SFCR Report

April 2024

This document is intended to be for information purposes only and it is not intended as promotional material in any respect

Schroders

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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', which incorporates the requirements set out in Article 51 (1) of Directive 2009/138/EC (the Solvency II Directive), and under all applicable EU Regulations adopted in accordance with the Solvency II Directive and retained as UK regulation (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 2023, SPML generated profit before tax of £1.5 million (31 December 2022: £0.9 million). The Company paid a dividend of £5.0 million in 2023 (£1.0 million in 2022) and as at 31 December 2023 held £21.7 million (£25.7 million in 2022) 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. The Company's contracts make no guarantees[1] and the Company is not exposed to mortality and 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, together with the majority of its other operating activities, to another Group company, Schroder Investment Management Limited (SIM).

There were no other 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.

1.2 System of governance

SPML operates as part of the Schroders Group and is subject to the Group's governance framework. The Schroders plc Annual Report and Accounts contains details of the Group's governance framework on page 58. 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 Group 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 effectiveness of the 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 2023.

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 is able to do so more frequently in response to major business changes. The ORSA assesses the adequacy of SPML's risk management framework and determines the amount of capital required to support the current and future risks in the business.

1.3 Risk profile

- **Business services resilience risk** is the risk of being unable to operate important business services in the event of a severe disruption. Such disruption to SPML's important business services will impact its ability to provide services to its policyholders. The Group has processes and procedures in place which help ensure that it can respond to and recover from a number of plausible disruptions to services. The Group's third-party governance framework ensures that SPML has appropriate oversight of the third-parties that its critical business services are reliant on.

- **Conduct and regulatory risks** are the risks of client detriment or reputational harm arising from inappropriate conduct of staff or those of counterparties, suppliers and other third parties the Group engages with, including failure to meet regulatory requirements. The majority of SPML's activities that would be susceptible to these risks are operated by SIM; such as production of sales material and disclosures, and monitoring of regulatory restrictions. The Group promotes a strong compliance culture and seeks to maintain good relationships with regulators.

[1]The Company does provide a notice period of three months ahead of any changes to management charges.

- **Credit risk** is the risk of loss or adverse change in the financial situation of the firm, resulting from fluctuations in the credit standing of issuers of securities, counterparties and debtors. SPML is exposed to credit risk from its own funds holdings where a counterparty is unable to pay amounts in full when due. Counterparty risk within the unit-linked funds is borne by policyholders. SPML aims to hold its own funds with creditworthy counterparties, in line with the SPML Capital & Liquidity Policy and Group Counterparty and Credit Risk Policy Framework. Credit risk on linked assets is managed under the Group Agency Credit Risk Framework.

- **Sustainability risk including climate change risk** is the failure to understand, accurately assess and manage investment risk associated with sustainability factors within assets and portfolios, and to appropriately articulate the risks and the Group's commitments in relation to them, to clients and stakeholders. This includes a failure to meet corporate climate change targets. Sustainability risk including climate change to SPML primarily arises from the underlying investments within the policyholder funds (unit-linked funds) and from regulatory scrutiny and loss of business by not adapting to the changing needs of policyholders. The Group has developed a range of proprietary tools to better understand the impacts of sustainability risk including climate change on the portfolios managed.

- **Information security risk** relates to the confidentiality, integrity or availability of services being negatively impacted by the activities of a malicious insider or external party. SPML may be subject to fraud or disruption to services, either internally or externally, due to weak information security controls within the Group's infrastructure and operations. The Group has a dedicated Information Security function responsible for the design and operation of its information security risk framework, which includes oversight of critical third parties' cyber capabilities.

- **Investment Performance risk** is the risk that portfolios may not meet their investment objectives or that there is a failure to deliver consistent and above-average performance. SPML delegates investment management of the life funds to SIM and sustained poor investment performance may result in policyholders moving their assets to other managers. The Group (including SPML) has clearly defined investment processes designed to meet investment targets within stated parameters, which are subject to independent review and challenge. Oversight of both risk and performance is embedded in the Group's business processes and governance.

- **Liquidity risk** is the risk that the firm is unable to realise investments and other assets in order to settle its financial obligations when they fall due. Unit-linked funds are exposed to asset liquidity and liability liquidity. Asset liquidity is the ability to trade an asset in the market within a given time frame without materially impacting the price. Liability (or 'funding') liquidity risk is having liabilities that cannot be met when they fall due, or only met at an uneconomic price. SPML's unit-linked funds operate within the Schroders Investment Risk Framework (SIRF), which incorporates liquidity risk management and the Agency Liquidity Risk Management policy. SPML's own funds are exposed to liquidity risk, for example if it is unable to sell its holdings for full value at short notice. The Group Capital Committee (GCC) has responsibility for management of the Group's capital and liquidity. SPML's shareholder assets are managed in line with the SPML Capital & Liquidity Policy.

- **Market risk** is the risk of loss or of adverse change in a firm's financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments. A fall in the value of linked assets is borne by policyholders and would result in a reduction in SPML's revenue. However, this is largely mitigated as SPML's expenses are defined primarily as a percentage of revenue and transfer pricing policy arrangements in place with SIM. A fall in the value of shareholder assets due to market risk will directly impact the level of own funds. As mentioned, SPML's shareholder assets are managed in line with the SPML Capital & Liquidity Policy.

- **Product strategy and management risk** is the risk that the product or service offering is not suitably diversified or viable or does not provide access to strategies that will help investors to meet their objectives. Product development is one of SPML's core business activities (supported by SIM) and this could materialise into a risk from poor product design or inconsistent management of product disclosures. Risks are managed within the Group's Product Governance Framework, which includes the Product Strategy Committee, Product Development Committee, Product Governance Committee and Capacity Committee.

- **Reputational risk** may arise from poor conduct, judgement or risk events due to weaknesses in systems and controls. Failing to meet stakeholders' expectations (for example, clients, regulators or the wider community) could also give rise to reputational risk. Reputational risk for SPML can arise from any of its key risks, in particular operational process risks that directly impact policyholders or those that are legal, regulatory or conduct in nature. The Group considers reputational risk when initiating changes to its strategy or operating model and maintains high standards of conduct. The Group's Risk Management and Governance Framework helps to mitigate reputational risk for SPML.

- **Tax risk** can arise from tax compliance and reporting risks such as: the submission of late or inaccurate tax returns; transactional risks which include actions being taken without appropriate consideration of the potential tax consequences; and reputational risks. A failure to meet tax obligations could lead to costs as a result of fines and penalties. The Group's approach to managing its tax affairs and tax risk is set out in its Tax Strategy, supported by a tax governance framework. The Group Tax function is generally responsible for identifying, managing and monitoring tax risks relating to the Group, including SPML.

- **Underwriting risk[2]** relates to the risk of loss or of adverse change in the value of insurance liabilities, due to inadequate pricing and provisioning assumptions. 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. Therefore, underwriting risk is limited to lapse risk and expense risk which, as measured by their contributions to the Solvency Capital Requirement, are relatively small.

- **Changing investor requirements risk** is failing to adapt or evolve the business model and product range to reflect these changes which could in turn lead to a decrease in AUM. SPML is exposed to changing investor requirements with the shift from DB to DC pension schemes and de-risking. The Group continues to focus on developing its investment capabilities, expanding into new investment types and supporting product innovation for future growth. SPML's business strategy is focused on the development of successful product solutions to meet policyholder requirements and expectations.

- **Fee attrition risk** arises from clients allocating more of their assets to passive products, and less to active managers, coupled with a lower allocation to public markets, and a greater allocation to private markets. This has resulted in increased competition on price in the traditional active management market. SPML faces fee attrition risk on a number of products, arising from changes in policyholder requirements and increasing competition. The Group has continued to focus on solutions and outcome orientated strategies, thematic products and growing market share within private markets, to diversify its fee income. SPML has expanded its product range to include greater allocation to private markets and fiduciary management solutions.

- **Market returns risk** is due to the Group's income being mainly derived from the value of assets managed. Falling markets reduce AUM and impacts revenues. Market falls may be exacerbated by geopolitical risks and economic uncertainty. The impact of higher inflation on interest rates, wages and economic growth could impact asset prices and markets. SPML's life funds are exposed to market shifts, which impact the value of policyholder assets (and liabilities). The Group has diversified income streams across a range of markets to mitigate a considerable fall in any one area and SPML's product range also supports this strategy.

Where necessary, SPML maintains capital and liquidity surpluses as a mitigant against the potential financial impact of these risks arising. This is determined under the SCR and ORSA.

[2]Underwriting risk is not a Group key risk but is relevant to SPML as a life insurance company.

