Solvency and financial condition report 2017

Standard Life International

Standard Life

Contents

The Solvency and financial condition reports for the Group and its subsidiaries are available on our website **www.standardlifeaberdeen.com/sfcr**

The Annual report and accounts 2017 is also available on our website **www.standardlifeaberdeen.com/annualreport**

Summary

This document sets out a Solvency and financial condition report for Standard Life International dac for 2017, to satisfy the requirements of Solvency II.

The purpose of the report is to assist policyholders and other stakeholders to understand the capital position (under Solvency II) of Standard Life as at 31 December 2017.

On 1 January 2016, the Solvency II regulatory regime came into force for insurers across Europe. Under Solvency II, every insurer is required to identify its key risks – e.g. equity markets fall – and hold sufficient capital to withstand adverse outcomes from those risks. The capital required to withstand these outcomes is the Solvency II 'Solvency Capital Requirement', or SCR. The SCR is calibrated so that the likelihood of a loss exceeding the SCR is less than 0.5% over one year. This ensures that capital is sufficient to withstand broadly a '1 in 200 year event'. The capital resources available to meet the requirements are called 'Own funds'.

Standard Life Aberdeen and our peers hold capital in case things go wrong → Holding capital provides protection to our customers → Regulators require companies to hold certain capital levels

The purpose of holding capital is to provide security to policyholders. Standard Life International meets its capital requirements under Solvency II rules, as Own funds are higher than the SCR as set out in section c) of this summary.

a) Capital management policies and risk management objectives

Managing capital is the ongoing process of determining and maintaining the quantity and quality of capital appropriate for Standard Life International and ensuring capital is deployed in a manner consistent with the expectations of our stakeholders. For these purposes, the Board considers our key stakeholders to be the providers of capital (our equity holders and policyholders) and the Central Bank of Ireland (CBI).

There are two primary objectives of capital management within Standard Life International. As noted above the primary objective is to provide security to policyholders. The second objective is to create equity holder value by driving profit attributable to equity holders.

The Liquidity and Capital Management policy forms one aspect of Standard Life International's overall management framework. Most notably, it operates alongside, and complements, the Strategic Investment policy and the Standard Life Group risk policies. By integrating policies in this way, it enables Standard Life International to have a capital management framework that robustly links the process of capital allocation, value creation and risk management.

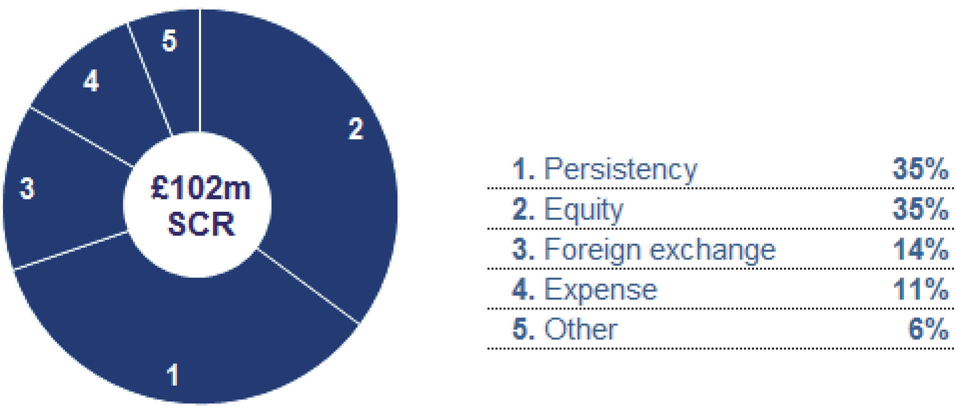
The capital requirements for our business are forecast regularly, and the requirements are assessed against available capital resources. In addition for all capital invested an assessment is made of the minimum acceptable return on the investment taking into account the associated risks. The capital planning process is the responsibility of the Finance Director. Capital plans are ultimately subject to approval by the Board.

b) Regulatory capital

Standard Life International's capital position under Solvency II is determined by aggregating its assets and liabilities recognised and measured on a Solvency II basis (being Own funds) and comparing this to the Solvency II solvency capital requirement (SCR) to determine surplus capital.

Standard Life International's Solvency II SCR is calculated on the basis of the standard formula within the Solvency II regulations. The Solvency II capital resources are also subject to Minimum Capital Requirements (MCRs).

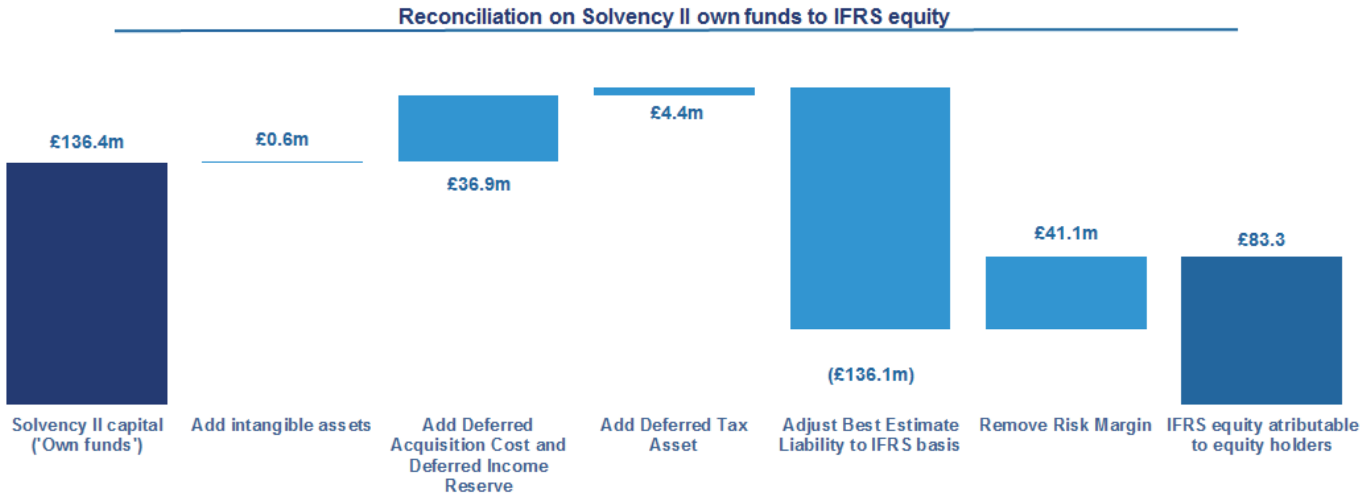
Our solvency capital requirement reflects our diversified set of risks as shown in the following diagram:



c) Capital surplus

Solvency II capital position	31 Dec 2017 (£'000)
Own funds	136,389
Solvency capital requirement (SCR)	(101,842)
Solvency II capital surplus	**34,547**
Solvency cover	**133.92%**

Standard Life International meets its capital requirements under these new rules with a Solvency II capital surplus of £34,547k representing a solvency cover of 133.92%



d) Format of the report

This report is prepared following the structure and headings set out in the regulations. A brief outline of each section and details of any material changes in the year to 31 December 2017 are given below:

Section A Business and performance – this section gives details on how Standard Life International's performance is reported and managed, including details of current year performance.	▶ Following the conclusion of the UK referendum on leaving the EU in June 2016, Standard Life Aberdeen prepared a set of plausible scenarios in order to adapt the business as appropriate to any post-Brexit changes in regulations and markets and continue services for its policyholders. ▶ There was a reduction in the operating profits as compared to last year, mainly due to a positive one-off adjustment in 2016 including refinement to deferred acquisition cost methodology. ▶ The investment performance has improved over the last year driven by strong equity market returns, partly offset by weakening of the pound.
Section B System of governance – this section sets out the overall framework of policies, controls and practices we use to we meet all of the requirements of sound, risk-based management.	▶ There were no material changes in the systems of governance for Standard Life International over the reporting period.
Section C Risk profile – this section sets out the material risks to which Standard Life International is exposed and the techniques used to monitor and manage them.	▶ There have been no material changes in the risk profile of Standard life International between year-end 2016 to year-end 2017.

Section D Valuation for solvency purposes – this section provides information on the valuation of assets and liabilities for Standard Life International's Solvency II balance sheet, with particular focus on how technical provisions are valued.	▶ There was one material change in the valuation of net deferred tax assets for Solvency II reporting. A deferred tax liability amounting to £7.2m has been calculated in respect of the temporary timing differences between the Solvency II and IFRS basis. The Company has losses carried forward from prior years that can be used to offset this tax liability. Therefore, the deferred tax asset was set equal to the level of the deferred tax liability giving an overall net deferred tax asset of nil. ▶ The assets, technical provisions and other liabilities have been calculated in line with the Solvency II regulations. The differences in the valuation of assets and liabilities between the Solvency II and IFRS basis have been reported within Section D of this SFCR.
Section E Capital management – this section gives details on Standard Life International's approach to Capital Management, the composition of Solvency II capital and details of the SCR and MCR.	▶ The capital requirements have been calculated in line with the Solvency II regulations.

In addition to the above certain Quantitative Reporting Templates (QRTs) are included in Appendix 1. The Glossary at the end of the report defines the key terms and acronyms used throughout.

Monetary amounts in this report are reported in thousands of pounds sterling unless otherwise indicated. Amounts have been rounded to the nearest thousand.

Parts of this document refer to sections of Standard Life International's Annual Financial Statements 2017, which is available to download from the Investors section of the Group's website www.standardlife.com.

A. Business and performance

A.1 Business

Standard Life Aberdeen is a leading global provider of long-term savings and investments. Standard Life International dac was established in Ireland in 2006.

Standard Life International is a wholly-owned subsidiary of Standard Life Assurance Limited, which in turn is a wholly-owned subsidiary of Standard Life Aberdeen plc ("The Group"). Standard Life Aberdeen plc is a holding company which is owned by its shareholders (including those eligible members who received and retained shares as a result of the demutualisation of The Standard Life Assurance Company). Standard Life International is registered in Ireland and therefore regulated by Irish legislation, and sells international unit-linked investment bonds to customers in the United Kingdom. As a provider of financial services, the regulation of Standard Life International is through the Central Bank of Ireland (CBI) and also the Financial Conduct Authority (FCA) in the United Kingdom for Conduct of Business rules.

Standard Life International's supervisor is the CBI, North Wall Quay, Spencer Dock, Dublin, Ireland.

The Group supervisor is the PRA, 20 Moorgate, London, EC2R 6DA.

The Group's corporate governance framework supports the way Standard Life applies the principles of good governance in the UK Corporate Governance Code issued by the Financial Reporting Council. Standard Life International is also subject to the Corporate Governance Code for Insurance Undertakings 2015 issued by the CBI. Standard Life International is not designated as a High Impact designated insurance undertakings and is therefore not required to comply with the additional requirements for High impact designated insurance undertakings.

Standard Life International's external auditor is KPMG Ireland, Chartered Accountants and Statutory Audit Firm, 1 Harbourmaster Place, IFSC, Dublin 1.

A.1.1 Business units for internal reporting

Standard Life Aberdeen Group consists of three operating segments (business units):

- Aberdeen Standard Investments (previously Standard Life Investments)
- Pensions and Savings
- India and China life (previously India and China)

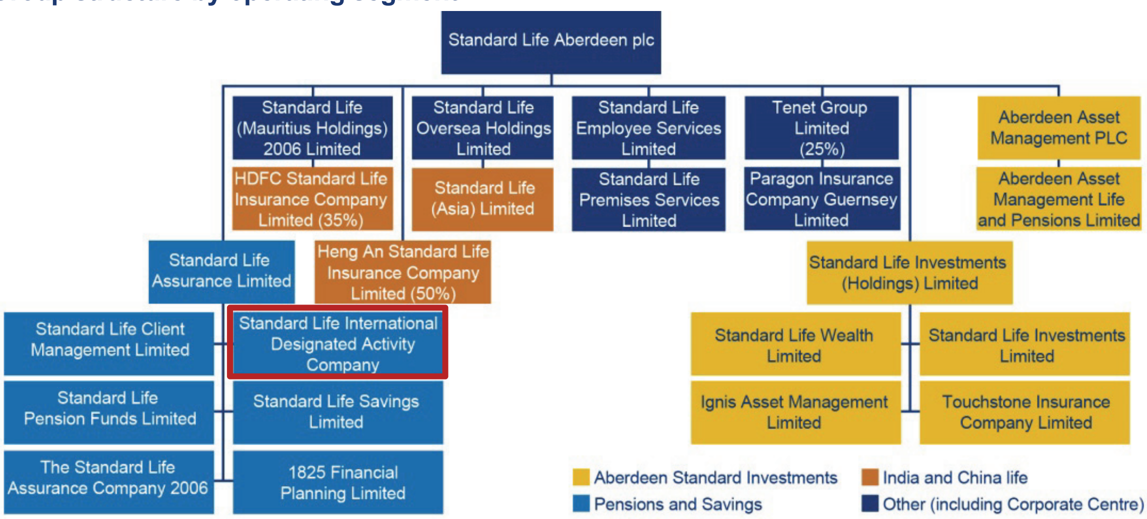
Standard Life International operates entirely within the Pensions and Savings business unit.

Within Standard Life Aberdeen Group, risk management is overseen by the Group Chief Risk Officer. For Standard Life International, risk is overseen by the Standard Life International Chief Risk Officer.

