/(Decrease) in unit-linked assets	1,002,923	(1,707,062)	2,709,985
(Increase)/Decrease in unit-linked liabilities	(1,002,923)	1,707,062	(2,709,985)
Net impact on underwriting performance of the Company	0	0	0

Investment activity with respect to the Company's non-linked investments

Non-linked investments are mostly invested in cash and the Schroder Special Situations Fund – Sterling Liquidity Plus (SSSF SLP). Interest income is also earned on a loan to Schroders plc. SPML holds no direct investment in any securitisation vehicle.

The investment in the SSSF SLP is designated in accordance with IAS 39, fair value through profit or loss, under IFRS 9. The Company made a gain of £0.1 million on this investment in 2019 (net of tax), leaving a year end market value of £15.6 million (31 December 2018: £15.5 million).

The Company also earned net interest income predominantly on the loan to Schroders plc and other non-linked cash holdings of £0.1 million in 2019 (31 December 2018: £0.2 million).

A.4 Performance of other activities

SPML does not hold any financial leases or operating leases. There are no other activities.

A.5 Any other information

Service agreements

The service agreements in place between SPML and SIM make provision for those Group companies to meet any costs resulting from operational failure of the services performed. The service agreements were enforced over the reporting period such that SPML did not meet any significant operational risk event losses.

Section B System of governance

B.1 General information on the system of governance

The strategy for the Group is set by the Board of Schroders plc. SPML operates within the overall strategy of the Group. The Schroders plc Board ensures that SPML's strategy is appropriate for the Group, and that it promotes the success of the Company within the Group's overall business plan.

The Board of Directors of SPML (the Board) is the Company's governance and management body for regulatory purposes. The Board meets at least four times per year. The Board is responsible for ensuring sound governance, ensuring that the operational effectiveness of the risk management and control environment is maintained and that effective risk management policies are adhered to within the Schroders Group Risk Management Framework. The Board has responsibility for providing effective oversight of those who exercise executive functions, and oversees the management of potential internal conflicts between outsourced providers within the Group.

The Board primarily consists of employees of SIM, as well as two independent (non-executive) directors. It is supported by the SRC which reports into the Board.

Other than changes in the directors of the business, set out in the table below, there have been no material changes to the governance structure of SPML in the year to 31 December 2019.

The composition of the SPML Board as at the date of approval of this SFCR is detailed in the below table:

Director	Senior Managers and Certification Regime Functions ('SMF')
Paul Forshaw ¹	SMF 9 Chairman
David Heathcock	SMF 1 Chief Executive Officer
James Grant ²	SMF 2 Chief Finance Function
Stephen Reedy ³	SMF 24 Chief Operations Function (split function)
Calum Thomson ⁴	SMF 14 Senior Independent Director
Derek Wright ⁵	Non-Executive Director

¹Appointed on 27 March 2020, replacing Guy Henriques who resigned from the Board on 26 September 2019.

²Appointed on 14 November 2019, replacing Wayne Mepham who resigned from the Board on 2 August 2019.

³Appointed on 20 January 2020, replacing Julian Walker-Hazell who resigned from the Board on 4 November 2019.

⁴Replaced Graham Aslet as SMF 14, who resigned from the Board on 21 May 2019.

⁵Appointed on 1 January 2019.

The CEO of SPML has responsibility, under the immediate authority of the Board alone or jointly with others, for carrying out the management of the conduct of the whole of the business (or relevant activities) of SPML. Their prescribed responsibilities are:

- The performance of the Company's obligations under the Senior Managers Regime and the employee Certification Regime (FCA and PRA);
- Compliance with the Company's obligations for conduct rules training and reporting (FCA);
- Compliance with the requirements of the regulatory system about the management responsibilities map (FCA and PRA);
- Monitoring the effective implementation of policies and procedures for the induction, training and professional development of all of the firm's SMF managers and key function holders (other than members of the firm's governing body) (FCA and PRA);
- Overseeing the adoption of the firm's culture in the day-to-day management of the firm (PRA);
- Development and maintenance of the firm's business model by the governing body (PRA).

SPML Risk Committee

The SPML Risk Committee (SRC) is responsible for reviewing and monitoring the adequacy and effectiveness of the management of risks faced by SPML, by:

- Supporting effective risk management for SPML in line with the Group approach;
- Providing transparency on risk trends and highlight key issues;
- Supporting the ORSA review process;
- Considering the impact of industry, regulatory and Solvency II requirements; and
- Bringing together key SPML stakeholders to consider risk related matters of relevance to SPML.

Key roles and responsibilities

The table below details the key functions applicable to the Company:

Key function	Outsourced counterparty	Senior Managers and Certification Regime Functions	Responsibilities
Finance	SIM	SMF 2 – Chief Finance Officer (CFO)	Responsible for the management of the financial resources of SPML and reporting to the Board in relation to its financial affairs.
Risk Management	SIM	SMF 4 – Chief Risk Officer	Responsible for overall management of the risk management system, including the risk management framework, policies and controls, and identifying and monitoring SPML's key risks.
Internal Audit	SIM	SMF 5 – Internal Audit	Responsible for assessing the adequacy and effectiveness of the internal control environment. Determines the annual internal audit plan. Reports the results of audits that are relevant to SPML to the Board.
Actuarial Function Holder	BW	SMF 20 – Chief Actuary	Responsible for coordinating the calculation of the Company's technical provisions, ensuring the appropriateness of the methodologies and underlying models used. Contributes to the effectiveness of the risk management system.
Compliance	SIM	SMF 16 – Compliance oversight	Responsible for the management of the compliance function of SPML and for reporting directly to the Board.
Financial Crime	SIM	SMF 17 – Money laundering reporting	Responsible for the firm's policies and procedures for countering the risk that the firm might be used to further financial crime. Acts in the capacity of the money laundering officer of the firm.

SPML's remuneration policy

SPML has no employees and does not therefore incur any direct salary costs. The executive Directors, SMF-holders and material risk takers of SPML employed by other Schroders Group entities receive no separate remuneration specific to their role in respect of SPML. Their remuneration is in line with the remuneration policies of the Schroders Group, which is in line with regulatory requirements. Schroders is a Level 3 firm under the PRA Rulebook and FCA Remuneration Code proportionality regimes for CRD. The emoluments of the non-executive directors are borne directly by the Company. Non-executive directors receive a fixed fee only.

Transactions with related parties

During the year ended 31 December 2019, the Company had the following transactions and balances at the year end (as reported in the Company's Annual Report and Accounts) with related parties within the Schroders Group:

	Income £'000	Expenses £'000	Amounts owed by related parties £'000	Amounts owed to related parties £'000
Ultimate parent	97	-	5,051	-
Other related companies within the Schroders Group	356	(43,450)	169	(4,543)

During the year ended 31 December 2018, the Company had the following transactions and balances at the year end (as reported in the Company's Annual Report and Accounts) with related parties within the Schroders Group:

	Income £'000	Expenses £'000	Amounts owed by related parties £'000	Amounts owed to related parties £'000
Ultimate parent	176	-	7,058	-
Other related companies within the Schroders Group	832	(46,360)	843	(7,434)

Amounts owed by related parties include a loan of £5.1 million to Schroders plc (2018: £7.1 million).

All transactions with related parties are made at an arm's length basis on normal commercial terms.

B.2 Fit and proper requirements

Schroders operates in an environment where maintaining the highest possible professional standards is essential in order to minimise exposure to financial and regulatory risks and to promote the Group's reputation as a market leader.

Whilst additional focus is given to employees exercising governance or oversight roles, Schroders requires all employees to demonstrate integrity and professional competence at all times.

Under SMCR, Senior Managers (SMFs), Certificated Staff and Non Executive Directors need to demonstrate fitness and propriety (F&P) on an annual basis. SPML Senior Managers are required to adhere to the FCA & PRA Conduct Rules.

There are two groups of Conduct Rules:

1. The Individual Conduct Rules apply to Senior Managers, Notified Non-Executive Directors and Certificated Persons (all SPML staff).
2. The Senior Manager Conduct Rules, which apply to Senior Managers only, apart from SM4, which also applies to Notified Non-Executive Directors.

Individual Conduct Rules

PRA and FCA

- Rule 1: You must act with integrity.
- Rule 2: You must act with due skill, care and diligence.
- Rule 3: You must be open and cooperative with the FCA, PRA and any other regulators.

FCA only

- Rule 4: You must pay due regard to the interests of customers and treat them fairly.
- Rule 5: You must observe proper standards of market conduct.

Senior Manager Conduct Rules

- SM1: You must take reasonable steps to ensure that the business of the firm for which you are responsible is controlled effectively.
- SM2: You must take reasonable steps to ensure that the business of the firm for which you are responsible complies with relevant requirements and standards of the regulatory system.
- SM3: You must take reasonable steps to ensure that any delegation of your responsibilities is to an appropriate person and that you oversee the discharge of the delegated responsibility effectively.
- SM4: You must disclose appropriately any information of which the FCA or PRA would reasonably expect notice.
- SM5: You must pay due regard to the interests of current and potential future policyholders in ensuring the provision by the firm of an appropriate degree of protection for their insured benefits.

The section below outlines the Schroders processes and practices to ensure that relevant employees meet the fit and proper test:

Initial assessment

In order to ensure that employees recruited by Schroders have the required skills and behaviours, a clearly defined process of pre-employment screening is followed. A risk-based approach is used to assess the level of screening required, with two levels identified:

Tier One: SMFs (Senior Manager Functions), CPs (Certified Persons) and others in roles that might have a higher level of risk.

Tier Two: Other new hires.

The recruitment process includes an assessment of education, professional qualifications and employment history, and uses competency based interview techniques to ascertain whether or not the candidates have the technical competence to fulfil the role for which they are applying. All hires undergo thorough employment checks, educational and professional qualification checks, credit checks and a DBS check. For those in regulated roles, additional checks are carried out including an adverse media check, UK Directorship check, FCA register and a check, Global sanctions and watch list search, in addition to a further UK consumer credit search and DBS standard or basic disclosure check.

For Tier One candidates, the line manager is required to provide the Group's compliance department with a competence and capability statement (C&C statement). This statement outlines how the appointment complements Schroders' business strategy, how the appointment was agreed, information on the employee's background and experience and their expected impact on the role, together with how the decision was made to employ them.

In addition to the above, the frequency of ongoing re-checks for SMFs are annually and for CPs are once every 3 years.