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 2023 £'000	As at 31 Dec 2022 £'000
Excess of assets over liabilities (IFRS basis)	**21,859**	**25,772**
Items not recognised in the financial statements:		
Present value of future profits (PVFP)	59	135
Risk margin	(170)	(338)
Excess of assets over liabilities (Solvency II basis – own funds)	**21,748**	**25,569**

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 based 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 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 Solvency Capital Requirement (SCR) and the capital requirement calculated under the Own Risk and Solvency Assessment (ORSA).

	As at 31 Dec 2023 £'000	As at 31 Dec 2022 £'000
Solvency Capital Requirement (SCR)	**4,291**	**5,955**
Total eligible amount of own funds to cover the SCR, of which:	21,748	25,569
– Tier 1 Unrestricted	21,748	25,569
Minimum Capital Requirement (MCR)	**3,495**	**3,445**
Total eligible amount of basic own funds to cover the MCR (all Tier 1 Unrestricted)	21,748	25,569
Solvency ratio of SPML (own funds divided by the SCR)	**507%**	**429%**

The entity's Solvency ratio has increased by 78% to 507% at 31 December 2023 (31 December 2022: 429%) and remains significantly above the Board's risk appetite level. This increase was driven by a decrease in the SCR to £4.3 million at 31 December 2023 (31 December 2022: £6.0 million), primarily driven by a reduction in the operational risk SCR. Own funds decreased by £3.8 million in 2023, primarily driven by the payment of a dividend of £5.0 million in December 2023, partially offset by profit after tax earned over the period of £1.1 million.

There have been no instances of non-compliance with the MCR or SCR during 2023. See section E.1 for further details on the Company's own funds.

The Company does not use volatility or matching adjustments, or any 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 in the future with the PRA rules and Solvency II regulations.

[3]The Company does provide a notice period of three months ahead of any changes to management charges.

Section A

Business and performance

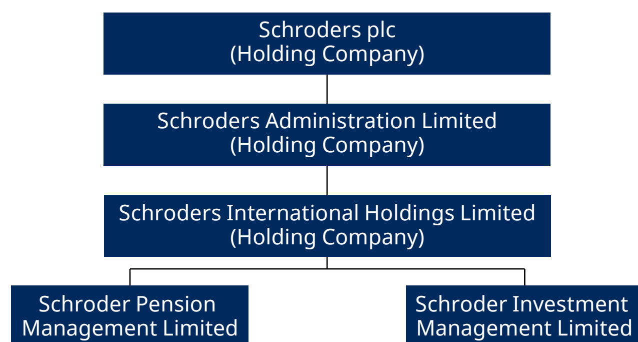
A.1 Business

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 2023, SPML generated profit before tax of £1.5 million (31 December 2022: £0.9 million). The different components of profit before tax are set out in the remaining sub-sections of Section A. The Company paid a dividend of £5.0 million to its shareholders during the year ending 31 December 2023 (31 December 2022: £0.9 million).

Simplified Group Structure as at 31 December 2023



Supervision and external audit

SPML is authorised by the PRA and regulated by the PRA and the Financial Conduct Authority (FCA). 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. The Company's contracts make no guarantees[3] and the Company is not exposed to mortality and morbidity risks.

SPML's operating model

SPML outsources almost all functions to SIM and other group companies. The outsourcing arrangements are 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 HSBC Bank Plc (HSBC) 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. In the event that AUM is at or below £10 billion at a quarter end date, the following table shall apply:

AUM level	Fee retention
AUM between £6.67 billion and £10 billion	4%
Below £6.67 billion	6%
Below £6 billion	7%
Below £5 billion	8%

In a scenario where SPML AUM suffers severe negative outflows, or in the event of any other significant market related stress scenario, operational loss or other event that reduces SPML's pre-tax profits to below zero, SPML will increase the quantum of fees it retains. In the event that 100% fee retention by SPML does not cover all of its costs, SIM, as the main operating entity and key entrepreneur to the product range, will provide additional fee income to ensure that SPML is protected with a cost plus 5% floor.

Significant business and events
The entity's Solvency ratio increased to 507% in 2023 and remains significantly above the Board's risk appetite of a minimum target level of solvency coverage of no less than the higher of 200% of the Company's Solvency Capital Requirement (SCR) and the capital requirement calculated under the Own Risk and Solvency Assessment (ORSA). The increase in the solvency ratio was driven primarily by a reduction in the operational risk component of the SCR. This was partially offset by a decrease in Own funds by £3.8 million , which was primarily driven by the payment of a dividend of £5.0 million in December 2023, partly offset by profit after tax earned over the period of £1.1 million.

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 2023.

Events since 31 December 2023
There have been no material events since 31 December 2023.

A.2 Underwriting performance

SPML only writes unit-linked pension business and no policies include any financial options, other than surrenders, or 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 £7.2 million to £21.0 million (31 December 2022: £28.1 million). The retained net revenue margin of 4%, after ceding to SIM, is in line with the Group's transfer pricing policy.

Underwriting Performance

Description	2023			2022			Variance
	Index-linked and unit-linked insurance £'000	**Accepted reinsurance £'000**	**Total £'000**	**Index-linked and unit-linked insurance £'000**	**Accepted reinsurance £'000**	**Total £'000**	**£'000**
Net management fees charged	9,840	11,097	20,937	15,181	12,932	28,113	(7,176)
Performance fees	0	0	0	131	111	242	(242)
Net fee income before Group charges	**9,840**	**11,097**	**20,937**	**15,312**	**13,043**	**28,355**	**(7,418)**
Fee cedes to SIM							
Management fees ceded to SIM	**(9,449)**	**(10,655)**	**(20,104)**	**(14,559)**	**(12,402)**	**(26,961)**	**6,857**
Performance fees ceded to SIM	**0**	**0**	**0**	**(131)**	**(111)**	**(242)**	**242**
Net fee income retained after fee share to SIM	**391**	**442**	**833**	**622**	**530**	**1,152**	**(319)**

Total operating expenses were £0.5 million during the year ended 31 December 2023 (year ended 31 December 2022: £0.5 million).

Description	2023 £'000	2022 £'000	Variance £'000
Professional fees	(333)	(324)	(9)
Non-recoverable indirect taxes	(38)	(40)	2
Other expenses	(152)	(144)	(8)
Total operating expenses	**(523)**	**(508)**	**(15)**

A.3 Investment performance

Financial highlights
SPML generated a profit before tax of £1.5 million for the year ended 31 December 2023 (2022: £0.9 million).

Net fee income retained after fee share was £0.8 million (31 December 2022: £1.2 million). Interest earned from the loan to Schroders plc was £0.3 million and £0.1million from bank deposits reflecting higher interest rates and £0.8 million of mark-to-market gains on the SSSF SLP fund were recognised, comprising £0.3m realised gains and £0.5m unrealised gains. Direct costs were £0.5 million during the year (2022: £0.5 million).

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 change 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 2023, unit-linked liabilities decreased by £430.1 million (5%) to £7,744.0 million (31 December 2022: £8,174.1 million) on an IFRS basis. The movement in fund assets includes premiums received of £2,501.6 million less claims paid of £3,523.9 million, with investment returns and other movements, net of management fees charged to the funds, increasing unit-linked liabilities by £592.1 million.

Description	2023 £'000	2022 £'000	Variance £'000
Premiums received	2,501,593	4,183,742	(1,682,149)
Claims paid	(3,523,896)	(4,754,648)	1,230,755
Investment return	604,495	(1,676,319)	2,280,814
Management fees charged directly to the life funds	(12,354)	(18,469)	6,115
Increase/(Decrease) in unit-linked assets	**(430,159)**	**(2,265,694)**	**1,835,535**
(Increase)/Decrease in unit-linked liabilities	430,159	2,265,694	(1,835,535)
Net impact on underwriting performance of the Company	**–**	**–**	**–**

Investment activity with respect to the Company's non-linked investments
Non-linked investments are mostly invested in the SSSF SLP. Mark-to-market gains of £0.8 million (comprising £0.3 million realised and £0.5 million unrealised) were recognised on the SSSF SLP and the year end market value of the SSSF SLP was £13.4 million (31 December 2022: £15.8 million).

The Company also earned net interest income predominantly on the loan to Schroders plc and a term deposit held with Industrial and Commercial Bank of China Limited (ICBC) of £0.4 million in 2023 (31 December 2022: £0.1 million).

SPML holds no direct investment in any securitisation vehicle.

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

Transactions with related parties
During the year ended 31 December 2023, 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:

AUM level	Income £'000	Expenses £'000	Amounts owed by related parties £'000	Amounts owed to related parties £'000
Ultimate parent	326	-	2,119	(13)
Other related companies within the Schroders Group	102	(20,206)	1,109	(2,339)

Amounts owed by related parties include a loan of £2.1 million to Schroders plc (2022: £7.1 million).