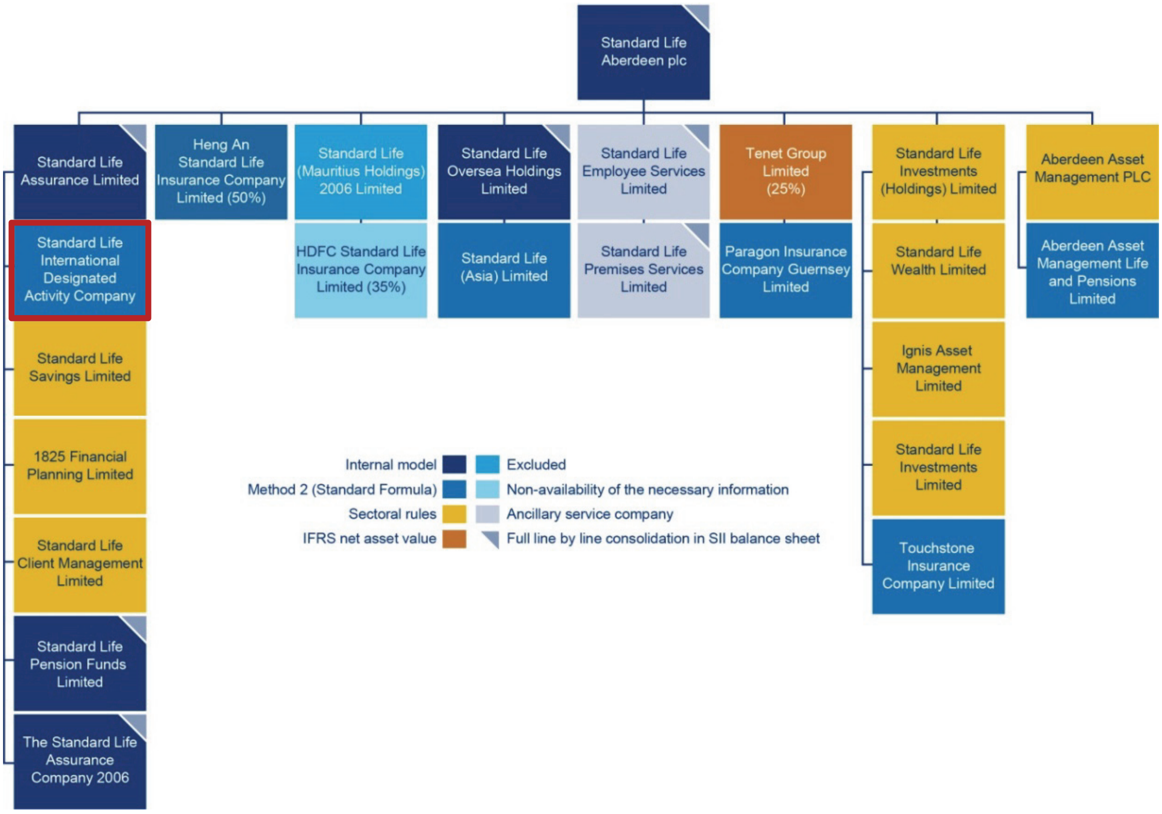
The business units operate as separate functional areas and are supported by the corporate centre which sets strategy, policy and governance for the whole organisation.

Standard Life International has its own board and executive and operational structures. The Standard Life International board is responsible for governing Standard Life International. The executive team of Pensions and Savings includes the appropriate representation from Standard Life International so that the Standard Life International board is kept appropriately informed. A simplified Group structure chart is included below, showing Standard Life Aberdeen entities which fall under each respective operating segment or Other.

Group structure by operating segment



Group structure by regulatory framework



A.1.2 Scope of Group consolidation

The simplified Group structure by regulatory framework in A.1.1 above highlights those entities consolidated on a line-by-line basis in accordance with Article 335 of the Delegated Regulations thereby showing the material differences between the scope of the Group for the consolidated financial statements and the scope of the Group for Solvency II reporting purposes.

A.1.3 Lines of business

Standard Life International operates on a cross border basis from Ireland under the “single passport” provisions of the EU’s life assurance directives. The Company currently sells unit-linked products into the UK, Channel Islands and the Isle of Man. It has a range of single premium unit-linked portfolio bond products in these markets, which it currently distributes through independent financial advisors. This business carries a very small element of life cover and accidental death benefit cover, and so is predominantly investment-focused in nature.

The contract sold by Standard Life International is a lump-sum, whole of life investment bond. The customer has the option to invest in unit linked funds offered by the Company and mutual funds and deposit accounts offered by other providers.

Standard Life International’s business is managed and reported in the Group’s consolidated financial statements entirely within the Pensions and Savings operating segment set out above in section A.1.1. This section gives further information on this business.

All of Standard Life International’s business links to the Solvency II line of business “Index linked and unit linked insurance” as set out in the Delegated Acts. This is made up of products where we generate revenue primarily from asset management charges (AMCs), premium based charges and transactional charges. AMCs are calculated as a percentage fee based on the assets held. Investment risk on these products rests principally with the customer, with the shareholder’s major indirect exposure to rising or falling markets coming from higher or lower AMCs. None of Standard Life International‘s business provides guarantees to our policyholders.

A.1.4 Material geographical areas

Standard Life International is headquartered in Ireland and sells international unit-linked investment bonds to customers in the United Kingdom.

A.1.5 Significant business of external events over the reporting period

The United Kingdom held a referendum in June 2016 on leaving the European Union. The outcome was in favour of leaving the EU. As Standard Life International is owned by a UK company, and sells into the UK through the freedom of provision of services that is part of the Single Market, this outcome will have an impact on Standard Life International.

As a fully owned subsidiary of Standard Life Aberdeen Plc, Standard Life International will be contributing to their aim to provide continuity of service for the existing 600,000 European customers within the Pensions and Savings business. The Standard Life Aberdeen Plc Brexit programme is comprehensive and it is preparing for all plausible scenarios. Standard Life Aberdeen Plc has a strong track record of successfully adapting to changing markets and regulation and significant progress has been made so far. The current plan is to use Standard Life International Designated Activity Company as a base from which to serve Standard Life's European customers, existing Standard Life International UK customers and in addition, to write new business in Ireland and Germany.

In 2017 the only material impact on Standard Life International witnessed so far has been the shift in the exchange rate between the pound and the euro, which affects the value of our expenses and of policyholder investments.

A.1.6 Significant events after the reporting period

In February 2018, the ultimate parent Standard Life Aberdeen Plc announced its intention to form an enhanced strategic partnership with Phoenix Group. As part of the proposed partnership, Standard Life International will be sold to Phoenix Group, subject to shareholder, regulatory and other approvals. Standard Life Aberdeen will own a 19.99% share in Phoenix and will have two representatives on their Board.

The Board of Standard Life International will work with all relevant stakeholders including regulators and policyholder representatives to assure that all interests are appropriately managed and protected as the transaction progresses and completes.

A.2 Underwriting performance

In this section of the report we are required to discuss underwriting performance, as shown in our financial statements. Operating profit is a key metric used by our management to evaluate performance, and to explain the results of our business in our Annual report and accounts. Standard Life International therefore uses operating profit (before tax) as a measure of underwriting performance for our business.

Operating profit reporting provides further analysis of the results reported under IFRS and the Directors believe it helps to give shareholders a fuller understanding of the performance of the business by identifying and analysing non-operating items. Operating profit is a key performance indicator, and is consistent with the way that financial performance is measured by management and reported to the Board and executive management.

Operating profit excludes impacts arising from short-term fluctuations in investment return and economic assumption changes. Short-term fluctuations in investment return and economic assumption changes are discussed further in Section A.3 Investment performance. Operating profit also excludes the impact of the following items:

- Restructuring costs and significant corporate transaction expenses. Restructuring includes the impact of major regulatory change.
- Impairment of intangible assets acquired in business combinations
- Amortisation of intangibles acquired in business combinations and fair value movements in contingent consideration
- Items which are one-off and, due to their size or nature, are not indicative of the long-term operating performance of Standard Life International

The following table shows operating profit reconciled to total performance (IFRS profit before tax) and profit after tax for the year:

	2017 £'000	2016 £'000
Operating profit before tax	**3,431**	7,216
Adjusted for the following items		
Short-term fluctuations in investment return and economic assumption changes	**(619)**	(1,655)
Restructuring and corporate transaction expenses	**(290)**	(339)
Discontinued operations	**0**	897
Non-operating (loss)/profit before tax	**(909)**	(1,098)
Profit before tax attributable to equity holders' profits	**2,522**	6,118
Total tax expense/credit attributable to equity holders' profits	**(141)**	4,054
Profit for the year	**2,381**	10,172

The Company commenced writing life assurance business in January 2006. Total net premiums on insurance contracts for the year ended 31 December 2017 was £749,001k (2016: £660,941k). The Company reported a profit before tax from continuing operations for the year of £2,522k (2016: Profit £5,221k).

The key performance indicators for the Company at this stage of its development are:

- Net premiums have increased to £749,001k in 2017 from £660,941k in 2016, representing an increase of 13.3%.
- Funds under management increased to £6,302m in 2017 from £5,523m in 2016 an increase of 14.1%.
- Profit before tax has decreased from 2016 to 2017. This reduction was due to a positive one-off adjustment in 2016 including refinement to deferred acquisition cost methodology

The directors are satisfied with the progress made in trading terms and of the business transacted in the year.

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

The directors play an active role in the development of the Company through the ongoing review and oversight of budgets and performance. The directors are satisfied with the management and controls over the business.

Discontinued Operations

Following a Group strategic review and in particular a review by Standard Life International of the Asia and Emerging Markets operations, we announced the closure of Singapore in June 2015. Singapore business closed on 18 November 2015 with contributions being returned to customers. The profit arising from discontinued operations for the year was £nil (2016: profit of £897k). The profit in 2016 relates to the remaining costs of closure during 2016 being lower than what was provided for at year end 2015.

Fee based revenue

Fee based revenue on the UK business increased by 8% to £15,431k, mainly driven by returns earned on unit linked funds over the year.

Operating expenses

Appendix 1 sets out QRT S.05.01 Premiums, claims and expenses which give details of premiums and claims in Standard Life International's business.

Further information on the results can be found in the 'report by the directors' section of Standard Life International's Annual Financial Statements 2017.

A.3 Investment performance

Standard Life International uses investment return as a measure of investment performance. The overall gross investment return achieved in 2017 was 7.0%; the following table shows Standard Life International's investment return, for the year ended 31 December 2017:

	2017 £'000	2016 £'000
Interest and similar income		
Cash and cash equivalents and available-for-sale debt securities	**2,090**	57
Other	**522**	532
	2,612	589
Dividend income	**19,551**	18,210
Gains/(losses) on financial instruments at fair value through profit or loss		
Equity securities (other than dividend income)	**390,740**	380,584
Debt securities	**590**	1,804
	413,493	401,187
Foreign exchange gains on instruments other than those at fair value through profit or loss	**(275)**	(731)
	(275)	(731)
Investment return	**413,218**	400,456

The following table shows Standard Life International's investment expense for the year ended 31 December 2017. The fees are charged for managing policyholder funds and are not directly based on asset class:

	2017 £'000	2016 £'000
Fees payable to Standard Life Investments Limited	**330**	310
Fees payable to Standard Life Savings Limited	**6,852**	6,109
External investment administration fees	**23**	24
Total investment management expense from continuing operations	**7,205**	6,443

The fees payable to Standard Life Savings Limited reflect the unbundling of the charges on our WRAP proposition.

Investment performance improved in 2017 (as compared to 2016) mainly driven by increase in AUA and improved investment performance, partly offset by a depreciation of the pound sterling against the Euro.

A.4 Performance of other activities

Other activities which are not underwriting or investment performance are non-operating items. Standard Life International's had no major non-operating items either for the year ended 31 December 2017 or for the year ended 31 December 2016.

Standard Life International does not have any financial or operating leasing arrangements.

A.5 Any other information

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B. System of governance

B.1 General Information on the system of governance

B.1.1 Overview

Standard Life's System of Governance is the overall framework of policies, controls and practices by which we meet all the requirements of sound, risk-based management.

Our System of Governance comprises:

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

An effectiveness review of the System of Governance and Enterprise Risk Management (ERM) Framework is conducted annually. This process considers each key component of the System of Governance in isolation and assesses its effectiveness. The review culminates with the Standard Life International Chief Executive Officer, Finance Director and Chief Risk Officer signing certificates to confirm that the review has been completed and for areas where the System of Governance could be improved, that recommendations and subsequent actions are appropriate. The certifications are supported by a schedule of evidence providing back up for the review. The results from the review are also used to support the statement of internal control contained in the annual report and accounts. The last review of the systems of governance was completed in December 2017.There have been no material issues highlighted as a result of the reviews carried out. In addition to this, the Group Chief Internal Auditor reviews, at least annually, the overall effectiveness of our System of Governance, and risk and control framework and reports on this to the Group Audit Committee (in line with the Internal Audit Guidelines for Financial Services issued by the Chartered Institute of Internal Auditors).

The result of these reviews concluded that the System of Governance and ERM Framework are effective. There were no significant failings or weaknesses found.

There were no material changes in governance structures in Standard Life International during 2017.

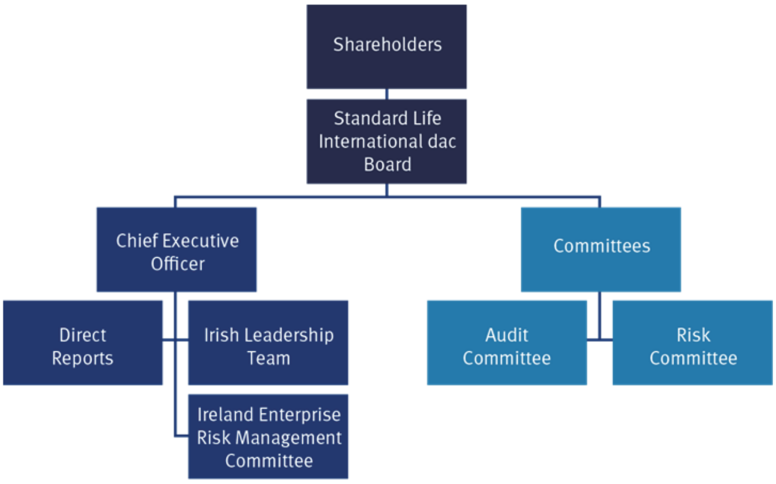
B.1.2 Governance Framework

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

The framework consists of the following key elements which are discussed further below:

- Decision making structure
- The function of the Standard Life International Board
- The role of non-executive and executive Directors
- Board Committees
- Executive and Executive Committees
- Scheme of Delegation
- Code of business conduct
- Prudent persons principle
- Senior Insurance Managers Regime
- Fit and proper requirements
- Remuneration

The diagram below provides an illustration of Standard Life International's decision making structure:



The function of the Standard Life International Board

The Board's role is to organise and direct the affairs of Standard Life International in a manner designed to further the best interests of Standard Life International, having regard to the interests of its shareholder(s), while complying with its fiduciary duties to Standard Life International, all other relevant legal (including in particular the Companies Acts and regulatory requirements (including in particular the Corporate Governance Requirements), the Company's memorandum and articles of association, and relevant corporate governance standards. The Board's roles and responsibilities, collectively and for individual Directors, are set out in the Board Charter and summarised below.