Annual and on-going F&P assessment

The company performs an assessment of the indicators used in the determination of F&P on an annual basis, which is reviewed by the CEO of SPML in accordance with the Group's Fitness and Propriety Policy. Any potential matters of note are flagged for consideration and the outcome/decision documented. An individual must meet the requirements for each of the F&P indicators before being deemed fit and proper to perform the role.

The assessment of staff members' on-going competence for the role that they are performing is primarily the responsibility of the individual's immediate manager and is facilitated through the formal appraisal process which is documented in the Group's Human Resources policies.

All Schroder employees are also required to complete an annual self-declaration, which assesses F&P. The individual is responsible for informing the Group's Human Resources department of any subsequent changes to the responses provided in the questionnaire.

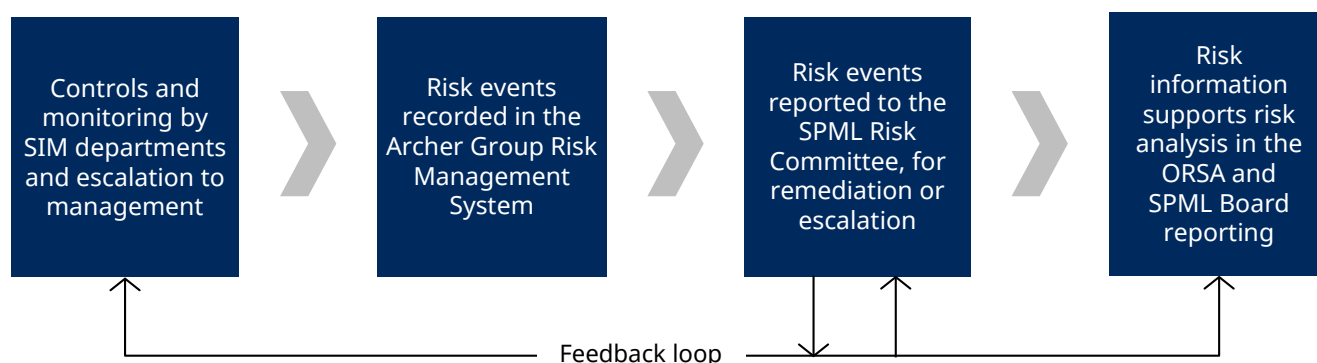
Should an individual's manager or the relevant board become aware of any information that may be relevant to an assessment of F&P that was either not previously known, or which casts doubt on the individual's ability to perform their function, a full assessment is expected to be promptly undertaken at the earliest opportunity, with input from the Group's Human Resources department if required.

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

Risk management approach

The Group's approach to risk management is outlined in its 'Pillar 3 Disclosures' document and the Annual Report and Accounts. These can be found on the Schroders' corporate website: www.schroders.com.

SPML operates within the Group's Risk Framework, which is supplemented by SPML's own Risk Management Framework. SPML considers risks from both a bottom-up and a top-down perspective to mitigate their impact and minimise financial and reputational losses. A high level description of the process is shown below.



Group policies apply to SPML and these are used by staff involved in the management of SPML activities to help maintain effectiveness of governance and controls. SPML's Risk Management Framework is supported by the Group Risk function. The Board is also responsible for ensuring sound governance and controls are maintained and that SPML has an effective risk management process.

Risk appetite

SPML faces a range of risks that the Board accepts are a result of the company's business model and strategy, and which require management and mitigation. SPML's overall risk appetite is primarily set by its target solvency cover, which impacts the level of capital required and corresponding capital management approach.

SPML operates within the Group's overall risk appetite framework but also considers risk appetite for its key risks, which include a mixture of quantitative and qualitative metrics to help monitor these risks on an ongoing basis. The majority of metrics are identified by subject matter experts and are indicators to support the assessment of SPML's position against appetite. A breach does not automatically indicate that SPML is outside of Risk Appetite.

The process for establishing and updating a risk appetite for SPML's key risks is incorporated in and reported through the ORSA process. Stakeholders are required to review risk appetite statements and metrics in order to ensure they accurately reflect the risk profile. This information is then used to assess how individual risks may contribute to the overall risk appetite for SPML and impact the risk profile of the business. Stakeholders are also required to review risk appetite on an ongoing basis.

An outline of the significant risks faced by the Company, and the approach used to mitigate these risks, is included in section C.

Own risk and solvency assessment

The purpose of the ORSA is to assess and document the capital adequacy of SPML in accordance with Solvency II rules.

- The ORSA considers all material risks and the impact of management actions SPML may take to manage these risks;
- The ORSA is forward-looking and considers the adequacy of available capital over SPML's five-year business planning period;
- This ORSA is carried out in accordance with the SPML ORSA Policy; and
- The SPML Board owns and is responsible for the ORSA.

SPML takes a proportional approach to the ORSA in accordance with the nature, scale and complexity of its business. The ORSA helps SPML to determine its overall solvency needs to cover both short and long-term risks. A risk-based approach helps SPML to hold an amount of capital commensurate with the risks to which it may be exposed.

The ORSA capital requirement is estimated using a risk identification, quantification and stress testing based approach. It is intended to be calculated at a confidence interval of 99.5% over a one-year period, extended throughout the Company's five-year business planning period. SPML does not allow for diversification effects between different types of risk in its ORSA calculations (although it does allow for diversification within different market risks) and does not allow for the possible tax impacts that might otherwise reduce required capital on an ORSA basis. This approach is considered to be prudent and proportional to the overall methodology employed.

A key management action considered in the ORSA assessment is that the SPML Board may, if necessary, give notice of termination of the policy contracts, subject to a notice period of three months. In this event, the business would be expected to have no further liabilities to customers within three months and run-off the business within six months.

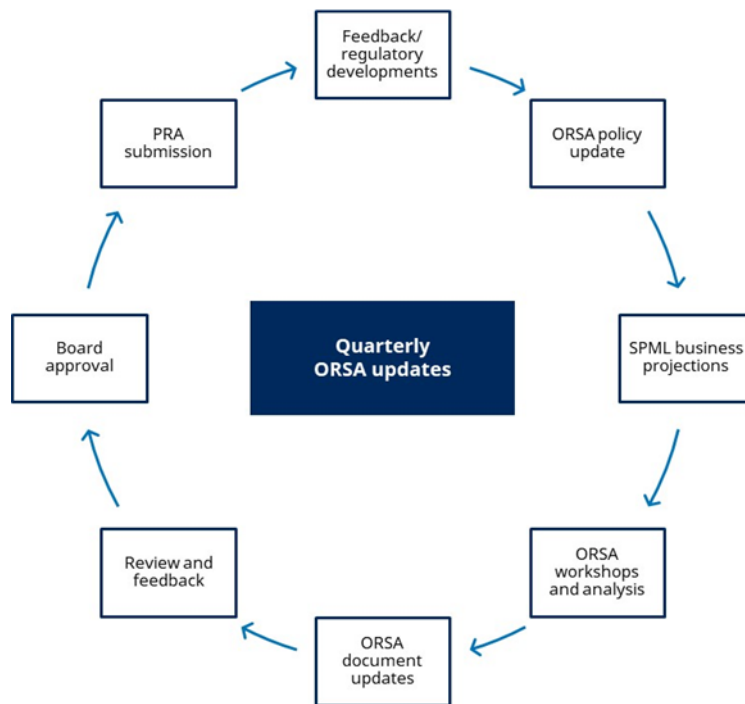
The Board would consider other actions if the results of the ORSA indicate that required capital is, or may become, unacceptably high taking into account the risks that the company faces, the amount of required capital and the specific circumstances.

ORSA process

Development of the ORSA has considered all relevant regulatory guidance from the UK and European regulators and Solvency II rules. The ORSA process considers:

- Risk appetite;
- Solvency and capital requirements;
- Key risks, risk mitigation and risk events; and
- Stress scenario analysis.

The ORSA process involves the SPML Board, SPML Risk Committee and other Group personnel with responsibility for managing the operations of SPML on a day-to-day basis. Input is received through formal and informal engagement, workshops, and discussion. Input and guidance is also provided by SPML's Chief Actuary.



The full ORSA report is produced on an annual basis, or more frequently in response to major business changes. The SRC and Board also receive a quarterly ORSA update which provides:

- The Company's estimated capital position on a SCR and ORSA basis;
- Information on capital resources;
- Updates on the key risks and risk events; and
- Other business changes during the period.

Significant changes to the SPML business model, operating model or risk profile may prompt an ad-hoc ORSA review. This is subject to agreement between the Board and the Group Head of Risk.

B.4 Internal control

The Company's internal control environment is governed by the Board. Section B.1 of this report presents an outline of the Company's system of governance.

SPML outsources investment management and its operations to SIM. Both entities are included in-scope for the Internal Controls Report (ISAE 3402/AAF 01/06) which is produced annually and is owned by the CFO. The Internal Controls Report outlines the control procedures in place and is accompanied by an assurance report from the Group's auditor, EY. Separate reports on EMIR controls and the application of the UK Stewardship Code are also included and these are accompanied by separate assurance reports from the Group's auditor. A copy of the Internal Controls report is available to SPML clients upon request.

Group compliance supports the Board in respect of relevant regulatory developments that may impact SPML. The quarterly compliance report to the Board covers: regulatory relationships and key interactions, significant compliance issues and activities, compliance monitoring and key regulatory developments. This is provided and presented by the Head of Distribution Compliance.

Responsibilities and competences of the Group compliance function are detailed in the Group compliance charter, including measures for monitoring, advising and reporting. The majority of policies in the UK Compliance Manual that address essential compliance requirements are established, implemented and maintained by Compliance. Links to relevant Group policies are also included in the manual. The manual is periodically reviewed by Compliance. Updates are made where necessary – for example to accommodate a significant regulatory development or change to internal compliance arrangements. Individual policies are reviewed by the respective owner at least annually.

B.5 Internal audit function

Overview

The operating model employed by SPML means that it does not have its own internal audit function. The Group's internal audit function does however perform work over areas relevant to the Company.

Role and reporting of Group Internal Audit

The role of Group Internal Audit (GIA) is to provide independent and objective challenge to and assurance over the Group's control environment through the effective evaluation of the risk management, control and governance arrangements implemented by management.

GIA is fully independent of line management with the primary reporting line to the Chairman of Schroders' Board Audit and Risk Committee (BARC). All members of the BARC are non-executive directors of Schroders plc. There is a secondary reporting line to the Group Chief Executive.

The work of GIA is reported to the:

- BARC;
- Group Management Committee; and
- The Boards of subsidiary entities.