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

Service agreement
The majority of 2023 expenses paid to other related companies within the Schroders group was to SIM and other entities within the group. In addition, the service agreement in place between SPML and SIM makes provision for SIM to meet costs resulting from operational failure of the services it performed due to its negligence, wilful misconduct, breach of contract or fraud. The service agreement was 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 in line with 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, two independent (non-executive) directors as well as one non-executive director. It is supported by the SRC which reports into the Board.

There have been no material changes to the governance structure of SPML in the year to 31 December 2023.

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

Director	Description of role, including Senior Managers and Certification Regime Functions ("SMF")
Paul Forshaw	SMF 9 Chairman
David Heathcock	SMF 1 Chief Executive Officer (CEO)
James Grant	SMF 2 Chief Finance Officer (CFO)
Stephen Reedy	SMF 3 Executive Director
Calum Thomson	SMF 14 Senior Independent (Non-Executive) Director
Derek Wright	Independent Non-Executive Director
Gavin Ralston	Non-Executive Director

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

- Supporting effective risk management in line with the Group's approach;
- Providing transparency on risk trends and highlighting 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.

A member of SRC confirms with European Investment Risk Committee (EIRC) that all SPML funds are monitored, and no issues need to be raised before each SRC meeting.

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 (including climate risk)	SIM	SMF 4 – Chief Risk Officer	Responsible for the Company's risk management framework, including its policies and controls, and identifying and monitoring SPML's key risks. Responsibility for developing and embedding effective risk management processes to manage climate risk.
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.
Opeations	SIM	SMF 24 – Operations	Responsible for operations and technology functions performed on behalf of SPML.

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. The SMF-holders of SPML employed by other Schroders Group entities each have annual performance objectives relating to their SMF responsibilities, taking into account SPML business performance and risk considerations. 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 Capital Requirements Directive (CRD). The emoluments of the non-executive directors are borne directly by the Company. Non-executive directors receive a fixed fee only. BW is paid in accordance with the contractual terms agreed between SPML and BW for the provision of actuarial services.

[4]The Company does provide a notice period of three months ahead of any changes to management charges.

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 the Senior Managers & Certification Regime (SMCR), Senior Managers (SMs), Certified Person and Non-Executive Directors need to demonstrate fitness and propriety (F&P) on an annual basis. These staff are also required to adhere to the FCA & PRA Conduct Rules.

There are two groups of Conduct Rules:
1. The Individual Conduct Rules apply to most Schroders Group staff (except those performing 'ancillary' roles such as cleaners, receptionists and security).

2. The Senior Manager Conduct Rules, which apply to Senior Managers only, though SM4 and SM5 also apply to Non-Executive Directors.

Individual Conduct Rules
- 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.

- 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.

- Rule 6: You must act to deliver good outcomes for retail customers.

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 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 carry 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 Disclosure and Barring Service (DBS) check. For those in regulated roles, additional checks are carried out including an adverse media check, UK Directorship check, FCA Register check, Global sanctions and watch list search, in addition to a further UK consumer credit search.

For regulated staff, the line manager is required to complete an annual competence and capability assessment as part of SMCR requirements. This assessment determines whether Senior Managers and Certified Persons are individually competent and capable of carrying out their role. The frequency of ongoing external checks for SMFs is annual and for CPs is once every 3 years. All Senior Managers and Certified Persons are issued with an F&P certificate lasting up to one year if all the necessary indicators are clear.

B.3 Risk management system including the Own Risk and Solvency Assessment

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.

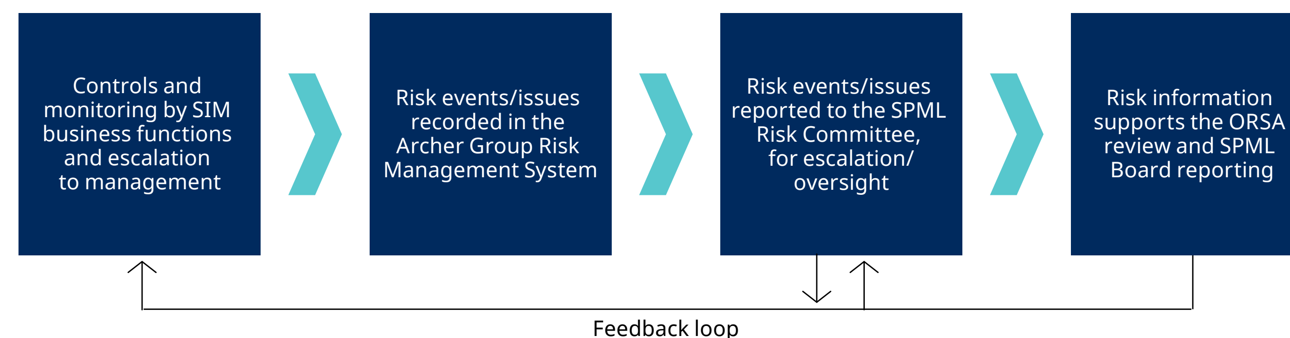
All Schroder employees are also required to complete an annual self-declaration, which assesses F&P. The individual is responsible for informing the Group's Human Resources department of any subsequent changes to the responses provided in the questionnaire.

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.

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 Management Framework, which is supplemented by SPML's own Risk Management Framework to help maintain focus on matters of relevance to SPML. 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.

SPML Risk Management process



[5]The LCP provides guidance for the Group's Crisis Management Team to manage a liquidity stress event.

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

Risk appetite

SPML faces a range of risks that the Board accepts are a result of the company's business model and strategy, which require management and mitigation.

SPML has defined its own risk appetite statement, consistent with the Group's overall risk appetite framework. The Company's risk appetite is expressed through a mixture of quantitative and qualitative metrics, which are used to monitor key risks on an ongoing basis. A breach does not automatically indicate that SPML is outside of risk appetite.

The process for establishing and updating SPML's risk appetite is incorporated in the ORSA process. Stakeholders are required to review risk appetite statements and metrics at least annually in order to ensure they accurately reflect the risk profile of the Company.

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;

– Is owned and used by the SPML Board to help inform business strategy;

– Is forward-looking and considers the adequacy of available capital over SPML's five-year business planning period; and

– Is carried out in accordance with the SPML ORSA Policy.

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 Pillar 2 calculations (although it does allow within different market risks and counterparty default risks) and does not allow 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 expect to extinguish the majority of customer liabilities within three months and to run-off the business in approximately twelve 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 report considers all relevant regulatory guidance (in particular, Solvency II rules). The ORSA process involves:

– Considering SPML as a standalone entity and any major changes to its business model;

– Producing an ORSA review plan with activities and timelines;

– Engaging with SPML's key stakeholders for input;

– Reviewing SPML's risk appetite;

– Reviewing any risk events and issues relevant to SPML;

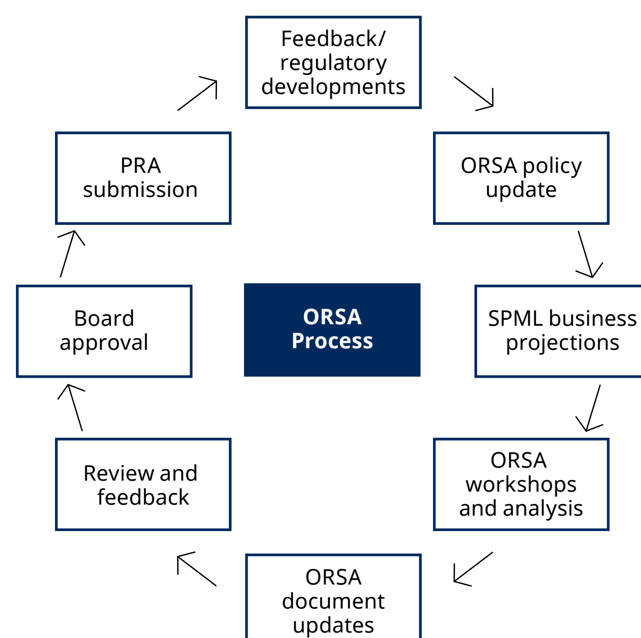
– Assessing the Group key risks to which SPML may be more exposed and the mitigation which might limit the impact of those risks;

– Calculating the ORSA capital requirement estimate; and

– Performing stress scenario analysis to establish possible impact to SPML's solvency over its business planning period.

The ORSA process is led by Group Risk & Compliance and input is received through formal and informal engagement, workshops, and discussion as required. The SCR, the ORSA capital requirement and stress testing is provided by SPML's Chief Actuary. The quarterly ORSA updates provide a regular review of SPML's risk profile and solvency position.

The annual ORSA review process involves a number of key stages as shown below:



The full ORSA report is produced on an annual basis, or more frequently if required.

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 Chief Risk Officer.