The Board of Directors has overall responsibility for the ERM framework, Own Risk and Solvency Assessment (ORSA) process and system of internal control, as well as the ongoing review of their effectiveness. The framework is designed to manage, rather than eliminate, risk and can only provide reasonable, not absolute, assurance against material misstatement or loss.

The Board consists of the following roles:

- Four independent non-executive Directors, one of whom is the Chairman;
- One non-independent non-executive Directors;
- Three executive Directors: the Chief Executive Officer,the Finance Director and the Managing Director, Ireland

Role of non-executive Directors

The role of the non-executive Directors is to participate fully in the Board's work – advising, supporting and challenging management as appropriate. Their roles and responsibilities are laid out in the Board Charter.

Role of executive Directors

Executive Directors' duties extend to the whole of the business, and not just the part of it covered by their individual Executive roles.

Executive and non-executive Directors have the same statutory responsibilities.

Board Committees

The Board has established Committees that oversee, consider and make recommendations to the Board on important issues of policy and oversight. Although the Board has delegated authority to these Committees it remains accountable for the final decisions made in these areas and as a result the Board has established a robust communication process to ensure that it is kept fully up to date of all significant matters that are discussed at these Committees.

There are two committees that are directly relevant to the governance of the business:

- The Audit Committee
- The Risk Committee

The Committees operate within specific terms of reference approved by the Board and kept under review by the Company Secretary.

Committee membership is reviewed at regular intervals by the Chairman of each Committee. All new appointments to the Committees are approved by the Board.

Audit Committee

The Audit Committee's remit is to consider and to make appropriate recommendations to the Board on:

- Any matter relating to the financial affairs of the Company;
- The Company's internal and external audit arrangements;
- The Company's internal control, operational and financial risk management, regulatory compliance and financial crime.

The Audit Committee meets at least four times a year to coincide with the Company's financial reporting cycle. The committee currently comprises of one non-independent non-executive director and two independent non-executive directors. The Chairman is an independent non-executive director. The Audit Committee and the Risk Committee must have at least one common member. The Standard Life International Board Chairman and CEO are not members of the Audit Committee but may be invited to attend the Audit Committee meetings. Others invited to attend the Audit Committee meetings on a regular basis include Standard Life International's Finance Director, the Head of Actuarial Function, the external auditors, the Standard Life Aberdeen (SLA) Internal Audit Director (or delegate), Standard Life International's CRO and the Company Secretary.

All members of the Committee shall be non-executive directors with the majority being independent non-executive directors. At least one member will be considered by the Board to have recent and relevant financial experience. Appointments of Directors to the Committee shall be for a period of up to three years, which may be extended for two additional three year periods.

The committee may meet without representatives of management (other than the secretary) in attendance if the Committee considers it appropriate to do so having regard to its duties. The Committee, as outlined in the Terms of Reference can refer certain matters of concern to the Standard Life Aberdeen ('SLA') Audit Committee.

Risk Committee

The Risk Committee currently comprises of one non-independent non-executive director and three independent non-executive directors. The Standard Life International CRO attends the Committee meetings and has the right of access to the Committee Chairman. Others invited to attend Committee meetings on a regular basis include the Directors of the Board, the Head of Actuarial Function and the SLA Group Internal Auditor (or member of the SLA Group Internal Audit Team). The committee may meet without representatives of management (other than the company/corporate secretary) in attendance if the Committee considers it appropriate to do so having regard to its duties.

The Committee meets at least four times a year to coincide with Standard Life International's reporting cycle and otherwise as required by the Board or Committee. The role of the Committee is to provide oversight and challenge, and advice to the Board, e.g. on:

- The structure of Standard Life International's ERM Framework and its suitability to react to forward-looking issues and the changing nature of risks;
- Material actuarial matters affecting Standard Life International;
- Annual review of Standard Life International policies and review any proposed new or amended Standard Life International policies and determine whether they should be recommended to the Board for adoption by Standard Life International;
- Standard Life International's stress and scenario testing programmes including testing its design and challenging the results obtained from the testing in terms of its impact on capital and SL Intl's business plans;
- The risk appetite and tolerance for future strategy, taking account of the Board's overall risk appetite, the current financial position of Standard Life International, and drawing on the work of the Audit Committee and the External Auditor, the capacity of Standard Life International to manage and control risks with the agreed strategy;
- Significant changes to Standard Life International's investment strategy, policy or benchmarks; any material risk (including conduct risk) and capital implications of product pricing principles or major product developments within SL Intl;
- Standard Life International's ORSA including steering how the Own Risk and Solvency assessment is to be performed and challenging the results.

Members of the Committee are appointed by the Standard Life International Board. All members of the Committee shall be Directors. The Committee shall be composed of a majority of non-executive directors, independent non-executive directors or a combination of both. Appointments of Directors to the Committee shall be for a period of up to three years, which may be extended for two additional three year periods.

Executive and Executive Committees

Chief Executive Officer

The role of the Chief Executive Officer (CEO) is to implement the Board's strategies and manage the day-to-day business of the company within the parameters laid down by the Board. The CEO assists the Board in carrying out its role by providing advice and recommendations consistent with the agreed strategic direction and operational, financial and regulatory best practice.

Irish Leadership Team

The CEO, within authorities delegated by the Board, by means of the Board Charter and the Standard Life International Scheme of Delegation, leads the other executive Directors and the Irish Leadership Team (ILT) in the day-to-day running of Standard Life International and specifically:

- Develops appropriate capital, corporate, management and succession structures to ensure the Group's objectives can be met
- Makes and implements operational decisions
- Develops strategic plans and structures for presentation to the Board
- Reports to the Board with appropriate, timely and high-quality information
  - In conjunction with the Chairman, represents Standard Life International to customers, suppliers, government and regulators, the shareholder and the community.

Executive Committees

The Ireland Enterprise Risk Management Committee derives its authority from and ultimately reports to the ILT. Its objectives in respect of Standard Life International are as follows:

- To support the CEO Standard Life International to fully understand and consider the risks arising from all current and proposed activities of the SL Intl business (financial, operational, strategic, regulatory); make decisions and challenge actions in relation to the management of risks in line with risk appetites; and
- To oversee the Standard Life International business' compliance with Standard Life International's Enterprise Risk Management Framework.
- To ensure all aspects of the company's approach to Conduct Risk are considered including the identification and remediation of any issues identified as having Conduct as its source.

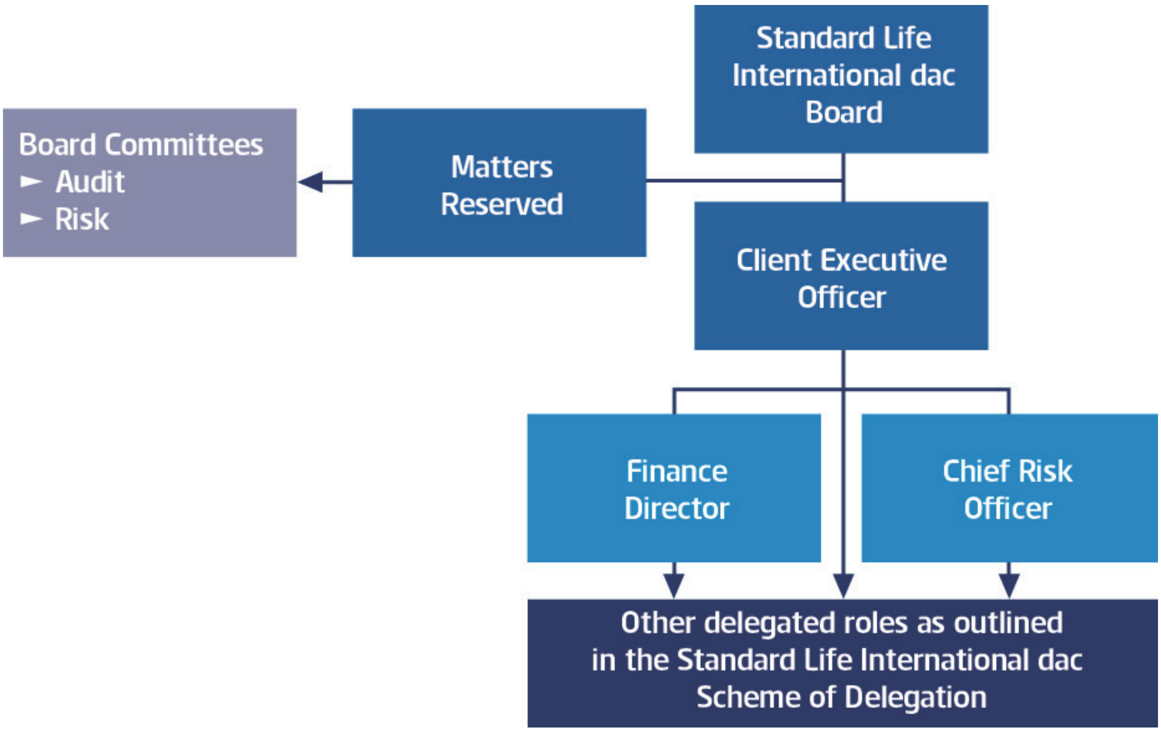
Scheme of Delegation

The Standard Life International Scheme of Delegation sets out the flow and principles of delegation from the Standard Life International Board to its Committees, executive directors and members of senior management. The Standard Life International Board can delegate, where appropriate, all or part of its authority to an individual Director or to a Board Committee or other individuals competent to carry out that task.

The Delegated Authorities document outlines the delegated authorities that have been assigned to appropriate senior representatives to apply to settlement transactions carried out on behalf of Standard Life International that are processed within Finance in Ireland or Business Finance Services ("BFS") in the UK.

The policies play two roles: they provide the mechanism to monitor compliance with all documented delegated authorities and they set out additional authorities that are not covered by the Articles of Association or Board Charter. Delegated authority is an important control that allows the business to operate in a controlled but efficient and effective manner by giving individuals clear accountability for specific activities.

Flow of delegation



Code of Business Conduct

Good governance within Standard Life is predicated on the ethical behaviour of the organisation's staff. In recognition of this the plc Board has developed, adopted and communicated a Code of Business Conduct which sets standards for employee behaviour in relation to operational excellence, compliance responsibilities, customer service, Standard Life's people and other stakeholders. The code has been reviewed for appropriateness to Standard Life International and has been adopted by the Board.

Prudent Person Principle

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

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

- The Market Risk Management Policy
- The Credit Risk Management Policy
- The Demographic and Expense Risk Management Policy
- The Liquidity and Capital Management Policy

Policy compliance reporting on our internal risk management system (called ORAC) demonstrates whether Standard Life International has been compliant with the relevant policy standards and, as a consequence, with the requirements of the Prudent Person Principle.

Further detail on Prudent Person Principle compliance can be found in the Risk Profile section C.7.2 of this report.

Approved Persons Regime

Under the CBI's Approved Persons regime only individuals who are deemed to be fit and proper and who have been authorised by the CBI can carry out specified activities, known as controlled functions.

Remuneration

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

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

The independent non-executive Directors on the Standard Life International Board have consulted with the Head of People (Ireland) and the Group Remuneration Committee and are satisfied that the bonus structure for the executive directors of Standard Life International is not excessive and that it does not drive inappropriate risk taking.

- **Fixed and variable elements of remuneration**: employee remuneration is composed principally of fixed and variable elements of reward as follows:
  (a) Fixed reward:
    - Fixed remuneration: salary (and cash allowances, if appropriate)
    - Benefits (including pension)

  (b) Variable reward:
    - Bonus
    - Senior employees may also be awarded a long-term incentive award

Appropriate ratios of fixed to variable remuneration will be set so as to ensure that fixed and variable components of total remuneration are appropriately balanced; and the fixed component is a sufficiently high proportion of total remuneration to allow Standard Life International to operate a fully flexible policy on variable remuneration components including paying no variable remuneration component.

Bonus awards are contingent upon the company meeting various business targets set at the start of each year. The targets include measures on customer and broker satisfaction, and employee engagement and enablement, as well as financial performance.

Executive Directors and non-independent non-executive Directors are members of either the Standard Life Ireland or Standard Life UK pension schemes. The schemes are each either defined benefit (career average revalued earnings) or defined contribution, depending on the member's date of entry. The schemes are operated through Standard Life Employment Services Limited.

Independent non-executive Directors have no supplementary pension or early retirement scheme with Standard Life.

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

- **All employee share plans:** employee share ownership is promoted through two initiatives:
  - The Standard Life (Employee) Share Plan
  - Standard Life Aberdeen Sharesave Plan

Participation is voluntary and governed by the rules of the relevant plan.

B.1.3 Overview of organisational and operational structure

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

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

Standard Life's governance functions include the Audit, Risk and Compliance and Actuarial teams with responsibility for monitoring, reviewing, challenging and reporting on the status of Standard Life's risks on an ongoing basis.