GIA is a stand-alone function within the Group and personnel within GIA do not perform any other functions on behalf of SPML (or any other Group entities).

B.6 Actuarial function

SPML outsources the Chief Actuary role to BW. The Chief Actuary, John Hoskin, is a partner of BW and is responsible for the organisation and delivery of the SPML actuarial function activities. The performance of the Chief Actuary and actuarial function is monitored by the CEO of SPML.

The services provided by the Chief Actuary are detailed in a statement of work and are performed in line with the requirements of the actuarial function as set out in Rule 6.1 of the PRA Rulebook: *Solvency II firms: Conditions Governing Business* and the provisions of the PRA Rulebook: *Solvency II Firms: Actuaries*. The Chief Actuary carries out the role of the 'external actuary' referred to in paragraph 2.1 of PRA 2015/29 (*Solvency II Firms: Actuaries Instrument 2015*).

The activities of the actuarial function follow the requirements set out under Article 48 of the Solvency II Directive.

B.7 Outsourcing

SPML outsources its key activities for the following reasons:

- SPML's primary purpose is to act as a vehicle to 'wrap' Schroders investment solutions;
- The Company has no employees; and
- Efficiency – activities are outsourced to take advantage of Group and external expertise.

The Company, either directly or indirectly, utilises various outsourced parties to conduct these key activities. These arrangements include a direct outsourcing arrangement with SIM for various services including investment management, operations, sales, marketing and distribution. SIM, in accordance with the terms of the services agreement, has outsourced transfer agency services and fund accounting services to DST and JPMorgan respectively. SPML also has direct outsourced relationships with BW for Actuarial services and with JPMorgan Chase for custodian services. All of SPML's outsourced service providers are located in the United Kingdom. The provider of the transfer agency services will be transferring from DST to HSBC in H1 2020.

SPML is bound by the Group's policies with respect to outsourcing arrangements which sets out guidelines with respect to the following areas. The Board receives regular reports on the performance of key outsourced parties.

- **Guidelines on making the decision to outsource** – Prior to making the decision to outsource a service, a cost benefit analysis is undertaken which includes consideration of the associated risks of delivering the services in-house versus through an outsourced service provider (including analysis of long-term operational dependencies).
- **Selection of provider and key governing principles** – Once the outsource service provision has been approved a sponsor must be appointed. The sponsor has primary responsibility for the selection and approval process. Depending on the nature of the service required the sponsor should consider the involvement of the following departments; Group Risk, Compliance, Finance and Information Assurance. In most cases, it will be appropriate to involve the Group Procurement team, based in London, who will offer guidance and support in conjunction with their governance framework.
- **Due diligence** – Prior to any appointment being made due diligence must be performed in line with Group Procurement policies to confirm that the service provider has the capability to deliver the services required, meets our due diligence expectations and will comply with its obligations

B.8 Any other information

The Group has established a permanent and effective Compliance function, which operates independently. The Compliance function monitors and assesses the adequacy and effectiveness of the measures, policies and procedures put in place by the Group and the Company in relation to its regulatory requirements and advises the Board in relation to those matters. The Company has assessed the adequacy of the system of governance and considers it to be adequate to respond to the risks inherent to SPML due to the nature and simple structure of the business.

Section C Risk profile

SPML offers a life insurance ‘wrapper’ for Schroders’ investment strategies. SPML is capitalised as a stand-alone entity but is inextricably linked to the Group; agreements between SPML and other Group companies are structured in such a way as to minimise the risks retained by SPML.

The policy contracts (linked policies) written by SPML do not include investment guarantees or insurance benefits. SPML is not therefore exposed to mortality or morbidity risks. The contracts written include no charge guarantees¹. While SPML does have permission to provide for the payment of an annuity there is no intention to supply such services, on guaranteed terms or otherwise, nor have there been any historical occurrences.

SPML is indirectly impacted by market risk and lapse risk on linked policies because lower AUM may lead to reduced fee income. However, this impact is limited for SPML as it only retains a small proportion of fee income received, with the majority paid to SIM for the provision of services.

SPML’s outsourced operating model significantly reduces SPML’s operational risk exposure. SPML outsources the majority of its functions to SIM, a subsidiary within the Schroders Group with Schroders plc as its ultimate parent. This outsourcing arrangement is governed by an Investment Management Agreement and a Service Agreement between SPML and SIM. SIM sub-contracts certain activities to third-party companies: JPMorgan for fund accounting services and DST for transfer agency services. SPML outsources custody and safekeeping services directly to JPMorgan Chase. SPML’s Chief Actuary services are provided by BW.

The primary measurement used by SPML for assessing financial risk is the loss or reduction in future profit, which would be seen in the financial statements either immediately or over time. SPML also considers the impact of risks on its capital position and on the continued viability of the business.

Given the simplicity of the business and the risks to which it is exposed, SPML does not, in general, set quantifiable tolerances other than maintaining its target level of capital.

SCR risks

SPML’s principal sources of risk, on an SCR basis, are: operational risk; market risk; and credit risk. SPML does not have any typical insurance risk, such as mortality risk. The risk capital by type of exposure is shown below:

	31 Dec 19 £m	31 Dec 18 £m
Operational risk	8.8	9.4
Market risk	0.4	0.4
Life underwriting risk	0.2	0.2
Counterparty default risk	0.6	0.7
Diversification across risk modules	(0.3)	(0.3)
Tax adjustment	(0.6)	(2.0)
Total SCR	9.1	8.4

¹Payments or other benefits to which a particular policyholder or investor has an unconditional right that is not subject to the contractual discretion of the issuer.

C.1 Underwriting risk

Underwriting risk relates to the adequacy of product pricing for the policyholder benefits provided. SPML's business is purely related to policyholder investment in unit-linked funds. SPML does not underwrite insurance benefits of any kind or give any guarantees to policyholders on investment performance or levels of charges.

Therefore, underwriting risk is limited to lapse risk and expense risk, within the SCR, which is relatively small. The risk of a fall in revenue resulting from lapse risk is managed to a large extent by the terms of the outsourcing arrangements with SIM. Under this agreement, SPML's costs are defined as a percentage of fee income.

Other expenses (i.e. those not paid under the outsourcing arrangements) are modest. Such expenses are closely monitored and periodically reviewed.

SPML's solvency position is not particularly sensitive to changes in lapse or expense assumptions. The impact of the best-estimate lapse assumption doubling or the best-estimate assumption of expenses not defined as a percentage of fee income increasing by 25% is shown in the table below:

	Change in SCR £m	Change in SCR cover ¹
Best-estimate lapse assumption doubled	(0.01)	0.2%
25% increase in Best-estimate assumption of expenses	0.001	(0.3)%

¹SCR cover is own funds divided by the SCR, expressed as a percentage. The change in SCR cover is the SCR cover under the sensitivity less the SCR cover reported at the valuation date.

The impact of adverse lapse and expense experience are considered in the ORSA under a number of scenarios. These demonstrate that the Company is able to withstand extreme adverse lapse and/or expense experience whilst continuing to meet regulatory capital requirements and without impacting on its ability to meet policyholder obligations in full.

There have been no material changes to underwriting risk or how it is measured over the reporting period.

C.2 Market risk

Market risk arises from market movements, which can cause a fall in the value of investments.

Linked assets and shareholder assets are considered separately.

Market risk on linked assets results in a reduction in fee income. The impact on SPML of market risk on linked assets is similar to that for lapse risk discussed under section C.1 and is similarly managed by the fee structure of the outsourcing arrangements between SPML and SIM.

SPML's solvency position is not very sensitive to changes in the market value of its linked assets. The table below shows the impact of a change in linked assets values as at 31 December 2019 of +/-10%:

	Change in SCR (£m)	Change in SCR cover
Linked assets increase by 10%	0.02	(0.2)%
Linked assets decrease by 10%	(0.02)	0.2%

The linked assets are managed in accordance with the investment mandate for the particular fund taking into account the Prudent Person Principle requirements under the PRA Investments Rulebook and the Permitted Links rules included in the FCA COBS 21. In particular, policyholder liabilities are fully matched with units established within the relevant internal linked funds and with assets of the same value. Adherence to the Permitted Links/Prudent Person Principle requirements is governed in line with the Group Investment Risk Framework.

Shareholder assets are used to cover the SCR, the MCR and any technical provisions in excess of the linked assets, and are invested, taking into account the prudent person principle, to preserve capital.

Market risk on shareholder assets is normally limited to investments held within the SSSF SLP (£15.6 million investment at 31 December 2019). The SSSF SLP fund is a low-risk money market fund, with an objective of preserving capital and maintaining a high degree of liquidity.

The Company may also use shareholder assets to seed new unit funds. The amounts involved are typically immaterial and at end-2019 was £8,000. If material seed funding is required, consideration will be given to hedging the risk.

Any fall in the value of shareholder assets due to market risk will directly impact the level of Own Funds and consequently is expected to lead to a reduction in the market risk SCR (as the SCR stresses are applied to lower values).

All other shareholder assets are considered under credit risk below.

The Company investigates the potential impact of market risks on its income and solvency position by way of stress and scenario tests that are carried out as part of the ORSA process. These demonstrate that the Company is able to withstand extreme market falls whilst continuing to meet regulatory capital requirements and without impacting on its ability to meet policyholder obligations in full, but recognising that policyholder obligations will reflect the impact of market risks on linked assets.

There have been no material changes to market risk or how it is measured over the reporting period.

C.3 Credit risk

Credit risk is the risk of loss or of adverse change in the financial situation of the Company, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which SPML is exposed, in the form of counterparty default risk, spread risk, or market risk concentrations.

Linked-assets, and non-linked shareholder assets and debtors are considered separately.

Credit risk accepted on linked assets depends upon the investment objectives and mandate of each unit-linked fund and is managed under the Group Agency Credit Risk Framework. Credit risk/asset defaults on linked assets results in a reduction in fee income. The impact on SPML of credit risk on linked assets is similar to that for lapse risk discussed under section C.1 and the impact of the risk on SPML is similarly managed by the fee structure of the outsourcing arrangements between SPML and SIM.

Credit risk on shareholder assets is managed by limiting direct exposure to individual cash (bank) counterparties and investing other assets in a diversified portfolio of high quality short-term assets through the SSSF SLP.

SPML aims to hold cash with creditworthy counterparties, in line with the SPML Capital Policy and Group Counterparty and Credit Risk Policy Framework. The Group Credit Risk team monitors credit risk exposures with counterparties at Funds and Group levels. Counterparties are monitored on a rolling basis and appetite is reviewed in response to any significant news, credit ratings and market events.