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 in-scope of the Internal Controls Report (ISAE 3402/AAF 01/20) which is produced annually and is signed by the CFO on behalf of the Board of Directors of the Schroders' service organisations. The Internal Controls Report outlines the control procedures in place to achieve the related control objectives and is accompanied by an assurance report from the Group's auditor, EY. A separate report on European Market Infrastructure Regulation (EMIR) controls is also included and this is accompanied by a separate assurance report from the Group's auditor. A copy of the Internal Controls report is available to SPML clients upon request.

The Group has established a permanent and effective Compliance function, which operates independently. 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 breaches, compliance assurance findings and status updates on material Compliance and/or regulatory change initiatives. This is provided and presented by SPML's SMF16.

As an independent 'second line' control function, Compliance engages with the business and other functions to identify, assess, monitor, mitigate and report on the SPML's regulatory and conduct risks. Full details of Compliance responsibilities are detailed in the Group Compliance Framework.

The Compliance Framework is comprised of the Group Compliance policies, which are reviewed on an annual basis. The policies are owned by Compliance and are implemented through business owned procedures. Important changes affecting business areas are communicated via relevant Committees and/or directly to individual Heads of Department. To reinforce the importance of Compliance with Group policies and Compliance requirements, all staff are required to complete an Annual Policy Declaration.

B.5 Internal audit function

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.

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
- To take advantage of Group and external expertise (i.e. efficiency).

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 HSBC and JPMorgan respectively. SPML also has direct outsourced relationships with BW for Actuarial services and with JPMorgan Chase for custody services. All of SPML's outsourced service providers are located in the United Kingdom but they may delegate to affiliates outside of the UK as permitted by the applicable terms.

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 Board considers the current system of governance appropriate for its business model, which is limited to offering unit-linked pension policies to trustees of approved UK pension schemes and unit-linked pension reinsurance policies to UK insurance companies. There is no other material information on the system of governance.

Section C

Risk profile

SPML effectively 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 include no charge guarantees[4]. 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.

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 through the ORSA process and further details on these are provided below.

The Company's risk appetite is expressed through a mixture of quantitative and qualitative metrics, which are used to monitor key risks on an ongoing basis.

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 23 £m	31 Dec 22 £m
Operational risk	4.3	5.8
Market risk	1.1	1.4
Life underwriting risk	0.1	0.1
Counterparty default risk	0.3	0.3
Diversification across risk modules	(0.2)	(0.3)
Loss-absorbing capacity of deferred taxes	(1.2)	(1.4)
Total SCR	**4.3**	**6.0**

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.

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 these agreements, SPML's costs are defined as a percentage of fee income. As fee income falls, so do expenses.

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 double	(0.01)	0.4%
25% increase in best-estimate assumption of expenses	(0.02)	1.1%

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 is the risk of loss or adverse change in a firm's financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments.

Linked assets
Policyholder assets and liabilities form part of SPML's assets and liabilities. However, any fall in the value of linked assets is exactly offset by a fall in the value of policyholder liabilities. SPML's exposure to market risk on linked assets is therefore limited to a change in future revenue (as policy charges are expressed as a percentage of linked AUM). Policyholder liabilities are fully matched with units established within the relevant internal linked funds and with assets of the same value. The linked funds 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 COBS 21 of the FCA Handbook. Adherence to the Permitted Links/Prudent Person Principle requirements is governed in line with the Group Investment Risk Framework. 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 and, if required in a stress situation, the ability to terminate all policies at short notice.

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 2023 of +/-10%:

	Change in SCR (£m)	Change in SCR cover
Linked assets increased by 10%	0.01	(0.7)%
Linked assets decrease by 10%	(0.01)	0.6%

Shareholder assets
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. 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).

Market risk on shareholder assets is largely limited to investments held within the SSSF SLP (£13.4 million investment at 31 December 2023), the term deposit with ICBC (£5.1 million as at 31 December 2023) and SPML's loan to Schroders plc (£2.1 million as at 31 December 2023). The deposit with ICBC is considered to be a material risk concentration. SPML currently holds an immaterial amount of operational seed capital[in a number of the unit-linked funds. Given materiality, the seed capital is treated as an investment in equity for the purposes of the SCR, which is considered prudent. All other shareholder assets are considered under credit risk below.

SPML's shareholder assets are managed in line with the SPML Capital & Liquidity Policy. The policy sets target levels of shareholder assets investments in accordance with the Board's risk appetite and the relevant governance arrangements. Investment decisions in respect of SPML's shareholder assets are delegated to Group Treasury and Group Finance, with oversight by the SPML Board. 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 loan to Schroders plc can be recalled immediately at any time.

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 firm, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which it is exposed, in the form of counterparty default risk, spread risk, or market risk concentrations.

Linked-assets
Credit risk on linked assets is dependent on the investment objectives and mandate of each unit-linked fund. Credit risk/asset defaults on linked assets would result in a reduction in linked assets and fee income. The impact to SPML of credit 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 and, if required in a stress situation, the ability to terminate all policies at short notice.

Credit risk on linked assets is managed under the Group Agency Credit Risk Framework. The Group Agency Credit Risk Committee (GACRC) has responsibility to approve and review counterparties and exposures and recommend appropriate policies and methodologies. Day to day oversight is discharged by the Head of Credit Risk, supported by Group Risk & Compliance team.

Shareholder assets
Any counterparty credit default on shareholder assets will directly impact the level of SPML's 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). At 31 December 2023, SPML held non-linked cash (or cash equivalent) assets at Citibank NA, JPMorgan Chase and HSBC. SPML currently has no reinsurance ceding agreements (outward reinsurance) in place. SPML also faces counterparty credit risk from other sources: policyholder fee payment and settlement risk; and service providers.

SPML aims to hold cash with creditworthy counterparties (rated A- and above), in line with the SPML Capital & Liquidity Policy and Group Counterparty and Credit Risk Policy Framework. The Group Credit Risk team monitors credit risk exposures with counterparties, who are also monitored on a rolling basis and risk appetite reviewed

in response to any significant negative news, changes in credit ratings and market events. Credit risk on shareholder assets is managed by limiting direct exposure to individual cash (bank) counterparties and investing assets in a diversified portfolio of high-quality short-term assets, such as through the SSSF SLP.

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 provide protection for SPML if a sub-contractor is unable or unwilling to meet its financial obligations towards SPML. The terms of SPML policies allow it to recover losses from policyholders by cancelling units allocated to them in the event of the policyholder failing to meet its obligations, including non-payment of fees or settlement monies.

Sensitivity
SPML's capital position is affected by changes to the credit rating of counterparties. If the Solvency II credit quality steps for ICBC (the counterparty for a £5.1 million term deposit, see section C.2) and Citibank NA (£3.5 million exposure at 31 December 2023) are reduced by 1, SPML's SCR will increase by £0.4 million and its SCR cover would reduce by 38%.

SPML 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 SPML 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 firm is unable to realise investments and other assets in order to settle their financial obligations when they fall due.

Linked assets
Linked assets (unit-linked funds) are exposed to asset liquidity and liability liquidity. Asset liquidity is the ability to trade an asset in the market within a given time frame/without materially impacting the price. Liability (or 'funding') liquidity risk is having liabilities (such as redemptions or margin calls) that cannot be met when they fall due, or which can only be met at an uneconomic price.

SPML's policy is to maintain adequate liquid resources at all times to ensure that liabilities can be met as they fall due. SPML's unit-linked funds operate within the Schroders Investment Risk Framework (SIRF) which incorporates liquidity risk management and the Agency Liquidity Risk Management policy. This includes liquidity stress test scenarios which consist of a combination of unfavourable market liquidity conditions and large capital outflows. Unit-linked funds are managed in accordance with the Permitted Links Rules and Prudent Person Principle, as applicable. 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.

Shareholder assets
SPML is exposed to liquidity shortages for its shareholder cash (or cash equivalent) assets at Citibank NA, JPMorgan Chase Bank NA and HSBC Bank Plc. Liquidity risk may also arise from the inability to sell its holding in the SSSF SLP or similar funds for full value or at all under short-notice. SPML is exposed to delays in the payment of fees, which may accumulate over time, and may cause liquidity shortages. There is also a risk that a policyholder (new or existing) places a large subscription to unit-linked life fund units and the payment of premium is delayed.

The Group Capital Committee (GCC) has responsibility for management of the Group's capital and liquidity in line with the Liquidity Management Policy (LMP) and Liquidity Contingency Plan (LCP). The LMP sets out the minimum standards that must be followed when managing the Group's liquidity resources. The LCP governs the management of liquidity, either where a potential event is expected or an actual event has occurred which could cause a strain on the Group's liquidity resources[5]. SPML's shareholder assets are also managed in line with the SPML Capital & Liquidity Policy, with the objective to maintain a high level of liquidity in accordance with risk appetite. SPML only invests shareholder assets in instruments which have been approved by the GCC and in accordance with the Prudent Person Principle.
Under the outsourcing arrangements, SIM is liable for operational losses to SPML and scenarios which could give rise to an operational loss liquidity requirement for SIM are included in the Consolidated Group Internal Liquidity Adequacy Assessment Process (ILAAP). Hence, SPML's potential liquidity requirement for operational risk events is also indirectly 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 Commission Delegated Regulation (EU) 2015/35 (the Delegated Regulation) is zero.