Three lines of defence
Standard Life operates a 'three lines of defence' model of risk management, with clearly defined roles and responsibilities for committees and individuals:

First line	Second line	Third line
Day-to-day risk management is delegated from the Board to the Chief Executive Officer and, through a system of delegated authorities and limits, to business managers.	Risk oversight is provided by the Chief Risk Officer and supported by the specialist Risk Management and Compliance function as well as committees such as the Ireland ERMC and the Risk Committee. The majority of members of the Ireland ERMC are senior first line representatives. Independent oversight is provided by non-executive directors at the Risk Committee.	Independent verification of the adequacy and effectiveness of the internal risk and control management systems is provided by our Internal Audit function. This is independent from all other operational functions. It operates subject to supervision and challenge by the Audit Committee.

B.2 Fit and proper requirements

Standard Life International carries out initial 'fit and proper' checks before appointing new Directors (including non-executive Directors), Executives, Heads of Function or other CBI required Approved Persons roles. In addition it is a requirement of the CBI that all Directors be pre-approved by them before appointment. The checks are fully documented and include the assessment of whether the person is 'fit' based on professional and formal qualifications, knowledge and relevant experience and takes account of the responsibilities of the role; and 'proper' based on honesty, financial soundness, character and criminal record.

The annual review of each individual's 'fit and proper' check reviews the information previously provided and asks individuals to confirm role profiles are up-to-date and that they understand their responsibilities. This review is a component of the annual review of the effectiveness of the internal control system by the Board. Where any weaknesses in knowledge or skills are identified, action plans are put in place to address them.

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

Standard Life's risk management system includes the Enterprise Risk Management (ERM) Framework and the Own Risk and Solvency Assessment (ORSA).

B.3.1 Enterprise Risk Management framework

A key part of Standard Life's System of Governance is the ERM framework. The ERM framework includes the methods and processes used to manage risks, and identify and seize commercial opportunities related to the achievement of our objectives, protecting and enhancing value. It provides us with a framework for operating consistent risk management practices across Standard Life in a structured and forward-looking way that can be measured and repeated.

All of the ERM components are interconnected and work together to provide Standard Life with a holistic framework encouraging proactive and pre-emptive risk management across the Group.

Risk culture

Risk culture is a core component of the ERM framework, it is the way we think and act as individuals and as a Group – our attitudes, capabilities and behaviours. Our culture drives how we identify, understand and openly discuss, and act on, current and future risks. Fair treatment of our customers is at the heart of our culture. We are committed to building valuable relationships with our customers that help them to protect and grow their assets.

Risk control processes

Risk control processes are the practices by which we identify, assess, control and monitor risk within Standard Life. These are described as follows:

- **Identify** major sources of risk which may affect equity holder returns and/or the interests of the Company's policyholders, customers and other stakeholders.
- **Assess** exposures to each major source of risk, using qualitative and quantitative techniques as appropriate.

- **Control** the risk by establishing a defined response to risk. Management selects the risk responses, which may include avoiding, accepting, reducing or transferring the risk exposure.
- **Monitor** the current exposure to identified risks is monitored and reported as required.

Our Conduct and Operational Risk framework and Risk Appetite Framework are risk control processes which we use as our internal control system, which is described in further detail in Section B.4 – Internal control system.

The Conduct and Operational Risk framework requires senior management to certify adherence with policy standards and key controls on a regular basis.

Strategic risk management

Strategic risk management forms an integral part of the strategic planning process and is directly linked to the Group's corporate objectives. This process enhances the Group's capability to assess strategic allocation of capital and the ability to identify, monitor and manage emerging risks.

The process is based on a consideration of the general environment, the competitive environment and external events that could prevent, or impact the achievement of the strategy.

Risk and capital models

The risk and capital models section of the ERM framework covers the models that we use to measure our risk exposures and capital position and the work that we do to test and understand the sensitivity of these positions. The models and the insight that they provide are integral to managing the business.

Emerging risks

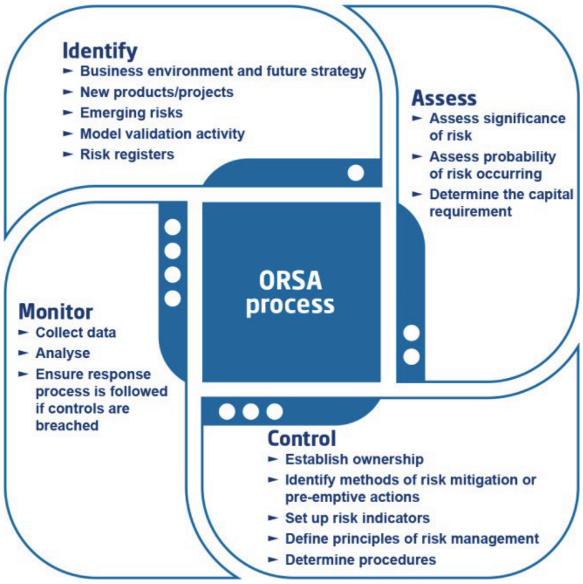
The aim of the emerging risks component of the ERM framework is to identify risks before they emerge and to plan so that we are able to respond quickly as they become an active business concern. As part of this process we use our emerging risk process to inform reverse stress testing and capital adequacy requirements across the Group.

B.3.2 Own Risk and Solvency Assessment

The Own Risk and Solvency Assessment (ORSA) is the process that supports our implementation of our ERM Framework. The ORSA is comprised of all the processes that exist within the ERM framework and it is how we identify, assess, control and monitor risks that inform our capital requirements.

Capital and risk are managed within the Group to support the strategic objective of generating sustainable, high quality returns for shareholders. Risk and capital metrics support the delivery of the strategy and the objective of maintaining financial strength and security – underpinning customer, regulatory and analyst confidence.

Standard Life International's solvency needs are assessed using the standard formula at each reporting period and projected into the future as part of the business planning cycle. The appropriateness of the standard formula is reviewed at least annually to ensure that the risk profile is properly captured. Operational risk is assessed separately.



The key processes are as follows:

- The Strategy, Capital and Business Planning Process
- Business Risk Reviews
- The Emerging Risk Process (including environmental screening)
- The Validation Activity and Validation Reporting Process
- The Customer Proposition Development Process
- Stress and Scenario Programme
- Reverse Stress Testing
- The Liquidity Risk Management Process
- Monthly Management Information Monitoring and Reporting Process
- The processes within the Conduct and Operational Risk Framework
- The ORSA Reporting Process

These processes run concurrently and often operate continuously throughout the year. They underlie the identification, assessment, control and monitoring of risks. The ORSA is reviewed and approved by the Board at least annually.

B.4 Internal control system

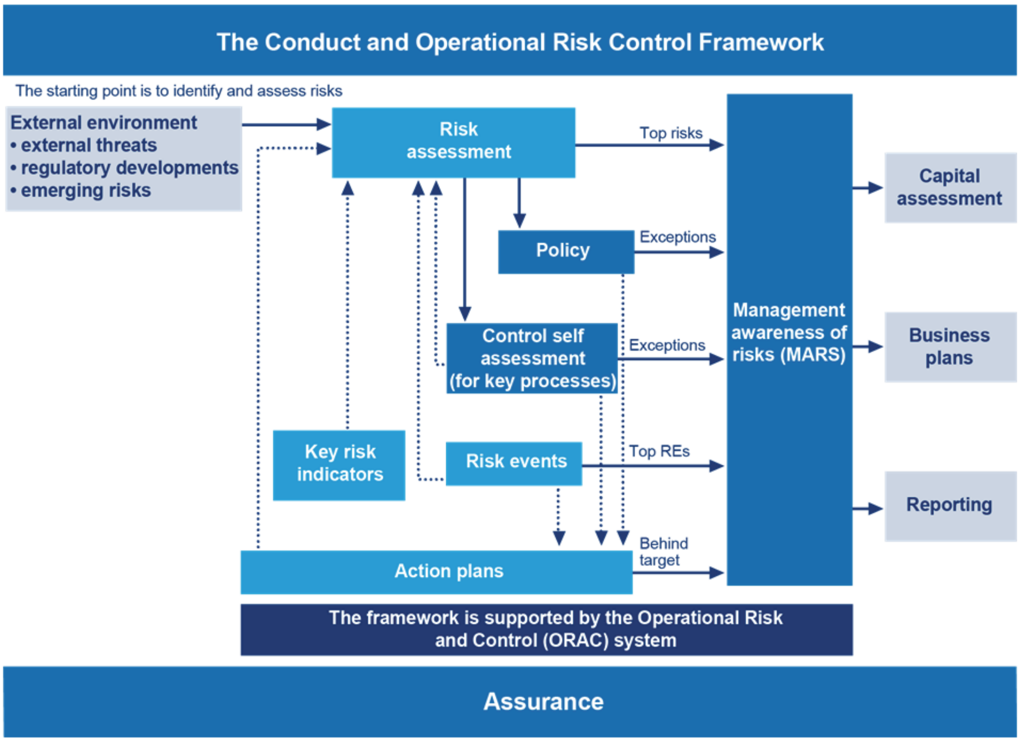
Our internal control system contains a range of processes which are captured under our 'Conduct and Operational Risk Framework' as part of the risk control process element of the ERM framework.

B.4.1 Conduct and Operational Risk Framework

The Conduct and Operational Risk Framework comprises of the following processes outlined below:

- Management awareness of risks
- Policy framework
- Risk assessment (and risk registers)
- Control self-assessment
- Risk event management
- Action plan management
- Key risk indicators

The diagram below explains how the Conduct and Operational Risk Framework fits together. All business units use this framework and the supporting ORAC system to ensure consistency of application and reporting.



Management awareness of risks (MARs)

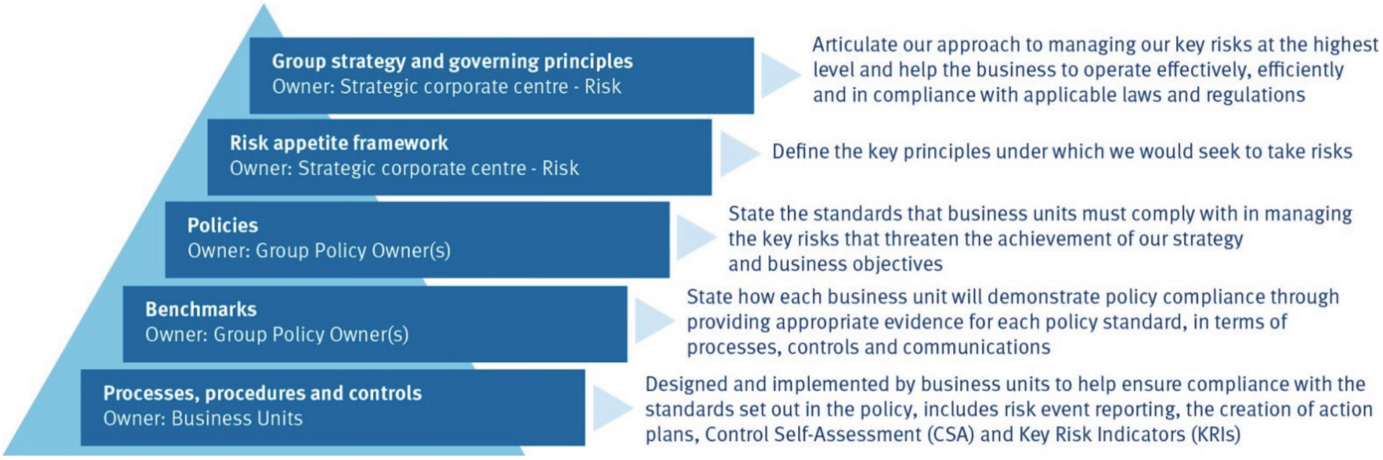
The objective of MARs is to increase accountability and ownership of risk management. MARs dashboards are created, using the underlying data from our Own Risk and Control (ORAC) system and the underlying processes and framework mentioned below to provide senior management with a holistic picture of their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

Policy framework

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

The fair treatment of customers is integral to all of our business activities and of fundamental importance to the Board. As such, policies are implemented with their specific impact on the customer in mind.

The framework operates on five levels:



Risk assessment including risk registers

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

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

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

Control Self-Assessment (CSA)

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

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

Risk event management

A risk event is a risk that has materialised as a result of a deficiency in our system of internal control or an external event. Since they can have a significant impact on the company's reputation and performance, we aim to identify and understand them quickly to ensure that an appropriate response is taken.

The ORAC system is used to log any risk events that occur and ensure action plans are put in place for corrective action.

Action plan management

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

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

Key risk indicators

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

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

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

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

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

B.4.2 Risk and Compliance

The Risk function is embedded into our strategic and operational decision making. The objective of this function is to understand and actively manage the sources and scale of uncertainty that Standard Life's strategic objectives and operations are exposed to.

The Risk function achieves this by ensuring that:

- Well informed risk-reward decisions are taken in pursuit of business plan objectives; and
- Capital is delivered to areas where most value can be created for the risks taken

Standard Life group's regulatory compliance policy requires the business units to provide assurance that they are complying with the relevant regulations.

The Standard Life International Risk function covers legal, operational risk, regulatory risk and financial crime. Responsibility for monitoring and reporting all operational risks, regulatory risks and financial crime rests with the Standard Life International Risk team, whereas financial risks are monitored and reported by the Standard Life International Finance function.

The Standard Life International Risk Function is headed by the Chief Risk Officer, who is a member of the Ireland ERMC and Irish Leadership Team.

The following activities are undertaken by the Standard Life International Risk and Finance functions in relation to operational and financial risks:

Second Line of Defence Oversight and Challenge

Challenge the measurement, identification, and management of operational and financial risks within Standard Life International.
Review current risks and developments within Standard Life International to ensure that key operational and financial risks are appropriately identified and managed.

Risk Monitoring and Reporting

Ensure that existing risks are measured, monitored and remain within Standard Life International's risk appetite and that key emerging risks are identified, and communicate these to the Irish Leadership Team in an effective manner.
Oversight of the external reporting of risk disclosures.
Oversight of all elements of Standard Life International's Risk Control Processes (including Control Self-Assessment, Risk Events, Group Policies, Risk Assessment and Key Risk Indicators).