At 31 December 2019, SPML held non-linked cash (or cash equivalent) assets at Citibank NA, JPMorgan Chase and National Westminster Bank plc (NatWest). SPML also has a loan to Schroders plc, which is considered to be a cash equivalent. SPML is therefore exposed to the risk of these counterparties defaulting.

The loan to Schroders plc (£5.1 million as at 31 December 2019) is considered a material risk concentration and can be recalled immediately at any time. Exposures to other bank counterparties may be material from time to time.

Any credit default on shareholder assets will directly impact the level of own funds and consequently is expected to lead to a reduction in the market risk and/or counterparty default risk SCR (as the SCR stresses are applied to lower values). SPML's capital position is also affected by changes to the credit rating of counterparties. If the Solvency II credit quality step for Schroders plc is reduced by 1, SPML's SCR will increase by £0.3m and its SCR cover would reduce by 9%.

SPML's debtors are primarily service providers and policyholders. SPML currently has no reinsurance ceding agreements (outward reinsurance) in place.

The risk of a service provider defaulting on its obligations is primarily managed by initial and on-going due diligence of the service provider together with protections included in service contract terms. The terms of the agreements between SPML and SIM are such that SIM will make good any loss if a sub-contractor is unable or unwilling to meet its financial obligations towards the Company.

The terms of SPML policies allow SPML to recover losses from policyholders in the event of the policyholder failing to meet its obligations, including non-payment of fees or settlement monies.

The Company investigates the potential impact of credit risks on its income and solvency position by way of stress and scenario tests carried out as part of the ORSA process. These demonstrate that the Company is able to withstand extreme credit events whilst continuing to meet regulatory capital requirements and without impacting on its ability to meet policyholder obligations in full, but recognising that policyholder obligations will reflect the impact of credit risks on linked assets.

There have been no material changes to credit risk or how it is measured over the reporting period.

C.4 Liquidity risk

Liquidity risk is the risk that the SPML cannot meet its contractual or payment obligations in a timely manner.

SPML's policy is to maintain adequate liquid resources at all times to ensure that liabilities can be met as they fall due. Linked-assets and non-linked shareholder assets are considered separately.

SPML's linked-assets are managed in accordance with the Permitted Links Rules under the FCA COBS and the Prudent Person Principle for insurance companies under Solvency II.

Liquidity management of linked assets is delegated to SIM as part of the investment process. SIM manages liquidity risk through the liquidity risk monitoring framework for its funds. The framework ensures that the liquidity risk of funds (including the SPML funds) is identified, assessed and monitored on an on-going basis. This includes liquidity stress test scenarios which consist of a combination of unfavourable market liquidity conditions and large capital outflows. This helps ensure fund liquidity remains in-line with the respective investment policy and overall risk profile. In contingency situations, the SPML Policy Rules allow the use of a range of measures to help manage liquidity requirements within the unit-linked funds.

SPML only invests non-linked shareholder assets in instruments which have been approved by the Group Capital Committee under the Group's Liquidity Management Policy. Shareholder assets are largely held in cash or in investments, including a loan to Schroders plc, that can be recalled within one day without adversely affecting values. The investments take into account the Prudent Person Principle.

SPML has set minimum target liquidity positions for shareholder assets, which are monitored by Group Treasury. This provides liquidity that is available to use in times of stress.

Under periods of stress SPML could also request liquidity from the Group's resources. In line with that, SPML is also covered by the Group's Liquidity Management Policy (LMP) and Liquidity Contingency Plan (LCP). The LMP policy sets out the minimum standards that must be followed when managing the Group's liquidity resources. The LCP sets out the plan for the management of liquidity, either where a potential event is expected or an actual event has occurred and which could cause a strain on the Group's liquidity resources.

Under the SPML and SIM Investment Management Agreement and Service Agreement, SIM is liable for any operational losses to SPML as a result of negligence, wilful default or fraud. Scenarios which could give rise to an operational loss are included in the Consolidated Group Internal Liquidity Adequacy Assessment Process (ILAAP) and therefore SPML's potential liquidity requirement for operational risk events is provided for within the Consolidated Group ILAAP.

There have been no material changes to liquidity risk or how it is measured over the reporting period.

Given the nature of the business written by SPML, the expected profit in future premiums calculated in accordance with Article 260(2) of the Delegated Regulation is zero.

C.5 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed processes, people and systems or from external events.

SPML's outsourced operating model significantly reduces its exposure to operational risk which, subject to any specific terms and conditions, is transferred to its suppliers through contractual arrangements. Although operational risk is successfully transferred to the Company's outsourced service providers, this mitigation is not allowed for in the operational risk SCR for companies such as SPML that apply the standard formula. The operational risk SCR for the business written by SPML is calculated as 25% of non-acquisition expenses incurred over the last 12 months. The table below shows the impact on the SCR, ignoring impacts on revenue of a change in non-acquisition expenses incurred over the 12 months to 31 December 2019 of +/- 10%:

	Change in SCR £m	Change in SCR cover
Non-acquisition expenses increase by 10%	0.88	(25.8)%
Non-acquisition expenses decrease by 10%	(0.88)	31.4%

Operational risk from external events, including significant events arising from SPML's third party service providers, is primarily managed by ensuring compliance with current regulation and legislation through the Group's risk and control framework, and by maintaining the ability to react appropriately to external risks and issues. As part of its ORSA process, the Company considers the impact of external influences on its business model and considers the management actions that might be taken to address any issues.

Operational risk – Technology risk

A change or failure in technology could pose a risk to the integrity or availability of the services we offer.

SIM (and its third party service providers) are responsible for the technology systems on which business activities for SPML are carried out. As such, any events impacting SPML would be compensated for by SIM.

In the event that SIM or other third party service providers are unable to provide continuity of service due to technology failures, appropriate disaster recovery arrangements are in place, or contingency arrangements to suspend operations if necessary. Compensation for any associated losses would be borne by SIM or the relevant third party service providers.

Operational risk – Information security risk

Information security risk is the risk that our technology is compromised, resulting in the confidentiality, integrity or availability of our data or Schroders' services being negatively impacted.

SIM implements appropriate information security controls. These incorporate ensuring that we have sufficient controls in place to identify information risks to our organisation, to protect our critical information and services, to detect if we are breached and to respond and recover effectively if this were to occur. Our approach to managing information security risk is overseen by the Information Security Risk Oversight Committee.

In the event that SIM or other third party service providers are unable to provide continuity of service due to information security failures, appropriate cyber incident response arrangements are in place. Compensation for any associated losses from such events, or from breaches of data confidentiality would be borne by SIM or the relevant third party service providers.

Operational risk – Business services resilience risk

Business service resilience risk is the risk that we can not prevent, adapt, respond to or recover from severe operational disruptions. Specifically, it is the risk that in the event of a severe disruption, Schroders (and SPML) is not able to respond effectively and recover all critical business processes within agreed impact tolerances. As a result failing to minimise adverse impacts on customers or ensure the Group's ongoing financial stability or ability to operate.

Currently we have processes and procedures in place which ensure that we can respond to and recover from a number of operational disruptions to service scenarios including Covid-19. These include:

- A documented crisis management process which is tested on an annual basis and which ensures the GMC are practiced in how to respond to variety of events that could endanger our ability to operate;
- An annual business continuity programme which ensures we can continue to operate in the event of the loss of an office;
- A dual data centre architecture which provides us with technology resilience in the event of the loss of a critical system or of a data centre;
- An annual Technology disaster recovery testing programme which ensures we can successfully recover from the loss of one data centre; and,
- Regular backups of data to ensure we can recover lost or corrupt data and,

In addition, we are considering further work to ensure that we can respond effectively to a broader range of operational disruption scenarios, reflecting the changing external risk landscape.

C.6 Other material risks

Strategic risk

The risk of Schroders' strategy failing to deliver the expected outcomes, earnings and profitability can be influenced by internal and external factors.

SPML's risk profile is based on its business strategy to pursue a single type of business, which is the provision of unit-linked funds to UK registered pension schemes and authorised insurance companies. Threats to this business strategy may come from changes in tax or pension legislation, downward pricing pressure on funds and poor fund performance.

Future risks with uncertain impact, probability and timeframe could have an impact on SPML. The estimated likelihood and timing of future risks may also change over time.

SPML may mitigate these threats by:

- Using membership of industry bodies to influence regulation;
- Leveraging the Group's product innovation in its DC offering to take advantage of the switch of assets out of DB schemes; and
- Applying more rigorous oversight of its funds if there are concerns with performance.

The Schroders Group operates a diversified business by geography, asset class and distribution channel. Schroders has a preference for a diversified product set which reduces its dependence on the performance of any one fund or asset class.

Reputational risk

The reputation of SPML can be impacted by any of its key risks. Reputational risk may impact Schroders' brands, reliability, and relationships with clients, regulators and shareholders. This may arise from poor conduct or judgements or risk events due to weaknesses in systems/controls.

In addition, ineffective branding and marketing may impact Schroders' ability to grow the business. Reputational risk may also arise from inappropriate client relationships or mandates which have adverse implications for the Group.

Risk events arising from SPML's third party service providers can damage confidence in SPML, leading to falls in AUM via unexpected net outflows from policyholders which may eventually result in operating losses. Being inextricably linked to the Schroders Group, SPML is exposed to reputational risk arising from the Group's other entities. This could arise through a major risk event, operational loss or regulatory fine.

Schroders actively monitors and manages outcomes of other risks that could drive reputational risk. Management information covering errors, omissions and risk events is reported to the SRC and the Board to help consider reputational impact on SPML and the Group.

Climate change risk

Climate change presents financial risks. Financial risks from climate change are seen as: physical; and transition. The PRA has identified a third risk factor – liability risks – arising from parties who have suffered loss or damage from physical or transition risk factors seeking to recover losses from those they hold responsible.

Physical risks from climate change can be related to specific weather events (such as heatwaves, floods, wildfires and storms) and longer term shifts in climate (such as changes in precipitation and extreme weather variability, sea level rise and rising mean temperatures).

Transition risks can arise from the process of adjustment towards a low-carbon economy. This is influenced by a range of factors including: climate-related developments in policy and regulation; the emergence of disruptive technology or business models; shifting sentiment and societal preferences or evolving evidence; and frameworks and legal interpretations.

SPML considers there to be limited direct physical impact of climate change on its business model. However, it is recognised that transition risks may impact the investment values of assets held within its life funds. This could result in a fall in AUM over time as the adjustment towards a low-carbon economy continues. Investment values can also be impacted by physical risks, for example, as firms may face increased costs to protect against weather events. SPML does not consider that it is directly exposed to liability risk.