[6]The Company does provide a notice period of three months ahead of any changes to management charges.

C.5 Operational risk

Operational risk is the risk of failure of significant business processes, such as compliance with fund or mandate restrictions, fund pricing, trade execution for investment portfolios and client suitability checks, whether these occur within the Group or appointed third parties.

The Group's key business processes are reviewed regularly and the risks assessed through the Risk & Control Assessment (RCA) process. Operational risk events are reviewed to identify root causes and implement control improvements. When undertaking change, the Group assesses new processes that may arise. There is a well-established process to assess the risks within the Group's supply chain; with a review of suppliers throughout the supplier life cycle to identify potential risks which may impact the quality or continuity of service.

SPML aims to minimise operational risk, which is largely achieved through its outsourced operating model and agreements in place, subject to any specific terms and conditions. Operational risk from external events, including significant events arising from SPML's third party service providers, is primarily managed by oversight and monitoring of SPML's third party providers, ensuring compliance with current regulation and legislation through the Group's Risk Management Framework.

Operational risk SCR and sensitivity

Although operational process risk is successfully transferred to SPML'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 2023 of +/- 10%:

	Change in SCR £m	Change in SCR cover
Non-acquisition expenses increase by 10%	0.33	(36.5)%
Non-acquisition expenses decrease by 10%	(0.33)	42.6%

As part of its ORSA process, SPML considers the impact of risk events on its business model and considers the mitigation or management actions that might be taken to address any issues. This is performed in line with the Group's key risk framework as described below.

Operational risk – Business services resilience risk

Business service resilience risk is the risk of being unable to operate important business services in the event of a severe disruption. Many of the Group's important business services are dependent on third parties and all are reliant on data and technology. There is the risk that we do not have sufficient processes in place to ensure that we can effectively continue to operate or recover our important business services in the event of a severe disruption at a third party, to a system or to the availability of data.

SPML's outsourced operating model is reliant on SIM (and other Group companies) providing continuity of service, in line with the relevant agreements in place, and other third-party arrangements. Severe disruption to SPML's important business services will impact its ability to provide services to its policyholders. This could be caused by: the total loss of a vendor; corruption, deletion or manipulation of critical data (e.g. due to a ransomware attack); loss of other market participants (e.g. Swift infrastructure); loss of technology (e.g. a data centre); and unavailability of facilities or people (e.g. due to a pandemic).

The Group has processes and procedures in place which ensure that it can respond to and recover from a number of plausible disruptions to service scenarios. The Group's third-party governance framework ensures that SPML has appropriate oversight of the third-parties that its critical business services are reliant on. This framework mandates the approach to appointing, managing and performing relevant due diligence of these providers.

Operational risk – Conduct and regulatory risk

Conduct and regulatory risks are the risks of client detriment or reputational harm arising from inappropriate conduct of staff or those of counterparties, suppliers and other third parties the Group engages with, including failure to meet regulatory requirements (including those with respect to conflicts and financial crime), poor behaviour, or failing to meet appropriately our clients' expectations. The varying regulatory approaches to sustainability is making implementation more difficult and scrutiny of greenwashing risk remains high. The majority of SPML's activities that would be susceptible to these risks are operated by SIM (or other Group companies), such as the production of sales material and disclosures, and monitoring of regulatory restrictions.

The Group promotes a strong compliance culture and seeks to maintain good relationships with regulators. It also encourages appropriate conduct and regulatory compliance via its conduct risk framework, supported by training and compliance assurance programmes. The Group Regulatory Oversight Committee and Sustainability Regulatory Steering Committee provide oversight and challenge of the implementation of regulatory change.

As per SPML's outsourced arrangements with SIM, losses associated with conduct or regulatory events would be expected to be compensated by SIM (or its third-party service provider). Regular updates are also provided to the SPML Board on Solvency II developments, incorporating any areas relating to governance expectations.

Operational risk – Information security risk
Information security risk relates to the confidentiality, integrity or availability of services being negatively impacted by the activities of a malicious insider or external party. Advances in AI and deep fake technology create opportunities for more advanced social engineering techniques to be used in cyber-attacks.

Through the Group's infrastructure and operations, SPML may be subject to fraud or disruption to services, either internally or externally, due to weak information security controls. This may result in the loss of policyholders' or SPML's own cash, holdings, access to services or data (e.g. due to phishing attacks or email compromise).
The Group has a dedicated Information Security function responsible for the design and operation of its information security risk framework, which includes oversight of critical third parties' cyber capabilities. Information security risk is overseen by specialists and is monitored by the Information Security Risk Oversight Committee. The Group operates Information Security controls to: Identify information risk to our systems, data and organisation; Protect the delivery of critical services; Detect the occurrence of information security events; and Respond to, and recover from, an information security event.

In line with this, SPML is reliant on Group processes to provide continuity of services and the necessary arrangements for recovery or compensation in the event of information security failures, including those at third-parties.

Operational risk – Tax risk
The Group is exposed to tax risks. This would include compliance and reporting risks such as: the submission of late or inaccurate tax returns; transactional risks which include actions being taken without appropriate consideration of the potential tax consequences; and reputational risks, which cover the wider impact that conduct in relation to tax affairs can have on relationships with stakeholders.

A failure to meet tax obligations on behalf of SPML could lead to costs as a result of fines and penalties. This may result in financial losses to policyholders, requiring redress. SPML is taxed as a life insurance company undertaking pension business. SPML's investments in global securities exposes it to more complex tax rules or changes in tax treatment at short notice.

The Group's approach to managing its tax affairs and tax risk is set out in its Tax Strategy, supported by a tax governance framework, which aligns to the Group's wider risk and control framework. The Group Tax function is generally responsible for identifying, managing and monitoring tax risks relating to the Group and its subsidiaries, including SPML. Business heads, supported by Group Tax, are responsible for identifying, managing and monitoring the tax risks relating to their businesses.

As per SPML's outsourced arrangements with SIM, losses associated with errors in respect of tax compliance or advice would be covered by SIM or third parties engaged for this purpose.

C.6 Other material risks

Sustainability risk including climate change
Sustainability risk is the failure to understand, accurately assess and manage investment risk associated with sustainability factors within assets and portfolios and to appropriately articulate the risks and the Group's commitments in relation to them, to clients and stakeholders. This may lead to poor investment decisions, and a failure to offer appropriate sustainable products or to meet clients' expectations, impacting the Group's performance, brand and reputation. A failure to meet corporate climate change targets may have a similar impact.

A failure to manage risks associated with sustainability trends or to develop products that meet corresponding investor demands, are appropriately marketed and embed sustainability and climate change factors into the investment process as well as failure in compliance with sustainability/ climate change risk related regulation could: impact SPML's reputation; adversely impact it's business plans; and harm policyholder outcomes.

Climate change as a major environmental risk is expected to result in both physical risks as a result of more extreme weather events and prolonged climate impacts from increased global temperatures and transition risks as economies of the world shift towards a low carbon environment.

SPML considers there to be limited direct physical impact of climate change but physical risks are likely to impact the companies in which the life funds invest. Transition risks may have greater impact on SPML, as financial products evolve and policyholder demand moves towards climate-friendly products.
The Group has developed a range of proprietary tools to better understand the potential effects of sustainability risks including climate change on the portfolios managed. Sustainability risk toolkits support day-to-day risk oversight and formal review and challenge of investment risk at Asset Class Risk and Performance Committees. The Group's Integration Accreditation Framework is used to assess the integration of Sustainability factors into the investment desks' processes and re-accredit them on an annual basis. Regarding climate specifically, a Net Zero Dashboard has been developed which enables investment teams and central risk function to monitor the temperature alignment of portfolios and track progress against the business-wide net zero commitment.

Sustainability risk and climate change management is embedded within the Group's Investment Risk Framework, under which SPML operates.

Investment Performance risk
There is a risk that portfolios may not meet their investment objectives or that there is a failure to deliver consistent and above-average performance. There is a risk that clients may move their assets elsewhere if a firm is unable to outperform competitors or unable to deliver the investment objectives. The higher interest rate environment can impact clients' performance expectations and our ability to meet them and may require adjustments within strategies.