Providing Guidance and Support

Provide guidance to the business on the implementation of Standard Life International's risk appetite and the Standard Life International Risk policies and the effective application of these.
Assist the business in the identification and management of key operational and financial risks ensuring that consistent best practice is shared and applied across Standard Life International.
Work alongside others in Standard Life International to provide operational and financial risk management insight on key strategic projects.

The primary role of the Standard Life International Risk team with regard to regulatory risk is to provide assurance to the Board, Audit and Risk Committees and ERMC that appropriate arrangements are in place to demonstrate compliance with all applicable regulation across all Standard Life International's business operations.

As a second line of defence function the Standard Life International Risk team works closely with key stakeholders within the business.

The Chief Risk Officer ensures Standard Life International adheres to its regulatory requirements providing an additional control through the quarterly sign-off of compliance with the Group Regulatory Compliance Policy checks to ensure there is appropriate evidence to support this sign-off.

Standard Life International maintains a framework designed to address financial crime risks through ownership of the Standard Life International Financial Crime policy. The Risk team provides reporting to Group Financial Crime, ERMC, and Standard Life International Audit and Risk Committees on Financial Crime matters.

The Group Chief Risk Officer provides an independent and confidential channel for malpractice reporting and for obtaining advice with respect to malpractice issues via the “Speak Up” process. Matters raised with the Group Chief Risk Officer through the Speak-Up line are investigated by Group Financial Crime, and reported through the Standard Life International Audit Committee.

B.5 Internal audit function

Group Internal Audit (GIA) is a third line of defence function. Its primary role is to provide independent and objective assurance in order to help the Board and Executive to protect the assets, reputation and sustainability of Standard Life.

Standard Life has adopted the ERM framework to provide the basis for ensuring that risks inherent in the design and execution of strategy and the operations of each of the businesses within the Group are adequately identified, assessed, controlled, monitored and communicated in accordance with the overall expectations of Standard Life’s stakeholders. GIA provides independent verification of the adequacy and effectiveness of the internal risk and control management systems.

Standard Life International outsources its Internal Audit function to GIA. The service provision is governed by a written agreement. GIA attends the Standard Life International Audit and Risk Committees and the GIA Director reports to the Group Audit Committee.

GIA aims to deliver benefits to Standard Life International through examination and evaluation of the system of internal controls within the company resulting in improved risk management and control awareness.

The work of GIA includes examining and evaluating, using a risk-based approach, the system of internal controls established by management, to assess whether key controls are adequately designed, reliable and operating effectively. They provide assurance services to Standard Life International and Standard Life Group using a consistent methodology, and report to the GIA Director.

GIA’s coverage of Standard Life International includes elements of other business units in the Group that provide services to Standard Life International, and technology engagements. Where this is the case, any relevant findings and recommendations are reported to the Standard Life International Audit Committee.

A written report is prepared and issued by GIA following the conclusion of each internal audit engagement and is distributed as appropriate. The internal audit report will normally include management’s response and corrective actions in respect of any specific findings and recommendations. GIA undertake follow-up on actions, in-line with a consistent methodology.

The audit team is made up of staff from a broad range of disciplines, including general auditors and specialist auditors, actuarial, accountancy, investment management, IT and change management. An external co-source partnership arrangement ensures the availability of additional expertise as and when required.

GIA is free of influence by any element in Standard Life, including matters of audit selection, scope, procedures, frequency, timing and reporting. This maintains an independent and objective mental attitude necessary in rendering engagement conclusions.

B.6 Actuarial function

The actuarial function in Standard Life International is split across two roles: the statutory Head of Actuarial Function (HoAF) role is outsourced to Milliman Limited, and the Technical Actuary co-ordinates work done internally. The two are in constant contact throughout the year, but opinions provided in the Actuarial Report on Technical Provisions and the Actuarial Opinion on Technical Provisions are ultimately those of the HoAF.

Summary of the responsibilities of the actuarial function:

- **Technical provisions**: co-ordinate calculation of technical provisions; inform the Board of the adequacy of calculation; provide opinion on the adequacy of technical provisions
- **Underwriting**: prepare opinion on overall underwriting policy
- **Reinsurance:** prepare opinion on adequacy of reinsurance arrangements
- **Risk management**: contribute to effective risk management system; provide opinion to the Board on range of risks & adequacy of the scenarios considered as part of the ORSA

B.7 Outsourcing

Standard Life International has adopted and complies fully with Standard Life Group’s Outsourcing Policy which sets the standards that Standard Life International must comply with for outsourcing arrangements.

Standard Life International expressly retains responsibility for the meeting of all relevant regulatory and legal requirements by the outsource provider and includes the requirement for the implementation of appropriately robust governance structures.

For each ‘critical or important’ (Material) outsourcing arrangement, an Executive Sponsor, Accountable Authority and supplier Relationship Manager are appointed. In addition outsourced control functions (as per CBI fitness and probity definitions) are required to satisfy the fitness and probity requirements.

Suppliers of external, material outsourced services are classified as ‘Strategic’ and as such must be formally managed via the Supplier Relationship Management Framework. This requires quarterly compliance reviews which cover a range of measures, including satisfactory delivery of the service.

There are also other controls in place to ensure appropriate management of the governance and on-going operational risk.

In addition to the roles mentioned above, the CRO and Ireland ERMC have specific roles and responsibilities in relation to the approval and subsequent governance of outsourcing arrangements. For instance the Ireland ERMC considers any risk events that may affect outsourcers.

B.8 Any other information

B.8.1 Assessment of the adequacy of the system of governance to the nature, scale and complexity of the risks inherent in the business

As described in section B.1.1 above, the annual effectiveness review of the System of Governance and Enterprise Risk Management (ERM) Framework for 2017 was completed with no material issues highlighted as a result of the reviews carried out so far.

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

C. Risk profile

The purpose of this section is to describe the material risks to which Standard Life International is exposed and the techniques used to monitor and manage them.

Our principal risks and uncertainties are described in note 23 of the 2017 Annual Financial Statements. These are:

Risk	Description	More detail included in section
Demographic and Expense Risk	Risk that arises from the inherent uncertainties as to the occurrence, amount and timing of future cash flows due to demographic and expense experience differing from that expected.	C.1 Underwriting risk
Financial Market and Credit Risks	Risk or losses due to risks inherent in financial markets.	C.2 Market risk; C.3 Credit risk
Liquidity Risk	Risk that we are unable to realise investments and other assets in order to settle our financial obligations when they fall due, or can do so only at excessive cost.	C.4 Liquidity risk
Conduct Risk	The risk that through our behaviours, strategies, decisions and actions the firm, or individuals within the firm, do not do the right things and/or do not behave in a manner which: – Pays due regard to treating our customers and clients fairly – Is consistent with our disclosures and setting of customer and client expectations – Supports the integrity of financial markets.	
Operational Risk	Risk of loss or adverse consequences for the business resulting from inadequate or failed internal processes, people or systems, or from external events.	C.5 Operational risk
Strategic Risk	Risks which threaten the achievement of the strategy through poor strategic decision-making, implementation or response to changing circumstances.	C.6 Other material risks

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

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

C.1 Underwriting risk

The key material underwriting risks to which Standard Life International is exposed are persistency risk and expense risk. There is also a minor exposure to mortality (in respect of insurance business that pays benefits on death).

Standard Life International has not used any special purpose vehicles to transfer underwriting risk.

There were no material changes to the measures used to assess underwriting risks over the reporting period.

There were no material changes to the exposures to underwriting risks over the reporting period.

A description of how assets have been invested according to the Prudent Person Principle is given in section C.7.2 below.

An assessment of sensitivity to key risks is set out in section C.7.1 below.

C.1.1 Persistency risk

Persistency risk is the risk that that business lapses or takes withdrawals at a different rate than assumed. This risk may arise if persistency or withdrawal rates are greater or less than assumed, or if policyholders selectively lapse when it is beneficial for them. This could adversely impact capital resources through:

- Lower than expected future charges being received if more policyholders disinvest than assumed, or
- Higher than expected future expenses being incurred if less policyholders disinvest than assumed and per-policy costs are unchanged.

In setting our best estimate, we consider our own current experience and assess whether or not it is representative of expected future experience. Occasionally we apply one-off adjustments to allow for changes in expected future experience. If experience data is not believed to be credible, e.g. for a new product, then other factors will be considered such as the pricing basis and experience for similar products, including products in other business units within Standard Life Group.

The persistency risk modelling consists of three separate risk modules:

- **Lapse rates 50% higher than best estimate** – This captures the risk of mis-estimating the long term level of persistency assumptions.
- **Lapse rates 50% lower than best estimate** – This captures the risk of mis-estimating the long term level of persistency assumptions.
- **Mass lapse** – This captures the impact of a discontinuance of 40% of the policies in force.

C.1.2 Expense risk

Expense risk is the risk that the costs of operating our business are higher than expected, either through forecasting insufficient levels of expense, or from inflation being higher than expected and increasing costs gradually over time. This would adversely impact capital resources as we would place a smaller value on the future profitability of policies in force.

Best estimate expenses are set by considering our recent experience and setting a cost per policy. We may apply adjustments to allow for changes in expected future experience.

The expense risk modelling consists of two stresses applied in a single risk module:

- **Per-policy cost 10% higher than best estimate** – This captures the risk that expenses increase beyond management control.
- **Inflation rates are 1% per annum higher than best estimate** – This captures the risk that expenses grow faster than anticipated.

C.1.3 Material underwriting risk concentrations

Standard Life International has a diverse pool of underwriting risks which reduces our exposure to underwriting risk concentrations.

C.1.4 Mitigation of underwriting risks

Underwriting risks are managed through the use of appropriate and active pricing and regular monitoring of experience. We also have a risk appetite framework which limits the amount of exposure we have to individual risks.

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

C.2 Market risk

The key material market risks to which Standard Life International is exposed are equity risk, interest rate risk, and currency risk. There is also a small exposure to property risk. (Note credit risk is covered in section C.3).

Charges linked to policyholder funds are exposed to market risks, in particular equity risk.

Currency risk affects the Sterling value that Standard Life International recognises in respect of non-Sterling assets and liabilities, including the euro-denominated expenses incurred in operating the business in Ireland.

The following sections discuss the methods used and the key judgements applied to quantify the most material market risks to which Standard Life International is exposed.

There were no material changes to the measures used to assess market risks over the reporting period.

There were no material changes to the exposures to market risks over the reporting period.

A description of how assets have been invested according to the Prudent Person Principle is given in section C.7.2 below.

An assessment of sensitivity to key risks is set out in section C.7.1 below.

C.2.1 Equity value risk

Standard Life International does not hold any equities in the shareholder fund; all exposure to equity value risk is through the charges linked to policyholder funds. A large proportion of policyholder assets are held in equities, so this is a material risk.

We use the standard formula stresses for equities, with the impact on developed and emerging market equities assessed in two separate risk modules. We allow for policyholder behaviour by increasing the lapse rates in the year following the stress.

C.2.2 Interest rate risk

Standard Life has a material exposure to interest rate risk through a number of assets and liabilities:

- A UK government bond exposure held in the shareholder fund;
- Charges linked to policyholder assets held in corporate and government bonds;
- The valuation of future charge and expense cashflows, in the technical provisions.

Standard Life International uses the standard formula interest rate stresses to revalue its assets and technical provisions in two separate risk modules. As Standard Life International has exposure to expenses in both euro and Sterling, these have the respective stresses applied.

C.2.3 Currency risk

Standard Life has a material exposure to currency risk through:

- Charges linked to policyholder assets invested in countries outside the United Kingdom;
- Expenses incurred in operating the business in Ireland denominated in Euro.

We use the standard formula stresses for foreign exchange – all currencies appreciate or depreciate by 25% relative to sterling. We analyse the impact separately for the exchange rate between sterling and the Euro, and a separate stress for the exchange rate between sterling and all other currencies, as the Euro stress affects mainly liabilities and the other stress affects assets.

C.2.4 Material market risk concentrations

Market risk concentrations are minimised by offering a wide range of investment options to Standard Life International customers. The majority of policyholder assets are invested in collective investment funds, either directly or through discretionary investment managers, and these are spread across thousands of funds. We also have a risk appetite framework which limits the amount of exposure we have to individual risks.

C.2.5 Mitigation of market risks

Standard Life International does not use any specific risk-mitigation techniques for market risks. Ultimately the policyholder bears the market risk on their investment and Standard Life's exposure to market risk through the link to future charges is necessary to operate unit-linked business. Policyholder unit fund assets and liabilities are perfectly matched so that Standard Life International does not bear any mis-matching risk.

Standard Life International has an exposure to a UK government bond on the shareholder balance sheet, which increases in value when interest rates reduce, and vice versa. This provides some protection from the impact of interest rate fluctuations on the value of expenses in the technical provisions.

Similarly, since a large proportion of Standard Life International's expenses are denominated in euro, this provides some protection from the impact of exchange rate fluctuations on the value of non-Sterling assets.

C.3 Credit risk

The key material credit risk to which Standard Life International is exposed is in respect of corporate bond holdings in policyholder funds; there is the risk that the issuers of those bonds fail to meet their contractual payments, reducing the value of these funds and the charges linked to the value of these funds.

Standard Life International is also exposed to the market risk of corporate bonds fluctuating in value as a result of changes in the market's perception of the credit worthiness and marketability of those bonds. This presents a risk to Standard Life International in a similar way.

Other credit risks that Standard Life International is exposed to are the risk of default from:

- Cash counterparties
- Other miscellaneous creditors such as intermediaries

To quantify credit risk we use several risk modules – credit spread widening (including the risk of transitions between credit ratings and the risk of default), counterparty default risk relating to cash on both policyholder and shareholder exposures, and short-term loans to e.g. brokers and policyholders.

There were no material changes to the measures used to assess credit risk over the reporting period.

There were no material changes to the exposures to credit risk over the reporting period.

A description of how assets have been invested according to the Prudent Person Principle is given in section C.7.2 below.

An assessment of sensitivity to key risks is set out in section C.7.1 below.