At a group level, Schroders' conviction on climate change is reflected in its commitment to action, including:

- Supporting the principles of the Task Force on Climate-related Financial Disclosures (TCFD) and strengthening our firm's climate disclosures in recent years;
- Signing up to a Global Investor Statement on Climate Change. The task force is committed to taking steps towards a low carbon and climate resilient investment approach;

Schroders is investing heavily in developing analysis and tools to help manage the risks and opportunities climate change presents across the business, as well as using our power as investors to drive change through robust engagement with portfolio companies.

Schroders uses its voice as a shareholder through support for climate-related resolutions at portfolio companies. Schroders has consistently supported most of the climate resolutions on which it has an opportunity to vote.

Given SPML's low level of direct expenses, the impact of climate change transition risks is considered to be immaterial. As stated above, Schroders is undertaking a range of measures to manage climate change risk which apply to the wider group, including SPML.

Risk mitigation techniques

SPML has not purchased or entered into any risk mitigation contracts or arrangements during the reporting period.

Reinsurance

SPML has no recoverable from reinsurance contracts and has transferred no risks to special purpose vehicles.

Off balance sheet positions

SPML does not hold any off-balance sheet positions.

Future management actions

SPML assumes no future management actions in calculating its Solvency Capital Requirement.

C.7 Any other information

There is no other material information regarding the risk profile of the Company.

Section D Valuation for solvency purposes

The below sets out the Company's approach to valuing its assets and liabilities for solvency purposes.

In general, the valuation method is aligned with IFRS and the basis of preparation aligns with the accounting policies outlined in the notes to Company's financial statements. A brief description of the valuation basis and any differences to these methods that have occurred over the reporting period are outlined in the relevant sections below.

SPML has two lines of business, unit-linked insurance business written as direct contracts and unit-linked reinsurance accepted on similar terms. All business is pensions business. A summarised balance sheet as at 31 December 2019 is provided below.

As at 31 December 2019 (£'000)	Reference to QRT S.02.01.02	Solvency II value £'000	Financial Statements £'000	SFCR Reference
Assets				
Deferred tax assets	R0040	-	-	D1.2
Collective Investments Undertakings	R0180	15,614	15,606	D1.3
Assets held for index-linked and unit-linked contracts	R0220	9,814,106	9,438,037	D1.4
Insurance and intermediaries receivable	R0360	-	10,697	D1.5
Receivables (trade, not insurance)	R0380	6,594	40,316	D1.6
Cash and cash equivalents	R0410	6,605	382,769	D1.7
Any other assets, not shown elsewhere	R0420	10,697	-	D1.5
Total assets	R0500	9,853,616	9,887,425	
Liabilities				
Technical provisions calculated as a whole	R0700	9,814,106	-	D2.1
Best estimate	R0710	(313)	-	D2.2
Risk margin	R0720	536	-	D2.3
Technical provisions - unit-linked	R0690	9,814,329	9,814,106	
Deferred tax liabilities	R0780	29	29	D3.4
Derivatives	R0790	-	3,133	D3.3
Insurance and intermediaries payables	R0820	-	10,586	D3.1
Payables (trade, not insurance)	R0840	2,657	33,333	D3.2
Any other liabilities, not shown elsewhere	R0880	10,586	-	D3.1
Total Liabilities	R0900	9,827,601	9,861,187	
Excess of assets over liabilities	R1000	26,015	26,238	

The difference in excess of assets over liabilities on an IFRS basis to Solvency II basis is set out in the table below:

	As at 31 Dec 2019 £'000	As at 31 Dec 2018 £'000
Excess of assets over liabilities (IFRS basis)	26,238	27,030
Items not recognised in the financial statements:		
Present value of future profits (PVFP)	313	307
Risk margin	(536)	(569)
Excess of assets over liabilities (Solvency II basis – own funds)	26,015	26,768

D.1 Assets

The valuation methodology of each type of asset within the regulatory balance sheet shown above has been provided below. All assumptions and judgements are detailed within the relevant sections below.

D1.1 Material differences between IFRS and Solvency II valuation

There are no material differences in the bases, methods and main assumptions used in the asset valuation for Solvency II purposes compared to the valuation in the IFRS financial statements, however there are certain presentational differences which have zero net impact on the excess of assets over liabilities.

Under Solvency II all asset and liability positions held for unit-linked investment contracts are reported in aggregate as a single distinct asset class, whereas in the IFRS financial statements the asset and liability positions are presented gross in the corresponding asset and liability lines according to the nature of each particular instrument. As such the total asset value shown in the IFRS financial statements is higher than that shown in the Solvency II balance sheet by £33.8 million, with a corresponding higher value of liabilities. The table below shows a reconciliation of the presentation of the Assets held for index-linked and unit-linked contracts on the balance sheet from an IFRS to a Solvency II basis.

Balance sheet item	Reference to QRT S.02.01.02	31 December 2019 £'000
Assets held for index-linked and unit-linked contracts (IFRS basis)	R0220	9,438,037
Cash and cash equivalents	R0410	376,163
Receivables (trade, not insurance)	R0380	33,714
Derivatives	R0790	(3,133)
Payables (trade, not insurance)	R0840	(30,675)
Assets held for index-linked and unit-linked contracts (Solvency II basis)	R0220	9,814,106

D1.2 Deferred tax

The deferred tax balances are measured on the same basis as that used for IFRS (IAS 12 'Income Taxes') as set out in the notes to the Company's financial statements. There are no unused tax losses as at 31 December 2019 and no deferred tax assets are recognised in the financial statements (31 December 2018: deferred tax asset £3,000).

Differences in the deferred tax balances can arise where balance sheet items are recognised on a different basis for Solvency II. At 31 December 2019, no deferred tax asset was recognised on the difference between the Solvency II technical provisions and the financial liabilities for investment contracts reported in the financial statements, unchanged from 31 December 2018.

D1.3 Collective Investment Undertakings (CIU's)

Investments in CIU's are measured at fair value, in accordance with the Level 1 fair value measurement set out in D1.4 below.

The Solvency II CIU value includes £8,000 of seed capital invested in a number of the Company's unit funds. This is presented as trade receivables in the financial statements.

D1.4 Assets held for index-linked and unit-linked contracts

SPML issues unit-linked investment contracts without fixed terms whose fair value is dependent on the fair value of the underlying financial assets and derivatives.

Each instrument has been categorised using a fair value hierarchy that reflects the significance of the inputs used in making the measurements, which is consistent with the valuation methodology set out in Article 10 the Delegated Regulation. These levels are based on the degree to which the fair value is observable and are defined as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities and principally comprise investments in quoted equities, daily priced funds, gilts and exchange-traded derivatives;
- Level 2 fair value measurements are those derived from prices that are not traded in an active market but are determined using valuation techniques, which make maximum use of observable market data not included within Level 1 for the asset or liability and principally comprise corporate bonds and foreign exchange contracts. Valuation techniques may include using a broker quote in an inactive market, an evaluated price based on a compilation of primarily observable market information or industry standard calculations, utilising vendor fed data and information readily available via external sources. For funds not priced on a daily basis, e.g. real estate funds, the net asset value which is issued monthly or quarterly is used; and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data and principally comprise investments in private equity funds. These are measured by applying appropriate valuation techniques in accordance with International Private Equity and Venture Capital Guidelines. The valuation review is a continual process throughout the year.

Within the assets held for index-linked and unit-linked contracts, £9,394.3 million are Level 1 financial instruments and £43.8 million are Level 2 financial instruments. The Company does not hold any Level 3 financial instruments. Further information on valuation is set out in note 8 of the Company's financial statements.

D1.5 Insurance receivables and any other assets, not shown elsewhere

These are settlement accounts, being redemption proceeds due from funds or fund subscriptions due from investors. There is no observable market for receivables or similar assets that can be used to fair value the assets. It is considered that the present value of the expected cash-flows, allowing for anticipated bad debts, is materially the same as measuring the receivables at amortised cost using the effective interest rate method, less any impairment. As a result, there is no difference between IFRS and Solvency II measurement. However, on a Solvency II basis, in line with regulatory guidance, only amounts past-due are presented as insurance and intermediaries receivable. Therefore, current amounts of insurance receivables are presented in any other assets, not shown elsewhere.

D1.6 Trade receivables

As with Insurance receivables above, Trade receivables, including the loan to Schroders plc, are measured at amortised cost using the effective interest rate method, less any impairment, which equates to the Solvency II measurement as discussed in section D1.5 above.

The difference between the presentation of Solvency II and the financial statements, other than the reclassification of assets held for unit-linked contracts discussed in D1.1, is the £8,000 seeding units classified as CIU for Solvency II purposes as discussed in D1.3 above.

D1.7 Cash and cash equivalents

These are cash at bank and are held at amortised cost. The book value of such assets approximates their fair value. The difference between the presentation of these balances in Solvency II and the financial statements is due to the reclassification of assets held for unit-linked contracts discussed in D1.1 above.

D.2 Technical provisions

Technical provisions have been determined as the sum of the value of units (reported as technical provisions as a whole), best estimate liabilities and risk margin.

D2.1 Technical provisions as a whole

This is the value of units allocated to in-force investment contracts at the valuation date, as disclosed in the financial statements as investment contracts.

D2.2 Best estimate

A deterministic cash-flow projection method is used to calculate the best estimate of the excess of policy charges over expenses, also referred to as the present value of future profits (PVFP).

The PVFP is determined over a projection period of three months. The chosen projection period reflects the Company's ability to terminate all contracts subject to a notice period of three months. This approach is proportionate and compliant with Article 56 of the Delegated Regulation and appropriately estimates the risks associated with the business, resulting in technical provisions that are higher than would be determined under a long-term projection.

The projection estimates the policy charges and expense cash-flows that the Company expects to receive and incur respectively in each month of the three month projection period, based on the business in force at the valuation date and using a single set of best estimate projection assumptions. The net cash-flow in each month is then discounted to the valuation date to give a present value.

The policy charges cash-flows are annual management charges which are either deducted directly from unit-linked funds, or otherwise invoiced directly to policyholders.

The expense cash-flows fall into two categories:

- Expenses that are contractually defined as a percentage of annual management charges received (and which can never exceed annual management charges received); and
- Other expenses, or 'direct expenses', that are fixed or variable monetary amounts.