SPML delegates investment management of the policyholder funds (life funds) to SIM. Sustained poor investment performance by SIM may result in policyholders moving their assets to other managers. There is a risk that policyholder investments may not meet the life fund objectives disclosed, including, where applicable, benchmark relative outcomes, a sustainability outcome, or investments into assets with specific characteristics. SPML is also exposed to the risk of investment or regulatory restrictions being breached in the life funds to enhance investment performance.

The Group (including SPML) has clearly defined investment processes designed to meet investment targets within stated parameters, which are subject to independent review and challenge. Oversight of both risk and performance is embedded in the Group's business processes and governance.
Investment monitoring is performed by fund managers and asset class heads on a regular basis, as well as by Group Risk & Compliance, the Asset Class Risk and Performance Committees, the GMC and legal entity boards.

A dedicated Product Governance function is in place performing oversight and monitoring of client outcomes. The Global Head of Product Governance has a mandate to represent and safeguard client/ policyholder best interests throughout the product lifecycle.

Product strategy and management risk
This is the risk that the product or service offering is not suitably diversified or viable or does not provide access to strategies that will help investors to meet their objectives. There is also the risk that products are not accurately described, do not perform in alignment with their investment objectives for a sustained period, or that product liquidity is not consistent with the product description or the redemption requirements of investors.

Product development is one of SPML's core business activities (supported by SIM) and it is essential that it creates the right solutions for investors throughout the product lifecycle and demonstrate value for them. This risk could primarily materialise for SPML from:

- Permitted links/ Prudent Person Principle: a breach of the rules may occur if a life fund is created which inherently breaches the rules;
- Product disclosure: a SPML product may be managed in a manner inconsistent with information provided to policyholders or a product may be unsuited to their investment needs; and
- Product design: a SPML product may be designed in a manner unsuitable to the investment objectives.

Risks are managed within the Group's Product Frameworks, which include the Product Strategy Committee, Product Development Committee, Product Governance Committee and Capacity Committee. There is a liquidity risk management framework and monitoring of liquidity within products on an ongoing basis. Also in place is a process to raise awareness of funds identified as having more challenging liquidity profiles so that any changes to client sentiment (or potential redemptions) would be notified to relevant teams rapidly, to reduce potential liquidity risk issues. As per SPML's outsourced arrangements with SIM, product management processes are operated by SIM and therefore, any issues or losses arising from them would need to be addressed by SIM accordingly.

Reputational risk
Reputational risk may arise from poor conduct, judgement or risk events due to weaknesses in systems and controls and may lead to loss of assets or inability to win new business. Issues relating to senior management and directors have been experienced in a variety of organisations including financial services, corporations and industry bodies, which have damaged the reputation of these organisations. Failing to meet stakeholders' expectations (for example, clients, regulators or the wider community) could also give rise to reputational risk. The rise of Artificial Intelligence (AI) provides opportunities for efficiency but also gives rise to potential reputational risk.

Reputational risk for SPML can arise from any of its material key risks, in particular operational process risks that impact policyholders directly or those that involve a legal, regulatory or conduct angle. SPML is inextricably linked to the Group and there is a risk of impact from other Group entities or third party service providers suffering significant risk events or sustained poor performance/service levels from them.

The Group considers reputational risk when initiating changes to its strategy or operating model and focus on maintaining high standards of conduct. It has a number of controls and frameworks to address other risks that could affect its reputation including financial crime, investment risk, client take-on, client communications, conduct risk, whistleblowing and product development. In 2023, the Group undertook an analysis of the potential causes of reputational risk. This led to a deeper awareness of reputational risk across the Group, and at the GMC. Potential reputational risk arising from our use of AI is being managed through the Group's AI framework.

The Group's Risk Management and Governance Framework helps to mitigate reputational risk for SPML. Management information covering errors, omissions, risk events and the performance of SIM and other third parties is regularly reported to the SRC and SPML Board.

Changing investor requirements risk
Client requirements are evolving rapidly. Failing to adapt or evolve our business model and product range to reflect these changes could lead to a decrease in AUM. Sustainability is a significant part of many of our clients' considerations and the Group expects climate risks to feature more heavily in future investment requirements and offerings.

SPML is exposed to changing investor requirements with the shift from DB to DC pension schemes and de-risking within pension schemes. There is a risk that SPML's products do not evolve to meet clients' sustainability and climate change expectations.

The Group continues to focus on developing its investment capabilities, expanding into new investment types and specific areas of expertise, and commit seed capital to support product innovation for future growth. SPML's business strategy is focused on the development of successful product solutions, via the Groups product development framework, to meet policyholder requirements and expectations.

Fee attrition risk
Fee attrition caused by clients allocating more of their assets to passive products, and less to active managers, coupled with a lower allocation to public markets, and a greater allocation to private markets. This has resulted in increased competition on price in the traditional active management market. The Group is also exposed to the risk of intermediaries taking a greater share of revenue streams.

SPML is exposed to fee attrition risk on a number of products, arising from changes in policyholder requirements impacting its asset mix, and increasing competition amongst industry participants.

The Group has continued to focus on solutions and outcome orientated strategies, thematic products and growing its market share within private markets, to diversify its fee income. The fiduciary business within the solutions division continued to be successful during 2023. SPML has expanded its product range to include greater allocation to private markets and fiduciary management solutions - leveraging the Group's solution's capabilities.

Market returns risk
The Group's income is mainly derived from the value of the assets managed. Falling markets reduce AUM and therefore impact revenues. Market falls may be exacerbated by geopolitical risks, for example in response to the situation in Ukraine and the Middle East which remains heightened. Economic uncertainty and geopolitical developments presented a risk in 2023. The impact of higher inflation on interest rates, wages and economic growth could impact asset prices and markets, as could an acceleration of climate risk, leading to a fall in AUM. SPML's life funds are exposed to market shifts, which impact the value of policyholder assets and liabilities. This also impacts SPML's revenue and profitability.

The Group has diversified income streams across a range of markets to mitigate a considerable fall in any one area. There is focus on growing the product range and investment capabilities for a broader range of income streams which are less directly linked to markets.

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.

Solvency II requires assets and liabilities to be valued at the amounts for which they could be exchanged or transferred or settled between knowledgeable willing parties in an arm's length transaction, and sets a hierarchy of valuation methods to be adopted. The valuations adopted are aligned with IFRS and are materially compliant with the requirements of Solvency II. 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 2023 is provided on the right..

As at 31 December 2023 (£'000)	Reference to QRT S.02.01.02	Solvency II value £'000	Financial Statements £'000	SFCR Refeence
Assets				
Deferred tax assets	R0040	-		D1.2
Collective Investments Undertakings	R0180	13,427	13,427	D1.3
Assets held for index-linked and unit-linked contracts	R0220	7,743,977	7,425,628	D1.4
Insurance and intermediaries receivable	R0360	-	9,944	D1.5
Receivables (trade, not insurance)	R0380	994	31,234	D1.6
Cash and cash equivalents	R0410	9,467	315,723	D1.7
Any other assets, not shown elsewhere	R0420	10,695	2,127	D1.5
Total assets	**R0500**	**7,778,560**	**7,798,083**	
Liabilities				
Technical provisions calculated as a whole	R0700	7,743,977	7,743,977	D2.1
Best estimate	R0710	(59)		D2.2
Risk margin	R0720	170		D2.3
Technical provisions – unit-linked	**R0690**	7,744,088	7,743,977	
Deferred tax liabilities	R0780	22	22	D3.4
Derivatives	R0790		12,269	D3.3
Insurance and intermediaries payables	R0820	-	10,088	D3.1
Payables (trade, not insurance)	R0840	2,294	9,548	D3.2
Any other liabilities, not shown elsewhere	R0880	10,408	320	D3.1
Total Liabilities	**R0900**	**7,756,812**	**7,776,224**	
Excess of assets over liabilities	**R1000**	**21,748**	**21,859**	

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 2023 £'000	As at 31 Dec 2022 £'000
Excess of assets over liabilities (IFRS basis)	**21,859**	**25,772**
Items not recognised in the financial statements:		
Present value of future profits (PVFP)	59	135
Risk margin	(170)	(338)
Excess of assets over liabilities (Solvency II basis – own funds)	**21,748**	**25,569**

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 £19.5 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	31 Dec 2023 £'000
Assets held for index-linked and unit-linked contracts (IFRS basis)	7,425,628
Current tax assets	1,377
Cash and cash equivalents	306,256
Receivables (trade, not insurance)	30,238
Derivatives	(12,269)
Payables (trade, not insurance)	(7,253)
Assets held for index-linked and unit-linked contracts Solvency II basis (R0220 in QRT S.02.01.02)	**7,743,977**

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 2023 and no deferred tax assets are recognised in the financial statements.

Differences in the deferred tax balances can arise where balance sheet items are recognised on a different basis for Solvency II. At 31 December 2023, 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 2022.