C.3.1 Material credit risk concentrations

Policyholder exposures to credit risk are spread across a large number of corporate bond holdings across thousands of collective investment funds, a large panel of cash deposit options, and the International Bond bank account, which limits the scope of individual credit risk exposures arising. Shareholder cash exposures are managed in line with the Investment Management Agreement with Standard Life Investments, which sets limits on the creditworthiness of counterparties used and the maximum exposure to each.

C.3.2 Mitigation of credit risks

We have a Credit Risk Management Policy in place to manage our credit risk exposure, which has a number of rules by which we mitigate credit risk, such as limiting the counterparties to which we can gain exposure, and limiting individual exposure levels. This is regularly monitored with actions taken where required to ensure the policy operates as intended.

C.4 Liquidity risk

Liquidity risk is the risk that Standard Life International is unable to realise investments and other assets in order to settle its financial obligations when they fall due, or can do so only at excessive cost.

Assets are invested in accordance with the mandates of the relevant unit linked funds where these are managed by Standard Life Investments. Assets invested externally must be sold and encashed before their value can be paid out to policyholders. Policyholder behaviour and the trading position of asset classes are actively monitored. The unit value and value of any associated contracts would reflect the proceeds of any sales of assets. If considered necessary to protect the interests of continuing customers, deferral terms within the policy conditions applying to Standard Life International's contracts can be invoked.

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

Standard Life International undertakes periodic investigations into liquidity requirements, which include consideration of cash flows in normal conditions, as well as investigation of scenarios where cash flows differ markedly from those expected (primarily due to significant changes in policyholder behaviour). Liquidity risk is monitored, assessed and controlled in accordance with the relevant principles within the Group's policy framework.

There were no material changes to the measures used to assess liquidity risk over the reporting period.

There were no material changes to the exposures to liquidity risk over the reporting period.

A description of how assets have been invested according to the Prudent Person Principle is given in section C.7.2 below.

An assessment of sensitivity to key risks is set out in section C.7.1 below.

C.4.1 Material liquidity risk concentrations

There are no material concentrations of liquidity risk.

C.4.2 Mitigation of liquidity risks

Standard Life International:

- Co-ordinates strategic planning and funding requirements
- Monitors, assesses and oversees the investment of assets
- Monitors and manages risk, capital requirements and available capital
- Maintains a portfolio of committed bank facilities

As a result of the policies and processes established to manage risk, Standard Life International considers the extent of liquidity risk arising from its activities to be small.

C.4.3 The total amount of the expected profit included in future premiums as calculated in accordance with Article 260(2)

As all of Standard Life International's policies are paid by single premiums, we do not allow for future premiums in our valuation of the business, and so the expected profit included in future premiums is zero.

C.5 Operational risk

Operational risk includes conduct risk.

Standard Life International uses the standard formula calculation for operational risk to contribute to the solvency capital requirement. This calculation is based on expenses incurred over the previous 12 months. For the Enterprise Risk Management framework, we perform a more detailed analysis of operational risks and how they arise.

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

- **Process Execution** – Losses arising from failure to execute a process or control in accordance with its design, including administration, payment, manual data entry errors.
- **Customer treatment** – Losses arising from inappropriately designed, delivered products/services, misinformed advice, failure to meet regulatory standards/requirements, failure to deal with customer complaints satisfactorily and within reasonable timescales, failure to meet the requirements of any other professional obligation to customers/clients. For example this may include impacts of regulator reviews, such as the enhanced annuity past business review.
- **Fraud or Irregularities** – Losses arising from the embezzlement or misappropriation of funds/ monetary assets by deliberate acts of deception and/ or concealment, collusion, abuse of company/ system knowledge, abuse of systems access. Also including failure to meet or comply with anti-money laundering regulations.
- **Regulatory or Legal** – Losses arising from the inability to accurately interpret and/ or comply with regulatory requirements.
- **Security** – Losses arising from deliberate corruption/ damage/ theft of data and/ or systems by external/ internal parties or other criminal activities, failure to protect company property from theft/ malicious damage, failure to safeguard the personal and physical security of staff during working hours.

- **Business Interruption & System Management** – Losses arising from the inability to conduct normal business transactions e.g. money in/ money out through loss or damage to premises, people or systems.
- **Supplier failure** – Losses arising from the failure of outsource partners or other third party suppliers to deliver products/ services in accordance with terms and conditions, through the fault of a party other than Standard Life.
- **People** – Losses arising from the inability to adequately attract retain and incentivise staff, the inability to adequately protect staff from injury or other harm, and any breakdown in the management of non-compliance of workforce.
- **Planning** – Missed opportunities/ projected income as a result of planning process.

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

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

Unlike most other risk types, operational risk does not have a defined maximum loss in order to assess an appropriate stressed value. In addition, the lack of historical data creates further uncertainty, therefore creating the need to assess these risks bottom up, to build a view of what a significant loss would be. Therefore, we use scenario analysis techniques to determine the level of operational risk capital that needs to be held. This approach blends the expert opinion of senior management with internal / external loss data to estimate loss impacts and likelihoods. Stochastic models are used to determine the amount of capital for 'low probability, high impact' events.

There were no material changes to the measures used to assess liquidity risk over the reporting period.

There were no material changes to the exposures to liquidity risk over the reporting period.

A description of how assets have been invested according to the Prudent Person Principle is given in section C.7.2 below.

An assessment of sensitivity to key risks is set out in section C.7.1 below.

C.5.1 Material operational risk concentrations

Within Standard Life International, operational risks are not significantly concentrated into any of the categories listed above.

C.5.2 Mitigation of operational risks

Our aim is to minimise our exposure to operational risk, by use of our control framework. However, there is an acceptance that in order to achieve our business strategy we will be exposed to a certain amount of operational risk. A number of insurance policies are used to reduce operational risk exposures. The key policies are Group Professional Indemnity Cover (across the Group) and Employers liability cover for all employees.

C.6 Other material risks

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

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

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

- There is currently no requirement to hold additional capital in respect of these risks
- Other risks are not considered when investing assets according to the prudent person principle
- No material other risks were identified through the sensitivity, scenario and stress tests described in section C.7.1.

C.7 Any other information

C.7.1 Risk sensitivity

Standard Life performs a range of sensitivity, scenario and stress tests as part of its established Stress and Scenario Testing (SST) Programme which is reviewed annually by the Risk and Capital Committee (RCC). These tests are mainly internally driven by management to improve our understanding of the sensitivity of our business model, supplemented by others that are externally driven, such as regulatory requests.

The 2017 SST Programme covered a comprehensive range of stresses to explore a continuum of plausible stress environments. The SST Programme included stresses to each of our main risk exposures:

- Financial – Market, Credit, Liquidity
- Demographic – Persistency, Mortality, Expense
- Other – Conduct, Reputation, Operational

The SST Programme also included insight into relevant severe combinations of risk events. A variety of stresses were applied to the year end Solvency II balance sheet and calibrated at or in excess of a 1-in-200 year probability level.

The SST Programme includes both combined and solo stress tests and forward-looking scenario projections to support the annual business planning process and reverse stress tests to consider circumstances or severe events that, if they emerged, could have the potential to cause the business plan to fail.

The scenario projections comprise 5 year projections on base, down and severe downside scenarios. The projections are completed on the regulatory solvency position and also Economic Capital.

In addition, liquidity stress testing is performed to assess the ability of the balance sheet to support potential outflows under stress, and assess the effectiveness of our Contingency Funding Plan, including circumstances in which market liquidity is stressed.

The sensitivity of our Solvency II surplus to changes in key assumptions, which was calculated as at 31 December 2016[1], is as follows:

Sensitivity		Solvency II Surplus £'000	Change in Solvency II Surplus £'000
Base		17,857	
Equity & Property	Down 40% and 35% respectively	9,587	(8,271)
Interest Rates	Up 3 percentage points	32,057	14,199
	Down 1.1 percentage point (1.0 p.p. last year)	3,684	(14,174)
Credit Spreads	99.5th percentile spread widening	13,303	(4,554)
Expenses	Up 15%	8,508	(9,349)
Surrenders	40% one-off	31,611	13,753

C.7.2 Prudent Person Principle

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

The Group's investment risk management framework ensures that assets that are backing technical provisions are invested in accordance with the requirements of the Prudent Person Principle, as set out in Article 132 of Directive 2009/138/EC.

The framework is underpinned by Standard Life's Group policy framework, which includes Market, Credit and Liquidity and Capital Management policies and requires that the risks associated with investments are identified, assessed, controlled and monitored.

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

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

Shareholder funds

Shareholder funds are directly exposed to the investment profits and losses. These funds are the assets backing free surplus. These funds are primarily invested in cash and fixed interest investments, with the objective of optimising the risk-adjusted return and ensuring the diversification of credit risk exposures.

The investment strategy is operated within constraints set within the qualitative and quantitative requirements of the risk policies that relate to managing investments: credit risk, market risk, liquidity risk and capital management.

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

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

Unit linked

[1] The figures available at the time that this report was elaborated are according to the 2017 SST exercise, which was performed based on the 2016 Solvency II Balance Sheet.

Within our unit linked business we offer a wide range of funds which offer customers a choice of investment risk, asset classes and investment styles. These funds comprise both Standard Life International's own funds (internal funds) and external fund links. Our internal funds are managed by Aberdeen Standard Investments (ASI).

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

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

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

C.7.3 Use of special purpose vehicles

Throughout 2017 Standard Life International has not owned any special purpose vehicles.

D. Valuation for solvency purposes

This section provides information on the valuation of assets, technical provisions and other liabilities for Standard Life International's Solvency II balance sheet.

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

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

The valuation of technical provisions is described in Section D.2.

Details on the methods and assumptions used to determine the fair values of assets and other liabilities are included in Section D.4.

D.1 Assets

This section provides information on the types and values of assets in Standard Life International's Solvency II balance sheet and a quantitative and qualitative explanation of any material differences with their International Financial Reporting Standards (IFRS) statutory accounting valuation.

The total value of assets in Standard Life International's Solvency II balance sheet at 31 December 2017 was £6,300,184k. An analysis of the Solvency II balance sheet by type of asset is provided in Quantitative Reporting Template (QRT) S.02.01.02, a copy of which is included in Appendix 1.

Solvency II regulations require that assets of insurers be valued on a basis that reflects their fair value, described as an 'economic valuation'. The valuation basis adopted should, as far as possible, be consistent with IFRS. Details on the methods and assumptions used to determine the fair values of assets are included in Section D.4.

Assets have been classified with consideration of their nature, function, risk and materiality. The approach to the valuation of the deferred tax assets and liabilities has changed since the last year end. The change in approach has led to a creation of a deferred tax liability of £7.2m in respect of the "temporary timing differences" between the Solvency II and IFRS basis. The Company has unrecognised losses from prior years that can be used to offset this tax liability in the future. Therefore the Solvency II deferred tax assets have been increased to the level of these deferred tax liabilities, giving a nil deferred tax asset on a net basis.

There have been no other material changes to the recognition and valuations bases or to estimations over the reporting period.

The following table gives the valuation bases used as at 31 December 2017, along with a comparison between Solvency II and IFRS statutory accounts values. The IFRS statutory accounts values below are as set out in the statutory accounts column of QRT S.02.01.02. These reflect the IFRS statutory accounting values of the Solvency II Group, reallocated into the corresponding balance sheet QRT line items.

Balance sheet caption	Description of basis and method of valuation
Deferred acquisition costs	Under IFRS, certain costs incurred in issuing certain insurance and participating investment contracts are deferred and amortised over the life of the contracts as the related revenue is recognised. After initial recognition, DAC is reviewed by category of business and written off to the extent that they are no longer considered to be recoverable. In accordance with the Solvency II valuation guidelines, nil value has been allocated to Deferred Acquisition Costs (DAC). Accordingly, the following valuation difference can be observed between the Solvency II balance sheet and the IFRS statutory accounts:

	£'000
DAC as per Solvency II balance sheet	NIL
DAC as per IFRS statutory accounts	37,002
Difference	37,002

Balance sheet caption	Description of basis and method of valuation
Intangible assets	Under IFRS, intangible assets are recognised if it is probable that the relevant future economic benefits attributable to the asset will flow to Standard Life International and they can be measured reliably and are either identified as separable (i.e. capable of being separated from the entity and sold, transferred, rented, or exchanged) or they arise from contractual or other legal rights, regardless of whether those rights are transferable or separable. Standard Life International has also recognised as intangible assets software which has been developed internally and other purchased technology which is used in managing and executing our business. Intangible assets are recognised at cost and charged to the income statement on a straight-line basis over the length of time Standard Life International expects to derive benefits from the asset. Under the Solvency II valuation guidelines, intangible assets are recognised and measured at fair value so long as they can be sold separately and fair value measurement using quoted prices in an active market is possible. When intangible assets cannot be sold separately or fair value measurement using quoted prices in an active market is not possible, such intangible assets are valued at nil. Standard Life International's intangible assets do not meet the criteria for recognition and are therefore valued at nil. Accordingly, the following valuation difference can be observed between the Solvency II balance sheet and the IFRS statutory accounts:

	Total £'000
Intangible assets as per Solvency II balance sheet	NIL
Intangible assets as per IFRS statutory accounts	624
Difference	624

Deferred tax assets	The following section describes the valuation approach for both deferred tax assets and liabilities. Under IFRS, a deferred tax asset represents a tax deduction that is expected to arise in a future period. It is only recognised to the extent that there is expected to be future taxable profit to offset the tax deduction. A deferred tax liability represents taxes which will become payable in a future period as a result of a current or prior year transaction. All deferred tax liabilities are recognised. The tax rates used to determine deferred tax are those enacted or substantively enacted at the reporting date. Where local tax law allows, deferred tax assets and liabilities are netted off on the statement of financial position. Shareholder deferred tax for Solvency II valuation purposes is determined by identifying temporary differences between the fair value of assets or liabilities on the Solvency II balance sheet and their equivalent tax base. The total value of deferred tax liabilities arising from temporary timing differences between the Solvency II and IFRS amounts to £7,179k. The Company has unrecognised losses from prior years that can be used to offset this tax liability in the future. Therefore the Solvency II deferred tax assets have been increased to the level of these deferred tax liabilities, giving a nil deferred tax asset on a net basis. The IFRS statutory accounts show a deferred tax asset for £4,389k based on a projection horizon of 5 years.