Economic assumptions are based on market data at the valuation date. The rate of withdrawal of AUM is based on actual experience over a five year period up to the valuation date. Expenses, other than those that are contractually defined, are based on the Company's budgeted expenses from its business plan. The average rate of fee income received is in line with the assumption in the SPML business plan.

There is no obligation for policyholders to pay additional premiums other than, for some policies, where charges are invoiced and paid by way of premiums. The technical provisions therefore include no allowance for additional premiums other than such charges.

The contracts written by the Company contain no financial options, other than surrender, or guarantees, other than charge guarantees, for a period of not more than three months. The surrender option means that the PVFP is reported under 'Contracts with options and guarantees' on quantitative reporting template S.12.01.02 in accordance with a question and answer issued by the European Insurance and Occupational Pensions Authority (EIOPA).

An aggregate approach across all business is used to calculate the PVFP to the end of the three month period, that is, cash-flows are projected for the business as a whole, not at an individual policy level. This approach implicitly assumes that the direct expenses are apportioned over individual policies on a pro rata basis that reflects the monetary amount of annual management charge each policy is expected to generate net of the expenses that are contractually defined as a percentage of the annual management charge. The aggregate approach is considered appropriate given the homogeneous nature of the contracts written and the low materiality of the PVFP. The aggregate calculation involves a number of simplifications, none of which are

considered material over the projection term due to the short projection period and the dynamics of the calculation. The simplifications are:

- Unit growth on all linked-assets (both UK and overseas) is taken as the UK basic risk-free yield curve. The use of currency or country specific growth rates would not lead to a materially different result;
- Unit funds are projected net of the average rate of annual management charge. In practice, a proportion of policyholders are invested in zero annual management charge funds and pay annual management charges on an invoiced basis. The projection will therefore slightly understate the value of units and hence understate charges deducted from funds. The extent of the understatement is not material; and
- The use of an average annual management charge rate and an aggregate withdrawal rate implicitly assumes that the mix of unit-linked investments remains constant over the projection period. Calculations at a more granular level would not lead to a materially different result.
- The PVFP is apportioned between the two lines of business, weighted by AUM. This implicitly assumes that the average annual management charge rate is the same on both lines of business. A more granular approach could be taken, but this would not change the overall PVFP, just the split of the PVFP between the two lines of business. Given the small value of the PVFP, a more granular approach would not lead to a materially different result.

D2.3 Risk margin

Given all business has a three month projection period, the risk margin has been determined over a one year period (the minimum permitted under Solvency II regulations), and has been calculated on the result of the SCR at the valuation date but with the result of the market risk module and counterparty default risk module for bank counterparties set to equal zero on the assumption that these risks could be hedged if required.

The risk margin has been apportioned across the two lines of business in proportion to the respective unit liabilities. This is considered a proportionate and appropriate approach as the amount of unit liabilities is a reasonable proxy for the risk associated with each line of business and the impact of using a different apportionment method would not be material to the overall technical provisions by line of business.

D2.4 Summary of technical provisions

Technical provisions – Direct unit-linked insurance business

Technical provision item	31 December 2019 £'000	31 December 2018 £'000
Technical provisions as a whole	6,737,950	6,176,639
PVFP	(215)	(215)
Risk margin	368	399
Total technical provisions	6,738,103	6,176,823

Technical provisions – Unit-linked reinsurance accepted business

Technical provision item	31 December 2019 £'000	31 December 2018 £'000
Technical provision as a whole	3,076,156	2,634,544
PVFP	(98)	(92)
Risk margin	168	170
Total technical provisions	3,076,226	2,634,622

Technical provisions – total

Technical Provision Item	31 December 2019 £'000	31 December 2018 £'000
Technical provision as a whole	9,814,106	8,811,183
PVFP	(313)	(307)
Risk margin	536	569
Total technical provisions	9,814,329	8,811,445

D2.5 Assumptions

Given the similarities between the two lines of business written, the same assumptions are used for both lines. The assumptions used at the valuation date, (and at the previous valuation date if different) are:

- Starting unit prices: 100% of the unit prices at the valuation date;
- Unit growth before management charges and investment expenses: UK basic risk-free yield curve as provided by EIOPA;
- Annual management charges: Average rate, net of rebates, at the valuation date;
- Withdrawals: 24% per annum (31 December 2018: 21% per annum);
- Amounts payable under transfer pricing arrangements in force at the valuation date, expressed as an average percentage of fee income based on the AUM at the valuation date, 96% of fee income;
- Direct expenses of £37k per month (31 December 2018: £36k);
- Projection period: three months;
- Expense inflation: 3% per annum;
- Discount rate: UK basic risk-free yield curve as provided by EIOPA.

D2.6 Policyholder behaviour

The contracts written by the Company contain no financial options, other than surrenders, or guarantees, other than charge guarantees, for a period of not more than three months and relevant policyholder behaviour is limited to:

- The payment of additional premiums for investment;
- Switching investments between the different internal unit-linked funds maintained by the Company; and
- Partial and full withdrawals.

Given that there is no obligation to pay additional premiums for investment, the calculation of technical provisions assumes that no further premiums are payable. In reality, additional premiums are expected to be received on some policies, particularly those written as inward reinsurance. In the year to the valuation date of 31 December 2019, £2,145.7 million of additional investment premiums were received.

Switching investments between the different internal unit-linked funds maintained by the Company is permitted. Such switching activity is usually associated with policyholders' periodic review of investments and will take into account information that is unknown to the Company. Switching activity is therefore difficult to predict.

D2.7 Management actions

The technical provisions assume no future management actions.

D2.8 Judgements and uncertainty associated with the value of technical provisions

All business written by the Company is unit-linked pensions business and the contracts contain no financial options, other than surrenders, or guarantees, other than charge guarantees. The policyholder unit liabilities are matched by holding the assets upon which the unit liabilities are determined.

The data used to calculate the technical provisions is considered of appropriate quality with no material deficiencies.

The Company has the unilateral right to terminate contracts subject to three months' notice. This is a typical policy clause for the type of business written by the Company which is sold only to institutional investors.

The technical provisions for solvency purposes have been calculated on a simplified basis under which a three month projection period is applied. Cash-flows relating to the insurance contracts written by the Company are included in the calculation of the best estimate liabilities over the projection period. As discussed in section D2.3, the risk margin is calculated over a one year period.

The expense agreement in place between SPML and SIM is such that SPML retains 4% of fee income. The fee income retained is sufficient to cover expenses incurred directly by the Company in the normal course of business. The directly incurred expenses are modest.

Although the best estimate liabilities depend upon the projection assumptions, the result is small in comparison to the overall technical provisions, which are dominated by the value of the unit liabilities. Consequently, with a three-month projection period, if different plausible assumptions or a more complex methodology were to be used, the technical provisions would not be materially different.

If a simplified method had not been applied, cash-flows in respect of the in-force business would be assumed to continue over a longer period, allowing for best-estimate rates of surrender. This approach would result in a reduction of the Company's best estimate liabilities. The reduction to the best estimate liabilities would be partly offset by an increased risk margin and the Company's Solvency Capital Requirement would also increase.

The calculation of the Company's technical provisions on a simplified basis is considered to be an appropriate method on the basis that it is proportionate to the nature, scale and complexity of the risks underlying the Company's insurance and reinsurance obligations, results in a prudent technical provisions and does not underestimate the risks associated with the business. The PRA has also confirmed to SPML that this is an acceptable approach in accordance with requirements of Article 56 of the Delegated Regulation subject to appropriate disclosure and ongoing monitoring.

D2.9 Reconciliation with the financial statements

All contracts written by the Company are treated as investment contracts under the accounting rules applicable to the Company, being IFRS. The accounting treatment for such contracts is to value the contracts at 'fair value', essentially the market value of the assets within the unit-linked funds, and no less than the amount that would be payable upon immediate surrender. The technical provisions reported in the Company's external financial statements are therefore taken as the policyholder liabilities of £9,814.1 million (the total of the unit-linked liabilities shown in the Technical Provisions tables in D2.4 above). The technical provisions for solvency purposes are £0.2 million higher than the technical provisions reported in the financial statements, reflecting the PVFP and the risk margin.

D2.10 Reinsurance

The Company has no recoverable assets from reinsurance contracts and has transferred no risks to special purpose vehicles.

D2.11 Adjustments and transitional arrangements

The Company does not use the matching adjustment or volatility adjustment.

The Company is not making use of any Solvency II transitional measures.

D2.12 Other considerations

The Company has:

- No contracts that have been unbundled; and
- Not used an economic scenario generator.

D.3 Other liabilities

The valuation methodology of each type of other liability within the regulatory balance sheet has been provided below. There has been no change to the recognition and valuation bases used during the reporting period. No alternative methods of valuation have been used and no financial statements values have been used that are not Solvency II compliant.

D3.1 Insurance payables and any other liabilities, not shown elsewhere

These are settlement accounts, being subscription proceeds due to funds or fund redemptions due to investors. Insurance payables are recorded initially at fair value and subsequently at amortised cost. Similar to as noted in D1.4 for Insurance receivables, there is no observable market for payables and the value of discounting is expected to be immaterial. As a result, there is no difference between IFRS and Solvency II values. However, on a Solvency II basis, in line with regulatory guidance, only amounts considered past-due are presented as insurance payables. Therefore, current amounts of insurance payables are presented in any other liabilities, not shown elsewhere.

D3.2 Trade payables

These liabilities are valued as per D3.1 above. The difference between the Solvency II value and the value in the financial statements is due to the reclassification of assets held for unit-linked contracts discussed in D1.2.

D3.3 Derivatives

Derivatives are measured at fair value as at the valuation date. The difference between the Solvency II value and the value in the financial statements is due to the reclassification of assets held for unit-linked contracts discussed in D1.2.

D3.4 Deferred tax liability

The deferred tax liability is measured on the same basis as that used for IFRS (IAS 12 'Income Taxes') as set out in the notes to the Company's financial statements.

D.4 Alternative methods for valuation

There are no investments valued using the alternative methods for valuation in Article 10(5) – 10(7) of the Delegated Regulation. As noted in D1.6, there is no observable market for similar assets that can be used to fair value the loan to Schroders plc. It is considered that the present value of the expected cash-flows, allowing for anticipated bad debts, is materially the same as measuring it at amortised cost using the effective interest rate method, less any impairment. As a result, there is no difference between IFRS and Solvency II measurement.

D.5 Any other information

There is no material additional information to report.