D1.3 Collective Investment Undertakings (CIUs)
Investments in CIUs are measured at fair value, in accordance with the Level 1 fair value measurement set out in D1.4 below.

The CIU value includes £29 thousand of seed capital invested in a number of the Company's unit funds.

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, £6,242 million are Level 1 financial instruments and £1,198 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 9 of the Company's financial statements.

More information on the classification of financial assets and liabilities is included in the Schroders plc Annual Report and Accounts in Note 8 to the 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. The receivables consist of settlement assets relating to the settlement of trades which are already recognised in the policyholder assets and liabilities at the valuation date. No future cash flows are due from policyholders in respect of these. 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 under Solvency II. In addition, current tax assets relating to the Company's unit funds are reported as linked assets under Solvency II, whilst they are presented in any other assets, not shown elsewhere on an IFRS basis.

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 is the reshuffled receivables related to linked assets.

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. There has been no change to the methodology used to calculate the technical provisions during the reporting period.

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.

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 policy terms offered by the Company which allow SPML to terminate 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 only financial option included in the contracts written by the Company is the option to surrender without penalty. The contracts contain no guarantees.

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;

- 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; and

- 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 equal to 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 Dec 2023 £'000	31 Dec 2022 £'000
Technical provisions as a whole	3,677,367	4,379,20
PVFP	(28)	(72)
Risk margin	81	181
Total technical provisions	**3,677,420**	**4,379,310**

Technical provisions – Unit-linked reinsurance accepted business

Technical provision item	31 Dec 2023 £'000	31 Dec 2022 £'000
Technical provision as a whole	4,066,610	3,794,935
PVFP	(31)	(63)
Risk margin	89	157
Total technical provisions	**4,066,668**	**3,795,030**

Technical provisions – total

Technical provision item	31 Dec 2023 £'000	31 Dec 2022 £'000
Technical provision as a whole	7,743,977	8,174,136
PVFP	(59)	(135)
Risk margin	170	338
Total technical provisions	**7,744,088**	**8,174,340**

The fall in the PVFP at 31 December 2023 is primarily due to a reduction in the average rate of fee income on the in-force business. The reduction in the risk margin primarily reflects a change in its calculation as enacted in UK legislation, effective 31 December 2023.

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 the PRA;
- Annual management charges: Average rate, net of rebates, at the valuation date;
- Withdrawals: 32% per annum (31 December 2022: 30% 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 £49 thousand per month (31 December 2022: £42 thousand per month);
- Projection period: three months;
- Expense inflation: 3.0% per annum (31 December 2022: 5.8% per annum); and
- Discount rate: UK basic risk-free yield curve as provided by the PRA.

D2.6 Policyholder behaviour
The contracts written by the Company contain no financial options, other than surrenders, or guarantees[6], 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.

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.

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 using a simplified approach 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 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 £7,744 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 £0.1 million higher than the technical provisions reported in the financial statements, reflecting the PVFP and the risk margin.

[6]The Company does provide a notice period of three months ahead of any changes to management charges.

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. The payables consist of settlement liabilities relating to the settlement of trades which are already recognised in the policyholder assets and liabilities at the valuation date. No future cash flows are due to policyholders in respect of these. Insurance payables are recorded initially at fair value and subsequently at amortised cost. Similar to as noted in D1.5 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 shown in D1.1.

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. With respect to the Schroders plc loan, 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

As at 31 December 2023, own funds were £21.7 million (31 December 2022: £25.6 million), of which £20.5 million (31 December 2022: £20.5 million) was permanent share capital and £1.2 million (31 December 2022: £5.1 million) retained profits and other reserves, with none of the reserves at 31 December 2023 relating to a deferred tax asset (31 December 2022: None). A reconciliation of the movements in own funds is shown below:

Description	£'000
Own funds as at 31 December 2022	**25,569**
Movements during 2023:	
Prior year best estimate and risk margin	203
Profits during the year	1,087
Dividend payment	(5,000)
Best estimate	59
Risk margin	(170)
Own funds as at 31 December 2023	**21,748**

Own funds fell over the reporting period by £3.8million primarily due to the payment of a £5.0 million dividend offset by profits after tax earned over the period of £1.1 million. Surplus own funds are loaned to Schroders plc or are invested in either the SSSF SLP or the term deposit with ICBC.

All of the Company's Own Funds at 31 December 2023 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. 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 2023, the amount of the potential deferred tax asset is £0.03 million, but this has not been recognised. The Company's Own Funds are free of any liens and encumbrances.

The Solvency ratio of the Company, i.e. Own Funds divided by the SCR, at 31 December 2023 was 507% (31 December 2022: 429%) and a summary of the position as at 31 December is shown below:

	31 Dec 2023 £'000	31 Dec 2022 £'000
Ordinary share capital	20,500	20,500
Reconciliation reserve	1,248	5,069
Total capital resoruces (all Eligible Own Funds)	**21,748**	**25,569**
SCR	4,291	5,955
Capital surplus	17,457	19,614
SCR cover	507%	429%
MCR	3,495	3,445
MCR cover	622%	742%

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 non-linked assets are invested in cash and short-term deposits, bonds and loans, the reconciliation reserve is primarily subject to counterparty default risk, market spread risk and market concentration 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.

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 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.

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.

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 contributions to the SCR are those in relation to market risk and counterparty default risk. While market risk is calculated in respect of both unit-linked and non-linked assets, counterparty default 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 opposite:

	31 Dec 23 £'000	31 Dec 22 £'000
Assets	7,778,560	8,213,282
Less technical provisions		
Technical provisions as a whole	7,743,977	8,174,136
PVFP	(59)	(135)
Risk margin	170	338
Total technical provisions	**(7,744,088)**	**(8,174,340)**
Less liabilities	(12,724)	(13,374)
Own funds	21,748	25,569
SCR		
Operational risk	4,307	5,777
Market risk	1,069	1,449
Life underwriting risk	60	108
Counterparty default risk	334	273
Diversification across risk modules	(247)	(257)
Loss-absorbing capacity of deferred taxes	(1,232)	(1,397)
Total SCR	**4,291**	**5,955**
Capital surplus	**17,457**	19,614
SCR coverage ratio	**507%**	429%
MCR	**3,495**	3,445

As at 31 December 2023, the loss-absorbing capacity of deferred taxes (LACDT) reduces the SCR by £1.2 million (31 December 2022: £1.4 million).

The LACDT at 31 December 2023 comprises:

- £0.36 million from the recovery of tax payable in respect of the year to 31 December 2023.
- £0.28 million from the carry-back relief of tax from the previous accounting period.
- £0.59 million from the offset of future profits, where future profits equal to the SCR for operational risk are assumed available on the basis that such an amount would be expected to be received by SPML as compensation for any operational risk loss under the service agreements in place between SPML and SIM as described in section A.5.

No deferred tax liabilities have been utilised in the LACDT at 31 December 2023. The SCR has reduced by £1.7 million to £4.3 million at 31 December 2023 (31 December 2022: £6.0 million), due to:

- A decrease of £1.5 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 2023 compared to 2022.
- A decrease of £0.4 million in the market risk SCR, primarily from concentration risk reflecting a reduction in the loan to Schroder plc from £7.1 million to £2.1 million following the £5.0 million dividend payment in December 2023.
- The tax impacts of the above, partially offset by a change to the main rate of Corporation Tax, which reduce the LACDT, and hence increase the SCR, by £0.2 million.

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 £7,743.9 million (31 December 2022: £8,174.0 million); and
- 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.

As at 31 December 2023, the MCR for the Company is determined by the absolute floor of the MCR of €4.0 million. This is unchanged from 31 December 2022. The increase in MCR is due to the movement in the prescribed exchange rate used to convert the absolute floor to sterling, meaning the absolute floor has increased from £3.4 million to £3.5 million.

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 has complied throughout the reporting period, 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 2023, 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.

On behalf of SPML Board of Directors
05 April 2024

F.2 Independent Auditor's report

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

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 Schroder Pension Management Limited ('the Company') as at 31 December 2023:

- The 'Valuation for solvency purposes' and 'Capital management' sections of the Solvency and Financial Condition Report of the Company as at **31 December 2023 ('the Narrative Disclosures subject to audit');** and
- Company templates S.02.01.02, S.12.01.02, S.23.01.01, S.25.01.21 and S.28.01.01 ('the Templates subject to audit')

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the **'relevant elements of the 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 S.05.01.02; 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 2023** 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 *(Revised) Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks'* and 'ISA (UK) 805 *(Revised) Special Considerations - Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement',* and applicable law. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the relevant elements of the 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
In auditing the relevant elements of the Solvency and Financial Condition Report, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the Solvency and Financial Condition Report is appropriate. Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Confirming our understanding of management's going concern assessment process and obtaining management's assessment which covers 12 months from the date of approval of the Solvency and Financial Condition Report;
- Evaluating the assumptions used in management's forecast which forms the basis for management's going concern assessment and determining that the forecast provided an appropriate basis for management to assess the going concern of the Company;

- We evaluated the assumptions used in management's stress testing and assessed the conclusions reached; and
- We performed enquiries of management and those charged with governance to identify risks or events that may impact the Company's ability to continue as a going concern. We also reviewed minutes of meetings of the Board and its committees

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of 12 months from when the relevant elements of the Solvency and Financial Condition Report are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Emphasis of matter – basis of accounting and restriction on use
We draw attention to the 'Valuation for solvency purposes' and 'Capital management' sections and other relevant disclosures 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. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose.