	£'000
Deferred tax assets as per Solvency II balance sheet	NIL
Deferred tax assets as per IFRS statutory accounts	4,389
Difference	4,389

Investments (other than assets held for index-linked and unit-linked funds)	**Bonds** In the Standard Life International IFRS statutory accounts, debt securities are valued at fair value. There are no differences between the IFRS and Solvency II values. **Government Bonds** Government, including provincial and municipal, and supranational institution bonds

	£'000
Government Bonds as per Solvency II balance sheet	16,623
Government Bonds as per IFRS statutory accounts	16,623
Difference	NIL

Balance sheet caption	Description of basis and method of valuation
Investments (other than assets held for index-linked and unit-linked funds)	**Holdings in related undertakings, including participations**

This represents Standard Life International's holding in a pooled investment fund investing in money-market assets. There are no differences between the IFRS and Solvency II values.

	£'000
Holdings in related undertakings, including participations as per Solvency II balance sheet	53,647
Holdings in related undertakings, including participations as per IFRS statutory accounts	53,647
Difference	NIL

Investments (other than assets held for index-linked and unit-linked funds)

Deposits other than cash equivalents

Deposits other than cash equivalents are carried at amortised cost in the IFRS statutory accounts. It is a requirement of IFRS that the Group separately discloses the fair value of such assets in a note to the accounts, to the extent that this is materially different from the carrying value. At 31 December 2017, there were no Deposits other than cash equivalents.

	£'000
Deposits other than cash equivalents as per Solvency II balance sheet	NIL
Deposits other than cash equivalents as per IFRS statutory accounts	NIL
Difference	NIL

Assets held for index-linked and unit-linked funds

In the Standard Life International IFRS statutory accounts, assets held for index-linked and unit-linked contracts are valued at fair value using prices sourced from the primary exchange on which they are listed where these are available or alternative valuation methods where published prices are not available.

For the Solvency II balance sheet, assets held for index-linked and unit-linked funds are recorded at fair value.

Accordingly, there is no valuation difference between the Solvency II balance sheet and the IFRS statutory accounts:

	£'000
Investment in Assets held for index-linked and unit-linked contracts as per Solvency II balance sheet	6,207,369
Investment in Assets held for index-linked and unit-linked contracts as per IFRS statutory accounts	6,207,369
Difference	NIL

Insurance and intermediaries receivables

Insurance and intermediaries receivables are stated at realisable value in the Solvency II balance sheet. This is consistent with the valuation approach followed in the IFRS statutory accounts.

The difference is due to balances between receivables and payables that were netted off in the statutory accounts as the supplier was the same. The corresponding figure can be seen in the insurance and intermediaries payables in the liabilities section.

	£'000
Insurance and intermediaries receivables as per Solvency II balance sheet	8,395
Insurance and intermediaries receivables as per IFRS statutory accounts	8,104
Difference	(291)

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and demand deposits, which are valued at amounts receivable on demand.

There is no difference between the valuation basis for the Solvency II balance sheet and the IFRS statutory accounts.

	£'000
Cash and cash equivalents as per Solvency II balance sheet	14,150
Cash and cash equivalents as per IFRS statutory accounts	14,150
Difference	NIL

D.2 Technical provisions

This section provides information on the valuation of technical provisions.

The total value of technical provisions in Standard Life International's Solvency II balance sheet at 31 December 2017, as shown in QRT S.02.01.02 in Appendix 1 was £6,119,073k.

D.2.1 Overview

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

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

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

Technical provisions calculated as a whole are the full value of the policyholder unit-linked investment funds, as these are made up of assets which have a reliable observable market value.

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

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

The best estimate and the risk margin are calculated separately.

Standard Life International does not apply the transitional measure on technical provisions described in the Solvency II Directive. This allows for a deduction from technical provisions which reduces to zero over the transitional period of 16 years. Standard Life International also does not use the transitional risk-free interest rate term structure described in the Solvency II Directive.

The valuation approach is summarised in subsequent sections.

The only simplified method used to calculate technical provisions is the risk driver approach to calculating the Risk Margin as set out in section D.2.1.3 below.

D.2.1.1 Segmentation

For the purpose of Solvency II reporting, Standard Life International has only one material line of business:

- Index linked and unit linked insurance – unit linked business, including the present value of future profits

As at 31 December 2017, the contribution to technical provisions was as follows:

Line of Business	Technical Provisions as a Whole £'000	Best Estimate Liability £'000	Risk Margin £'000	Amount of the transitional on Technical Provisions £'000	Total Technical Provisions £'000
Index-linked and unit-linked insurance	6,207,369	(129,432)	41,136	NIL	6,119,073
Total	6,207,369	(129,432)	41,136	NIL	6,119,073

The valuation of cash flows is determined at policy level, with no grouping of similar policies.

This business is written in the UK, with cash flows denominated in sterling. Euro-denominated expense cashflows incurred in Ireland are converted to sterling.

The following sections describe the nature of cash flows and the valuation methodology.

D.2.1.2 Unit linked

D.2.1.2.1 Nature of business

All of Standard Life International's contracts are unit-linked life insurance bonds.

D.2.1.2.2 Valuation approach

The unit linked fund values meet the requirements to be a replicating portfolio. Therefore the gross unit fund value with no associated risk margin, will be treated as 'technical provisions as a whole'.

The overall technical provision for a unit linked contract is then unbundled into the following components:

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

The best estimate is required to be a probability weighted average of future cash flows. The PVIF is calculated deterministically.

To calculate the PVIF, best estimate charge income and expense cash flows are projected, with the unit fund rolled up at the same risk free interest rate term structure that is used for discounting the net cash flows. The projection is carried out using best estimate assumptions. The Solvency II yield curve and other best estimate assumptions are described in Section D.2.1.5.

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

- Inflows: fund management charges (net of large fund discounts), commission charges, surrender penalties, policy fees (including product and platform charges)
- Outflows: commission, renewal expenses, termination expenses, investment expenses, adviser payments, external fund manager charges

D.2.1.3 Risk margin

The value of technical provisions is equal to the sum of a best estimate and a risk margin (plus technical provisions as a whole). The risk margin is held in respect of non-hedgeable risks and is required to ensure that the value of the technical provisions is equivalent to the amount that insurance undertakings would be expected to require in order to take over and meet the insurance obligations.

The risk margin is calculated by determining the cost of providing an amount of eligible own funds equal to the Solvency Capital Requirement (SCR) in respect of non-hedgeable risks necessary to support the insurance obligations over their lifetime. The cost of capital in this calculation is prescribed.

In theory, the calculation of the risk margin involves a projection of future SCRs, which is not practical, and instead a risk driver based approach is adopted, in line with the guidelines set by EIOPA. The appropriate risk drivers are regularly reviewed. This ensures that they accurately reflect the size of the risk exposure and that the run off of the risk driver is consistent with, and materially captures the run off of the underlying risk.

D.2.1.4 Non-economic bases

Non-economic assumptions are determined from annual experience investigations, are subject of detailed internal review and approved by the Board. Best estimate assumptions are made in respect of future levels of mortality, surrenders, withdrawals and expenses. These assumptions reflect our best estimates of likely future experience, based on recent experience, relevant industry data and expert judgement as appropriate. The approach is to treat the best estimate assumptions as the median of the range of possible assumptions.

Mortality assumptions are generally set by reference to recent experience without allowing for future changes in mortality.

Assumptions regarding surrender and withdrawal reflect recent experience.

Best estimate expense assumptions on a per policy basis are derived from an analysis of management expenses. This allows for all expenses incurred in servicing policies, including overheads, assuming that Standard Life International continues to write new business.

The investment management expense assumptions are derived as the best estimate of the future charges expected to be paid to Standard Life Investments, reflecting current investment management agreements.

D.2.1.5 Economic bases

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

D.2.1.5.1 Credit risk adjustment

The credit risk adjustment is a deduction from the market swap rate, representing the credit risk embedded in the swap rates underlying the floating leg of the swaps. It is specified by EIOPA and is subject to a 10bps floor and 35bps cap.

D.2.1.5.2 Matching adjustment

The risk free yield can be adjusted to reflect where long-term liabilities (e.g. annuities) are backed by assets which closely match the cash flows and where these assets have yields in excess of risk free, reflecting an illiquidity premium. To the extent that the assets are expected to be held long term rather than sold short term, the additional yield can be taken into account when discounting the long-term liabilities. This assumes that there is no situation which could give rise to the forced sale of assets at a loss when spreads are high.

The matching adjustment is a parallel shift to both the market and extrapolated segments of the risk free curve.

Standard Life International has not applied to use a matching adjustment.

D.2.1.5.3 Volatility adjustment

The volatility adjustment is designed to protect insurers with long-term liabilities from the impact of market volatility, by reducing the likelihood that insurers sell their risky assets when markets are falling.

The volatility adjustment is a parallel increase in the market segment of the risk free curve, with extrapolation to the ultimate forward rate.

Standard Life International has not used a volatility adjustment.

D.2.2 Material changes in assumptions made in the calculation of technical provisions compared to the previous year

There were no material changes in assumptions made in the calculation of technical provisions compared with previous year.

D.2.3 The level of uncertainty associated with the value of technical provisions

The valuation techniques adopted are in line with generally accepted actuarial principles and Solvency II requirements. The best estimate is derived as a probability weighted average of future cash flows (where there are material asymmetries e.g. in the treatment of guarantees and options), taking account of the expected present value of future cash flows, using an appropriate risk free interest rate term structure. The calculation is based upon realistic assumptions, taking account of all material future cash inflows and outflows required to settle the insurance obligations.

Standard Life International's business is explicitly modelled in the way summarised in previous sections. The level of uncertainty associated with the amount of technical provisions primarily relates to assumed future experience.

The valuation of liabilities requires assumptions about the future (e.g. mortality, persistency, expenses, economic conditions), which are inevitably the source of some uncertainty. While the approach adopted by Standard Life International leads to our best estimate of future expected experience, there can be a number of alternative similarly justifiable assumptions.

D.2.4 Differences between the valuation for solvency purposes and that for financial statements

IFRS contract liability valuation depends on whether the contract is defined as 'insurance' or 'investment' business. Insurance contracts are those that transfer significant insurance risk. The IFRS valuation treatment is broadly as follows:

- Insurance contracts – A discounted cash flow method, based on an assumed prudent rate of interest derived from yields on underlying assets in line with CBI requirements before the introduction of Solvency II and prudent non-economic assumptions.
- Investment contracts – Value of unit linked funds.

The table below reconciles the main difference between the IFRS contract liabilities and Solvency II technical provisions.

The IFRS figures shown represent the total insurance and investment contract liabilities.

	£'000
IFRS value	6,214,003
Derecognise Sterling reserves on insurance business	(6,634)
Recognise Solvency II best estimate liabilities	(129,432)
Include Risk Margin	41,136
Solvency II Technical Provisions	**6,119,073**

D.2.5 Reinsurance recoverables and special purpose vehicles

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

Standard Life International has not entered into any reinsurance arrangements.

Standard Life International does not have any special purpose vehicle arrangements.

D.2.6 Material changes

There were no material changes in the relevant assumptions made in the calculation of technical provisions compared to the previous reporting period.

D.3 Other liabilities

This section provides information on the types of other liabilities in Standard Life International's Solvency II balance sheet, their value in the Solvency II balance sheet as well as a description of the bases, methods and assumptions used for valuing other liabilities, including a quantitative and qualitative explanation of any material differences with their IFRS statutory accounting valuation.

The total value of other liabilities in Standard Life International's Solvency II balance sheet at 31 December 2017 was £44,273k. An analysis of the Solvency II balance sheet by type of other liability is provided in QRT S.02.01.02, a copy of which is included in Appendix1.

Solvency II regulations require that other liabilities of insurers be valued on a basis that reflects their fair value (described as an 'economic valuation') with the exception that liabilities should not be adjusted to take account of an insurer's own credit standing. The valuation basis adopted should, as far as possible, be compatible with IFRS. Details on the methods and assumptions used to determine the fair values of other liabilities are included in Section D.4.

Other liabilities have been classified with consideration of their nature, function, risk and materiality. There have been no changes to the recognition and valuations bases or to estimations over the reporting period.

The only significant assumptions or judgements involved in valuing other liabilities on the Solvency II balance sheet relate to deferred tax liabilities, which are based on the value of technical provisions and so are subject to the same assumptions and judgements used to calculate best estimate liabilities and the risk margin.

The following table gives the valuation bases and methods used as at 31 December 2017 in valuing other liabilities for Solvency II balance sheet purposes along with a comparison between Solvency II and IFRS accounting values:

Balance sheet caption	Description of basis and method of valuation
Insurance and intermediaries payable	Insurance and intermediaries payables are recorded under IFRS at amounts payable at the balance sheet date. This is consistent with the valuation basis under Solvency II. Accordingly, there are no valuation differences between the IFRS statutory accounts and the Solvency II balance sheet. The difference is due to balances between receivables and payables that were netted off in the statutory accounts as the supplier was the same. The corresponding figure can be seen in the insurance and intermediaries receivables in the assets section.
Any other liabilities not elsewhere shown	This balance sheet caption relates to deferred income balances. Under IFRS, front end fees on service contracts, including investment management service contracts, are deferred as a liability and amortised on a straight line basis. In accordance with the Solvency II valuation guidelines, nil value has been allocated to deferred income balances. Accordingly, the following valuation difference can be observed between the Solvency II balance sheet and the IFRS statutory accounts:

	£'000
Insurance and intermediaries payable as per Solvency II balance sheet	44,723
Insurance and intermediaries payable as per IFRS statutory accounts	44,432
Difference	(291)

	£'000
Deferred income as per Solvency II balance sheet	NIL
Deferred income as per IFRS statutory accounts	128
Difference	128

D.4 Alternative methods for valuation

This section provides details on the methods and assumptions used to determine the fair values of assets and other liabilities (other than technical provisions). More information about the valuation methods used for accounting purposes, including a fair value hierarchy, is provided in note 24 of Standard Life International's Annual Financial Statements 2017.