Section E Capital management

E.1 Own funds

The Company may distribute by way of dividend the full amount of distributable profits disclosed in the audited accounts each year or another amount as agreed, provided that the Company will continue to hold an appropriate level of cover above regulatory requirements, given the Company's business plan.

The Board may cancel, amend or withhold dividends at any time prior to payment if such cancellation or amendment is necessary for the Company to meet regulatory requirements or its internal targets.

There have been no material changes to the capital management policy over the reporting period. Any change in the capital management policy will be approved by the Board.

It is the Board's risk appetite that the Company will maintain a target level of solvency coverage of no less than the higher of 200% of the Company's Pillar 1 SCR (with an early warning indicator of 215%) and the capital requirement calculated under the ORSA. The Board actively monitors this position on a regular basis, taking into consideration the time horizon used for the Company's business planning.

The Company performs financial projections under central and adverse scenarios to assess the capital required over its five-year business planning period.

As at 31 December 2019, own funds were £26.0 million (31 December 2018: £26.8 million), of which £20.5 million (31 December 2018: £20.5 million) was permanent share capital and £5.5 million (31 December 2018: £6.3 million) retained profits and other reserves, with none of the reserves at 31 December 2019 relating to a deferred tax asset (31 December 2018: £3,000). A reconciliation of the movements in own funds is shown below:

Description	£'000
Own funds as at 31 December 2018	26,768
Movements during 2019:	
Prior year best estimate and risk margin	262
Profits during the year	1,208
Dividend payment	(2,000)
Best estimate	313
Risk margin	(536)
Own funds as at 31 December 2019	26,015

Own funds fell over the reporting period by £0.8 million primarily due to the payment of a £2.0 million dividend offset by profits after tax earned over the period of £1.2 million. Surplus own funds are loaned to Schroders plc or are invested in the SSSF SLP.

All of the Company's Own Funds at 31 December 2019 are classified as Tier 1 basic own funds comprised of equity and retained earnings and are available to provide cover for both the SCR and the MCR without restriction. At 31 December 2018, there was a small deferred tax asset as reported in the financial statements which was classified as Tier 3 basic own funds and only available to cover the SCR. The Company could consider establishing a deferred tax asset on the Solvency II balance sheet in respect of the difference in technical provisions between the Solvency II and financial statements balance sheets. At 31 December 2019, the amount of the potential deferred tax asset is £0.04m, but this has not been recognised. The Company's Own Funds are materially free of any liens and encumbrances.

The Solvency ratio of the Company, i.e. Own Funds divided by the SCR, at 31 December 2019 was 286% (31 December 2018: 318%) and a summary of the actual position as at 31 December is shown below:

	31 Dec 2019 £'000	31 Dec 2018 £'000
Ordinary share capital	20,500	20,500
Deferred tax asset ¹	-	3
Reconciliation reserve	5,515	6,265
Total capital resources (all Eligible Own Funds)	26,015	26,768
SCR	9,088	8,410
Capital surplus	16,927	18,358
SCR cover	286%	318%
MCR	4,090	3,785
MCR cover	636%	707%

¹The deferred tax asset of £3,000 at 31 December 2018 is classified as Tier 3 own funds and is unavailable to meet the MCR. The MCR coverage is calculated excluding the deferred tax asset from the total capital resources as at 31 December 2018.

The reconciliation reserve comprises retained profits and the difference between the technical provisions for solvency purposes and the technical provisions reported in the financial statements. The dominant element is retained profits and in normal circumstances the reconciliation reserve is expected to remain relatively stable, increasing in line with retained profits. As the Company's assets are invested in cash and near-cash, the reconciliation reserve is subject to counterparty default risk but is not subject to material market risk. Payment of dividends will reduce the reconciliation reserve.

As illustrated in section D, there are no material differences to the Company's excess of assets over liabilities on an IFRS basis versus a Solvency II basis. The difference arises solely from the combined impact of the PVFP and the risk margin that is not recognised in the financial statements but is reflected in the reconciliation reserve.

No own funds items are subject to the transitional arrangements referred to in Article 308b (9) and (10) of the Solvency II Directive. The Company has no ancillary own funds.

E.2 Solvency capital Requirement (SCR) and Minimum Capital Requirement (MCR)

SPML uses the standard formula to calculate the SCR. SPML does not use undertaking specific parameters and does not apply a matching adjustment.

The Company has not applied any of the simplifications outlined in Articles 88 to 112 of the Delegated Regulation. SPML is taking a proportionate, simplified and prudent approach in calculating the SCR for market risk in that all unit-linked assets and shareholder seed capital are assumed to be invested in 'Type 2' equities as defined in Article 168 of the Delegated Regulation.

The standard formula SCR calculation for SPML is dominated by the SCR in relation to operational risk which, for the business written by SPML, is a function of expenses.

The next most significant contribution to the SCR is that in relation to counterparty default risk, which is determined on non-linked assets only. SPML transfers counterparty default risk on unit-linked assets to policyholders under the terms of its policy contract and has therefore interpreted Articles 189 to 215 of the Delegated Regulation as there being no requirement to hold counterparty default risk capital in respect of assets held within its unit-linked funds. The SCR and MCR at 31 December is shown in the table below:

	31 Dec 19 £'000	31 Dec 18 £'000
Assets	9,853,616	8,857,232
Less technical provisions		
Technical provisions as a whole	9,814,106	8,811,183
PVFP	(313)	(307)
Risk margin	536	569
Total technical provisions	(9,814,329)	(8,811,445)
Less liabilities	(13,272)	(19,019)
Own funds	26,015	26,768
SCR		
Operational risk	8,819	9,407
Market risk	417	365
Life underwriting risk	174	170
Counterparty default risk	583	754
Diversification across risk modules	(306)	(308)
Loss-absorbing capacity of deferred taxes	(599)	(1,978)
Total SCR	9,088	8,410
Capital surplus	16,927	18,358
SCR coverage ratio	286%	318%
MCR	4,090	3,785

As at 31 December 2019, the loss-absorbing capacity of deferred taxes (LACDT) reduces the SCR by £0.6 million (31 December 2018: £2.0 million).

The LACDT at 31 December 2019 comprises:

- £0.13 million from the recovery of tax from current accounting period.
- £0.47 million from the carry-back relief of tax from the previous accounting period.

No future taxable profits or deferred tax liabilities have been utilised in the LACDT at 31 December 2019.

At 31 December 2018, given the form of the service agreements in place between SPML and SIM as described in section A.5, SPML assumed that future profits equal to the SCR for operational risk would be available when determining the extent of the LACDT, as such an amount would be expected to be received by SPML as compensation for any operational risk loss under the service agreements. This approach had previously been disclosed to the PRA. However, in accordance with Article 207(2)(a) of the Delegated Regulation with effect from 1 January 2020, future taxable profits can only be utilised in the LACDT if it can be demonstrated to the PRA's satisfaction that it is probable such future profits will be available. The PRA has consequently asked SPML for additional information on the future profits represented by the expected operational risk loss compensation. At the date of this report, SPML is in ongoing dialogue with the PRA on the matter.

The SCR has increased by £0.7 million to £9.1 million at 31 December 2019 (31 December 2018: £8.4 million). This is due to the offsetting effects of:

- A reduction of £1.2 million in the loss absorbing capacity of deferred tax (LACDT or tax adjustment) as a result of, following a change in the Delegated Regulation, the need to seek regulatory approval for an element of the approach taken in previous years; and
- A decrease of £0.6 million in the operational risk component of the SCR, which is a function of expenses incurred over the year and reflects lower revenue related expenses in 2019 compared to 2018.

The Company is not required to use any undertaking specific parameters in accordance with Article 110 of the Solvency II Directive. No capital add-on has been applied to the SCR and the Company has not made use of the option provided for in the third subparagraph of Article 51(2) of the Solvency II Directive.

The MCR calculation is set out in the Delegated Regulation. Given the nature of the Company's business, the required inputs to the calculation are:

- The technical provisions excluding the risk margin for unit-linked life insurance and reinsurance obligations of £9,813.8 million (31 December 2018: £8,810.9 million);
- The amount of capital at risk. Given payments made under the contracts issued by the Company are not directly contingent on death, the capital at risk is taken to be zero;

The MCR for the Company is currently calculated as 45% of the SCR, with the increase over the year reflecting the increase in SCR.

E.3 Use of the duration-based equity risk sub-module in the calculation of the SCR

SPML is not using the duration-based equity risk sub-module option set out in Article 304 of Directive 2009/138/EC.

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

SPML is not using an internal model.

E.5 Non-compliance with the MCR and non-compliance with the SCR

SPML currently complies, and expects to fully comply over the business planning time period, with both the MCR and SCR.

E.6 Any other information

There is no other material information regarding the capital management of the Company.

Section F Governance

F.1 Directors' confirmation

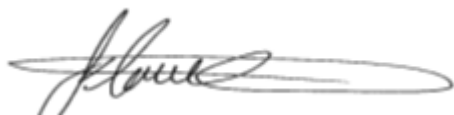
Approval by the Board of Directors of the Solvency and Financial Condition Report and Reporting Templates

We certify that:

- The Solvency and Financial Condition Report has been properly prepared in all material respects in accordance with the PRA rules and Solvency II regulations.

We are satisfied that:

- Throughout the financial year ended 31 December 2019, SPML has complied in all material respects with the requirements of the PRA rules and Solvency II Regulations as applicable to SPML.
- It is reasonable to believe, at the date of publication of the Solvency and Financial Condition Report, that SPML has continued to comply, and will continue to comply in future.



SPML Board of Directors
03 April 2020

F.2 Independent Auditor's report

Report of the external independent auditor to the Directors of Schroder Pension Management Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook applicable to Solvency II firms and the Company's voluntary compliance with Rule 2.1 of that Chapter

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

Opinion

We are engaged by the Company to perform an audit of the nature prescribed by Rule 4.1(1) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms, in all respects as though that Part applied to the Company notwithstanding its status as a small firm for external audit purposes.

Except as stated below, we have audited the following documents prepared by the Company as at 31 December 2019:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2019, (**the Narrative Disclosures subject to audit**); and
- Company templates S02.01.02, S12.01.02, S23.01.01, S25.01.21 excluding R0590 – R0690 disclosed on voluntary basis, and S28.01.01 (**the Templates subject to audit**).

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

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

- The 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;
- Company template S05.01.02; and
- the written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report (**the Responsibility Statement**).

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

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of Schroder Pension Management Limited as at 31 December 2019 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.