This report is made solely to the Directors of the Company in accordance with Rule 2.1 of the External Audit Part of the PRA Rulebook for Solvency II firms. 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 contained within the Solvency and Financial Condition Report.

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.

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 course of 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 this gives rise to a material misstatement in the relevant elements of the Solvency and Financial Condition Report themselves. 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.

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.

In preparing the Solvency and Financial Condition Report, the Directors are responsible for assessing the Company's ability to continue in operation, disclosing as applicable, matters related to its ability to continue in operation and using the going concern basis of accounting unless the Directors either intend to cease to operate the Company, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the relevant elements of the Solvency and Financial Condition Report
It is our responsibility to form an independent opinion as to whether the relevant elements of the 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are the direct laws and regulations related to elements of Company law and tax legislation, and the financial reporting framework. Our considerations of other laws and regulations that may have a material effect on the relevant elements of the Solvency and Financial Condition Report included regulatory and supervisory requirements of the PRA and the Financial Conduct Authority ('FCA').
- We understood how Schroder Pension Management Limited is complying with those frameworks by making enquiries with management, and through discussions with the Board. We also reviewed correspondence between the Company and UK regulatory bodies, reviewed minutes of the board and gained an understanding of the Company's approach to governance, demonstrated by the Board's approval of the Company's governance framework.
- We assessed the susceptibility of the relevant elements of the Company's Solvency and Financial Condition Report to material misstatement, including how fraud might occur by considering the controls that the Company has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved: making enquiry of those charged with governance and senior management for their awareness of any non-compliance of laws or regulations; inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees; inquiring about the Company's methods of enforcing and monitoring compliance with such policies; and inspecting significant correspondence with the FCA and PRA.
- The Company operates in the insurance industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

A further description of our responsibilities for the audit of the relevant elements of the Solvency and Financial Condition Report is located on the Financial Reporting Council's website at: https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's Report on the Solvency and Financial Condition Report.

Report on Other Legal and Regulatory Requirements
In accordance with Rule 4.1(3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of Schroder Pension Management Limited'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.

DocuSigned by:
Ernst & Young LLP
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Ernst & Young LLP
London
05 April 2024

The maintenance and integrity of Schroders' website, where Schroder Pension Management Limited upload their SFCR, 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 website.

Appendix 1

Annual QRTs as at 31 December 2023

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)	13,427
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	13,427
R0190	Derivatives	
R0200	Deposits other than cash equivalents	
R0210	Other investments	–
R0220	Assets held for index-linked and unit-linked contracts	7,743,977

	Assets	Solvency II value
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)	994
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	9,467
R0420	Any other assets, not elsewhere shown	10,694
R0500	**Total assets**	**7,778,560**

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	7,744,088

	Liabilities	Solvency II value
R0700	TP calculated as a whole	7,743,977
R0710	Best estimate	(59)
R0720	Risk margin	170
R0740	Contingent liabilities	–
R0750	Provisions other than technical provisions	–
R0760	Pension benefit obligations	–
R0770	Deposits from reinsurers	–
R0780	Deferred tax liabilities	22
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)	2,294
R0850	Subordinated liabilities	–
R0860	Subordinated liabilities not in BOF	–
R0870	Subordinated liabilities in BOF	–
R0880	Any other liabilities, not elsewhere shown	10,408
R0900	**Total liabilities**	**7,756,812**
R1000	**Excess of assets over liabilities**	**21,748**

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

		C0210	C0220	C0230	C0270	C0280	C0300
		Line of business for: life obligations			Life reinsurance obligations		
	Life	**Health insurance**	**Insurance with profit participation**	**Index-linked and unit-linked insurance**	**Health reinsurance**	**Life reinsurance**	**Total**
	Premiums written						
R1410	Gross	–	–	1,187,927	–	1,313,666	2,501,593
R1420	Reinsurers' share	–	–	–	–	–	–
R1500	Net	–	–	1,187,927	–	1,313,666	2,501,593
	Premiums earned						
R1510	Gross	–	–	1,187,927	–	1,313,666	2,501,593
R1520	Reinsurers' share	–	–	–	–	–	–
R1600	Net	–	–	11,187,927	–	1,313,666	2,501,593
	Claims incurred						
R1610	Gross	–	–	2,755,120	–	768,773	3,523,893
R1620	Reinsurers' share	–	–	–	–	–	–
R1700	Net	–	–	2,755,120	–	768,773	3,523,893
	Changes in other technical provisions						
R1710	Gross	–	–	–	–	–	–
R1720	Reinsurers' share	–	–	–	–	–	–
R1800	Net	–	–	–	–	–	–
		–	–	–	–	–	–
R1900	**Expenses incurred**	–	–	9,795	–	10,832	20,627
R2500	**Other expenses**	–	–	–	–	–	–
R2600	**Total expenses**						**20,627**

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)
			Contracts without options and guarantees	Contracts with options or guarantees			
		C0030	C0040	C0050	C0100	C0150	C0210
R0010	**Technical provisions calculated as a whole**	3,677,367			4,066,610	7,743,977	
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**			(28)	(31)	(59)	
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			(28)	(31)	(59)	
R0100	**Risk margin**	81			89	170	
R0110	**Technical Provisions calculated as a whole**						
R0120	Best estimate						
R0130	Risk margin						
R0200	**Technical provisions – total**	3,677,420			4,066,668	7,744,088	

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	1,248	1,248			
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**	21,748	21,748			

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand					
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual – type undertakings, callable on demand					
R0320	Unpaid and uncalled preference shares callable on demand					
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand					
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC					
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC					
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC					
R0370	Supplementary members calls – other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC					
R0390	Other ancillary own funds					
R0400	**Total ancillary own funds**					
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	21,748	21,748			
R0510	Total available own funds to meet the MCR	21,748	21,748			
R0540	Total eligible own funds to meet the SCR	21,748	21,748			
R0550	Total eligible own funds to meet the MCR	21,748	21,748			

	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
R0580	**SCR**	4,291				
R0600	**MCR**	3,495				
R0620	**Ratio of Eligible own funds to SCR**	506.87%				
R0640	**Ratio of Eligible own funds to MCR**	622.32%				
	Reconciliation reserve					
R0700	Excess of assets over liabilities	21,748				
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**	1,248				
	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)

		C0110
		Gross solvency capital requirments
R0010	Market risk	1,069
R0020	Counterparty default risk	334
R0030	Life underwriting risk	60
R0040	Health underwriting risk	–
R0050	Non-life underwriting risk	–
R0060	Diversification	(247)
R0070	Intangible asset risk	
R0100	**Basic Solvency Capital Requirement**	1,216

	Calculation of Solvency Capital Requirement	C0100
R0120	Adjustment due to RFF/MAP nSCR aggregation	
R0130	Operational risk	4,307
R0140	Loss-absorbing capacity of technical provisions	
R0150	Loss-absorbing capacity of deferred taxes	(1,232)
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
R0200	**Solvency Capital Requirement excluding capital add-on**	4,291
R0210	Capital add-ons already set	
R0220	Solvency capital requirement	4,291

		C0110
		Gross solvency capital requirments
	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 Approach based on average tax rate	C0109 No
	Calculation of Solvency Capital Requirement	LAC DT
R0640	LAC DT	C0130
R0650	LAC DT justified by reversion of deferred tax liabilities	(1,232)
R0660	LAC DT justified by reference to probable future taxable economic profit	(594)
R0670	LAC DT justified by carry back, current year	(639)
R0680	LAC DT justified by carry back, future years	
R0690	**Maximum LAC DT**	(1,299)

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	C0060
R0200	MCRL Result	54,207		
R0210	Obligations with profit participation – guaranteed benefits			
R0220	Obligations with profit participation – future discretionary benefits			
R0230	Index-linked and unit-linked insurance obligations		7,743,918	
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	54,207		
R0310	SCR	4,291		
R0320	MCR cap	1,931		
R0330	MCR floor	1,073		
R0340	Combined MCR	1,931		
R0350	Absolute floor of the MCR	3,495		
R0400	**Minimum Capital Requirement**	3,495		

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