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 Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

Emphasis of Matter – Basis of Accounting and Restriction on Use

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

This report is made solely to the Directors of the Company in accordance with our letter of engagement dated 28 March 2019. Our work has been undertaken so that we might report to the Directors those matters that we have agreed to state to them in this report and for no other purpose.

Our opinion is not modified in respect of these matters.

Other Information

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

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

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations on which they are based.

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

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

It is our responsibility, as set out in our letter of engagement dated 28 March 2019, is to form an independent opinion as to whether the relevant elements of the Solvency and Financial Condition Report are prepared, in all material respects, with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

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

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

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

Report on Other Legal and Regulatory Requirements.

In accordance with our letter of engagement dated 28 March 2019 we are also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of the Company's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Ernst & Young LLP

Ernst & Young LLP
London
03 April 2020

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

Appendix 1 Annual QRTs as at 31 December 2019

S.02.01.02 – Balance sheet (template subject to audit)

Assets	Solvency II value
	C0010
R0030 Intangible assets	-
R0040 Deferred tax assets	-
R0050 Pension benefit surplus	-
R0060 Property, plant and equipment held for own use	-
R0070 Investments (other than assets held for index-linked and unit-linked contracts)	15,614
R0080 Property (other than for own use)	-
R0090 Holdings in related undertakings, including participations	-
R0100 Equities	-
R0110 Equities – listed	-
R0120 Equities – unlisted	-
R0130 Bonds	-
R0140 Government bonds	-
R0150 Corporate bonds	-
R0160 Structured notes	-
R0170 Collateralised securities	-
R0180 Collective investment undertakings	15,614
R0190 Derivatives	-
R0200 Deposits other than cash equivalents	-
R0210 Other investments	-
R0220 Assets held for index-linked and unit-linked contracts	9,814,106
R0230 Loans and mortgages	-
R0240 Loans on policies	-
R0250 Loans and mortgages to individuals	-
R0260 Other loans and mortgages	-
R0270 Reinsurance recoverables from:	-
R0280 Non-life and health similar to non-life	-
R0290 Non-life excluding health	-
R0300 Health similar to non-life	-
R0310 Life and health similar to life, excluding index-linked and unit-linked	-
R0320 Health similar to life	-
R0330 Life excluding health and index-linked and unit-linked	-
R0340 Life index-linked and unit-linked	-
R0350 Deposits to cedants	-
R0360 Insurance and intermediaries receivables	-
R0370 Reinsurance receivables	-
R0380 Receivables (trade, not insurance)	6,594
R0390 Own shares	-
R0400 Amounts due in respect of own fund items or initial fund called up but not yet paid in	-
R0410 Cash and cash equivalents	6,605
R0420 Any other assets, not elsewhere shown	10,697
R0500 Total assets	9,853,616

S.02.01.02 – Balance sheet – Liabilities

Liabilities		Solvency II value
		C0010
R0510	Technical provisions – non-life	-
R0520	Technical provisions – non-life (excluding health)	-
R0530	TP calculated as a whole	-
R0540	Best estimate	-
R0550	Risk margin	-
R0560	Technical provisions – health (similar to non-life)	-
R0570	TP calculated as a whole	-
R0580	Best estimate	-
R0590	Risk margin	-
R0600	Technical provisions – life (excluding index-linked and unit-linked)	-
R0610	Technical provisions – health (similar to life)	-
R0620	TP calculated as a whole	-
R0630	Best estimate	-
R0640	Risk margin	-
R0650	Technical provisions – life (excluding health and index-linked and unit-linked)	-
R0660	TP calculated as a whole	-
R0670	Best estimate	-
R0680	Risk margin	-
R0690	Technical provisions – index-linked and unit-linked	9,814,329
R0700	TP calculated as a whole	9,814,106
R0710	Best estimate	(313)
R0720	Risk margin	536
R0740	Contingent liabilities	-
R0750	Provisions other than technical provisions	-
R0760	Pension benefit obligations	-
R0770	Deposits from reinsurers	-
R0780	Deferred tax liabilities	29
R0790	Derivatives	-
R0800	Debts owed to credit institutions	-
R0810	Financial liabilities other than debts owed to credit institutions	-
R0820	Insurance and intermediaries payables	-
R0830	Reinsurance payables	-
R0840	Payables (trade, not insurance)	2,657
R0850	Subordinated liabilities	-
R0860	Subordinated liabilities not in BOF	-
R0870	Subordinated liabilities in BOF	-
R0880	Any other liabilities, not elsewhere shown	10,586
R0900	Total liabilities	9,827,601
R1000	Excess of assets over liabilities	26,015

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

		C0210	C0220	C0230	C0270	C0280	C0300
Life		Line of business for: life obligations			Life reinsurance obligations		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Health reinsurance	Life reinsurance	
Premiums written							
R1410	Gross	-	-	1,845,003	-	813,530	2,658,533
R1420	Reinsurers' share	-	-	-	-	-	-
R1500	Net	-	-	1,845,003	-	813,530	2,658,533
Premiums earned							
R1510	Gross	-	-	1,845,003	-	813,530	2,658,533
R1520	Reinsurers' share	-	-	-	-	-	-
R1600	Net	-	-	1,845,003	-	813,530	2,658,533
Claims incurred							
R1610	Gross	-	-	2,128,428	-	663,432	2,791,860
R1620	Reinsurers' share	-	-	-	-	-	-
R1700	Net	-	-	2,128,428	-	663,432	2,791,860
Changes in other technical provisions							
R1710	Gross	-	-	-	-	-	-
R1720	Reinsurers' share	-	-	-	-	-	-
R1800	Net	-	-	-	-	-	-
R1900	Expenses incurred	-	-	30,134	-	13,757	43,891
R2500	Other expenses	-	-	-	-	-	-
R2600	Total expenses						43,891

S.05.02.01 – Premiums, claims and expenses by country is not reported by the Company as all business is carried out in the United Kingdom.

S.12.01.02 – Life and Health SLT Technical Provisions (Template subject to audit)

	Index-linked and unit-linked insurance			Accepted reinsurance	Total (Life other than health insurance, incl Unit-linked)	Total (Health similar to life insurance)
	C0030	Contracts without options and guarantees C0040	Contracts with options or guarantees C0050	Accepted reinsurance C0100		
R0010	Technical provisions calculated as a whole					
	6,737,950			3,076,156	9,814,106	
R0020	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole					
	Technical provisions calculated as a sum of BE and RM					
	Best estimate					
R0030	Gross Best Estimate					
			(215)	(98)	(313)	
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default					
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re					
			(215)	(98)	(313)	
R0100	Risk margin					
	368			168	536	
	Amount of the transitional on technical provisions					
R0110	Technical Provisions calculated as a whole					
R0120	Best estimate					
R0130	Risk margin					
R0200	Technical provisions – total					
	6,738,103			3,076,226	9,814,329	

S.23.01.01 – Own Funds (Template subject to audit)

Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35		Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	20,500	20,500			
R0030	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	5,515	5,515			
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						
R0220	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
Deductions						
R0230	Deductions for participations in financial and credit institutions					
R0290	Total basic own funds after deductions	26,015	26,015			
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					

Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35		Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
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	26,015	26,015			
R0510	Total available own funds to meet the MCR	26,015	26,015			
R0540	Total eligible own funds to meet the SCR	26,015	26,015			
R0550	Total eligible own funds to meet the MCR	26,015	26,015			
R0580	SCR	9,088				
R0600	MCR	4,090				
R0620	Ratio of Eligible own funds to SCR	286.25%				
R0640	Ratio of Eligible own funds to MCR	636.10%				
Reconciliation reserve						
R0700	Excess of assets over liabilities	26,015				
R0710	Own shares (included as assets on the balance sheet)					
R0720	Foreseeable dividends, distributions and charges					
R0730	Other basic own fund items	20,500				
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds					
R0760	Reconciliation reserve	5,515				
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)	-				

S.25.01.21 – Solvency Capital Requirement – for undertakings on Standard Formula (Template subject to audit)

		Regular reporting		
		C0110	C0090	C0120
		Gross solvency capital requirement	USP	Simplifications
R0010	Market risk	417		
R0020	Counterparty default risk	583		
R0030	Life underwriting risk	174		
R0040	Health underwriting risk			
R0050	Non-life underwriting risk			
R0060	Diversification	(306)		
R0070	Intangible asset risk			
R0100	Basic Solvency Capital Requirement	868		
Calculation of Solvency Capital Requirement		C0100		
R0120	Adjustment due to RFF/MAP nSCR aggregation			
R0130	Operational risk	8,819		
R0140	Loss-absorbing capacity of technical provisions			
R0150	Loss-absorbing capacity of deferred taxes	(599)		
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC			
R0200	Solvency Capital Requirement excluding capital add-on	9,088		
R0210	Capital add-ons already set			
R0220	Solvency capital requirement	9,088		
Other information on SCR				
R0400	Capital requirement for duration-based equity risk sub-module			
R0410	Total amount of Notional Solvency Capital Requirements for remaining part			
R0420	Total amount of Notional Solvency Capital Requirement for ring fenced funds			
R0430	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios			
R0440	Diversification effects due to RFF nSCR aggregation for article 304			
R0590	Approach to tax rate	C0109		
R0590	Approach based on average tax rate			
	Calculation of loss absorbing capacity of deferred taxes	LAC DT		
R0640	LAC DT	C0130		
R0650	LAC DT justified by reversion of deferred tax liabilities	(599)		
R0660	LAC DT justified by reference to probable future taxable economic profit			
R0670	LAC DT justified by carry back, current year	(599)		
R0680	LAC DT justified by carry back, future years			
R0690	Maximum LAC DT	(1,841)		

S.28.01.01- Minimum Capital Requirement – Only life insurance or reinsurance activity (Template subject to audit)

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole provisions	Net (of reinsurance/SPV) total capital at risk
	Linear formula component for life insurance and reinsurance obligations	C0040	C0050
R0200	MCR _t Result	68,697	
R0210	Obligations with profit participation – guaranteed benefits		
R0220	Obligations with profit participation – future discretionary benefits		
R0230	Index-linked and unit-linked insurance obligations		9,813,794
R0240	Other life (re)insurance and health (re)insurance obligations		
R0250	Total capital at risk for all life (re)insurance obligations		
	Overall MCR calculation	C0070	
R0300	Linear MCR	68,697	
R0310	SCR	9,088	
R0320	MCR cap	4,090	
R0330	MCR floor	2,272	
R0340	Combined MCR	4,090	
R0350	Absolute floor of the MCR	3,187	
R0400	Minimum Capital Requirement	4,090	