D.4.1 Fair value hierarchy

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

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

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

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

The following table presents the fair value hierarchy for assets and other liabilities carried at fair value in the Solvency II balance sheet at 31 December 2017. In 2017, all assets have been reclassified as Level 2.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity securities and interests in pooled investment funds	-	5,748,953	-	5,748,953
Debt securities	-	38,043	-	38,043
Total	-	5,786,996	-	5,786,996

D.4.2 Methods and assumptions used to determine fair value of assets and liabilities

D.4.2.1 Debt securities

For debt securities, the Company has determined a hierarchy of pricing sources. The hierarchy consists of reputable external pricing providers who generally use observable market data. If prices are not available from these providers or are considered to be stale, the

Group has established procedures to arrive at an internal assessment of the fair value. These procedures are based largely on inputs that are not based on observable market data. A further analysis by category of debt security is as follows:

Government, including provincial and municipal, and supranational institution bonds

These instruments are valued using prices received from external pricing providers who generally base the price on quotes received from a number of market participants. They are categorised as level 1 or level 2 instruments within the fair value hierarchy depending upon the nature of the underlying pricing information used for valuation purposes.

Corporate bonds listed or quoted in an established over-the-counter market including asset-backed securities

These instruments are generally valued using prices received from external pricing providers who generally consolidate quotes received from a panel of banks into a composite price. As the market becomes less active the quotes provided by some banks may be based on modelled prices rather than on actual transactions. These sources are based largely on observable market data, and therefore these instruments are categorised as level 2 instruments within the fair value hierarchy. When prices received from external pricing providers are based on a single broker indicative quote the instruments are categorised as level 3 instruments.

For instruments for which prices are either not available from external pricing providers or the prices provided are considered to be stale, the Group performs its own assessment of the fair value of these instruments. This assessment is largely based on inputs that are not based on observable market data, principally single broker indicative quotes, and accordingly these instruments are categorised as level 3 instruments within the fair value hierarchy.

Other corporate bonds including unquoted bonds, commercial paper and certificates of deposit

These instruments are valued using models. For unquoted bonds the model uses inputs from comparable bonds and includes credit spreads which are obtained from brokers or estimated internally. Commercial paper and certificates of deposit are valued using standard valuation formulas. The categorisation of these instruments within the fair value hierarchy will be either level 2 or 3 depending upon the nature of the underlying pricing information used for valuation purposes.

D.4.2.2 Assets held for index-linked and unit-linked contracts

Assets held for index-linked and unit-linked contracts are valued using published prices sourced from the primary exchange on which they are listed where these are available. Where published prices are not available, assets are valued in accordance with the methodologies described elsewhere in this section for different types of assets.

D.5 Any other information

This section is intentionally left blank.

E. Capital management

Standard Life's approach to capital management

The Liquidity & Capital Management policy is reviewed annually and is approved by the Standard Life International Board. The policy supports the Company's and the Group's 'Create and Protect Value' governing principle:

'We manage long-term value creation, cash flow and risk to inform decisions that create and protect value in business activities. We ensure capital generates the most value for the risks taken.'

The capital management policy is to ensure that Standard Life International is appropriately capitalised under base and stress scenarios. Standard Life International has processes to manage and report its capital position, and has a capital framework policy that specifies the buffer capital that Standard Life International believes is sufficient to hold.

The capital position also reflects the liquid resources held at Standard Life International which supports our business objectives, in particular planned investments.

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

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

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

In addition to this, Standard Life International defines limits for those risks which it actively seeks to manage. The risk limits are set with the overriding aim of supporting an overall suitable capital position under stress (as per the Capital Targets Framework and severe downside business planning scenarios), with individual limits then set subject to this constraint in order to support the delivery of the business plan.

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

E.1 Own funds

E.1.1 Own funds

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

Own funds comprise on balance sheet items (referred to as basic own funds) and items that may be called up to absorb losses that are off balance sheet (referred to as ancillary own funds). Basic own funds consist of the excess of assets over liabilities (including technical provisions), all of which must be valued in accordance with Solvency II regulations and guidance. Ancillary own funds are subject to prior supervisory approval. Standard Life International has not sought approval for any ancillary own funds as at 31 December 2017.

This section provides information on the structure, amount and quality of Standard Life International's own funds, as well as a quantitative and qualitative explanation of any material differences between equity as shown in Standard Life International's financial statements and the excess of assets over liabilities as calculated for solvency purposes.

There were no material changes to the objectives, policies and process for managing own funds, including the planning horizon used, during the reporting period.

E.1.2 Composition and quality of own funds

Items of own funds vary in their ability to absorb losses both in the normal course of business and in times of stress. Items are graded into three tiers to reflect their ability to absorb losses, with Tier 1 being of the highest quality and Tier 3 the lowest.

The tiering of own funds is based on the extent to which own funds items possess the characteristics of permanent availability and subordination. A further four features also need to be taken into consideration, these are: sufficient duration, absence of incentives to redeem, absence of mandatory servicing costs and absence of encumbrances. Definitions of each of these characteristics are as follows:

- Permanent availability refers to whether an item is available, or can be called up on demand, to fully absorb losses on a going-concern basis, as well as in the case of a winding-up.
- Subordination refers to whether, in the case of a winding-up, the total amount of the item is available to absorb losses and the repayment of the item is refused to its holder until all other obligations, including insurance and reinsurance obligations towards policyholders and beneficiaries of insurance and reinsurance contracts, have been met.

- Sufficient duration requires that consideration be given to the duration of the item, in particular whether the item is dated or not. Where an own fund item is dated, the relative duration of the item as compared to the duration of the insurance obligations should be considered.
- Absence of incentives to redeem refers to whether the item is free from requirements or incentives to redeem the nominal sum.
- Absence of mandatory servicing costs refers to whether the item is free from mandatory fixed charges.
- Absence of encumbrances refers to whether the item is free from encumbrances. Encumbrances include factors such as rights of set off, restrictions and charges or guarantees and should be considered applying the principle of substance over form.

To be classified as Tier 1, an item of own funds must substantially possess the characteristics of permanent availability and subordination taking into consideration the additional four features described above. For an item of own funds to be classified as Tier 2, it must substantially possess the characteristics of subordination taking into consideration the additional four features.

Where own funds do not meet the criteria to be classified as Tier 1 or Tier 2, the items will be classified as Tier 3.

Transitional provisions within the Solvency II regulations allow existing items qualifying as capital under the Solvency I regime to be 'grandfathered' into Tier 1 or Tier 2 when they do not meet the criteria for classification as own funds under Solvency II rules. For Standard Life International, no such transitional provisions have been applied.

Based on the tiering classifications, there are certain regulatory limits regarding the eligibility of own funds to meet capital requirements. Limits are placed on Tier 2 and Tier 3 and hybrid/ restricted (e.g. subordinated liabilities) Tier 1 items to ensure that there is a sufficiently high proportion of highest quality own funds (non-restricted Tier 1) and that only higher quality own funds (Tier 1 and Tier 2 own fund items) cover the minimum capital requirement (MCR).

The key eligibility limits are as follows:

- At least 50% of the SCR must be covered by Tier 1 own funds (and no more than 20% of those Tier 1 items may be hybrid instruments such as subordinated liabilities) and a maximum of 15% may be covered by Tier 3.
- At least 80% of the MCR must be covered by Tier 1 (and no more than 20% of those Tier 1 items may be hybrid instruments such as subordinated liabilities). Tier 3 own funds are not eligible to cover the MCR. This in effect means that Tier 2 basic own funds are eligible as long as they are no more than 20% of the MCR.

The following table sets out the values of own funds of Standard Life International as at 31 December 2016, shown before and after application of the tiering limits:

Description	Tier 1 unrestricted £'000	Tier 1 restricted £'000	Tier 2 £'000	Tier 3 £'000	Total £'000
Ordinary share capital	37,446	NIL	NIL	NIL	37,446
Share premium	43,517	NIL	NIL	NIL	43,517
Reconciliation reserve	55,426	NIL	NIL	NIL	55,426
Deferred tax assets	NIL	NIL	NIL	NIL	NIL
Own funds	136,389	NIL	NIL	NIL	136,389
Own funds eligible to meet the SCR	136,389	NIL	NIL	NIL	136,389
Own funds eligible to meet the MCR	136,389	NIL	NIL	NIL	136,389

There were no relevant deductions from own funds or restrictions on availability as at 31 December 2017.

More detail on each of the items included in the previous table is provided in the following sections.

E.1.3 Ordinary share capital and share premium

The following table summarises the characteristics of the ordinary share capital and share premium issued by Standard Life International, to support their classification into the appropriate tier of own funds:

Instrument	Tier	Duration	Subordination	Redemption incentives	Mandatory servicing costs	Encumbrances
Ordinary share capital	Tier 1	permanent	last upon winding up	none	none	none
Share premium	Tier 1	permanent	last upon winding up	none	none	none

Standard Life International's articles of association allow cancelation of the payment of dividends (or other distributions) on ordinary shares prior to payment in certain circumstances, where it may be necessary or appropriate to do so because of legal, regulatory, capital or solvency requirements.

E.1.4 Reconciliation reserve

The reconciliation reserve is the amount of excess assets over liabilities (valued in accordance with the Solvency II regulations and guidance) that remain once all the other identified elements of basic own funds have been deducted. As such, it serves to ensure that the total of all the individual basic own funds items are equal to the total excess of assets over liabilities and subordinated liabilities.

The following table analyses the Standard Life International reconciliation reserve as at 31 December 2017:

	£'000
Excess of assets over liabilities	136,389
Own shares (included as assets on the balance sheet)	NIL
Other basic own fund items (ordinary share capital, share premium and deferred tax assets)	(80,963)
Other non-available own funds	NIL
Reconciliation reserve total	**55,426**

E.1.5 Deferred tax

Under Solvency II regulations and guidance, the value of any net shareholder deferred tax assets must be deducted from Tier 1 own funds and recognised as Tier 3. Deferred tax assets and liabilities are netted where legal offset is permitted. At 31 December 2017, there was no recognition of net deferred tax asset as Tier 3 Capital.

E.1.6 Reconciliation of IFRS accounting equity to Standard Life International own funds

Standard Life International's own funds position is different from the equity stated in the IFRS statutory accounts. The table below reconciles the financial statements to the Solvency II own funds position as at 31 December 2017:

	31 December 2017 £'000	
Equity attributable to equity holders per the consolidated financial statements on an IFRS basis		83,345
Valuation differences:		
In respect of assets	(41,724)	
In respect of technical provisions	94,931	
In respect of other liabilities	(163)	
		53,044
Own funds after adjustments		**136,389**

The valuation differences are described in sections D.1 (assets), D.2 (technical provisions) and D.3 (other liabilities).

E.1.7 Movements in own funds during the reporting period

The following table sets out the movements in Standard Life International's Own funds, analysed by tier, during 2017.

Description	**Tier 1 £'000**	**Tier 2 £'000**	**Tier 3 £'000**	**Total £'000**
Opening own funds	107,436	-	4,389	111,826
Opening eligibility restrictions	-	-	-	-
Opening eligible own funds to meet the SCR	**107,436**	**-**	**4,389**	**96,236**
Movements in period:				
Own funds	28,952	-	(4,389)	24,563
Eligibility restrictions	-	-	-	-
Total movements in eligible own funds	**28,952**	**-**	**(4,389)**	**24,563**
Closing eligible own funds to meet the SCR	**136,389**	**-**	**-**	**136,389**

There were no ancillary own funds at 31 December 2017.

During 2017, the Company received a capital injection of £15,000k from The Group. This amount is presented in the Annual Financial Statements as £1.5k ordinary shares and £14,998.5k share capital. Other than this movement, the changes during 2017 were due to profit made and the change in the value of technical provisions, including new business written and derecognition of the deferred tax asset.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

E.2.1 Standard Life's Solvency Capital Requirement

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

Standard Life International's SCR at the end of 2017 was £101,842k. Standard Life International uses the standard formula to calculate its SCR. Please see Quantitative Reporting Template S25.01.21 to see the split of the SCR by risk category.

The SCR is greater than the Minimum Capital Requirement (see Section E.2.2).

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

E.2.2 Standard Life's Minimum Capital Requirement

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

The non-life insurance element of the MCR calculation is zero for Standard Life International, as it does not have any business covered by the non-life insurance calculation.

Standard Life International's MCR was £43,058k at 31 December 2017. This has been calculated according to the formula specified in the Solvency II regulations, with the following inputs in addition to the value of the SCR:

Component	**£'000**	
Linear formula component for life insurance obligations, based on:	43,058	
Technical provisions excluding risk margin		6,077,937
Capital at risk		731,456
Absolute floor of the MCR (€3,700k)	**3,251**	

E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

Standard Life International is not using the duration-based equity risk sub-module for the calculation of its Solvency Capital Requirement.

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

Standard Life International is not using any internal model for the calculation of its Solvency Capital Requirement.

E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

Throughout 2017 Own Funds have at all times exceeded both the MCR and the SCR.

E.6 Any other information

This section is intentionally left blank.

Other information

Statement of Directors' responsibilities

The Directors are responsible for the preparation of the Standard Life International Solvency and Financial Condition report in accordance with the financial reporting provisions of the CBI rules and Solvency II regulations.

The Directors are satisfied that:

(a) Throughout the financial year in question, Standard Life International has complied in all material respects with the requirements of the CBI rules and Solvency II regulations as applicable at solo level; and

(b) It is reasonable to believe that, Standard Life International has continued so to comply subsequently, and will continue so to comply in future.

The SFCR was approved by the Standard Life International Board and signed on its behalf by the following Director

Aoife O'Leary

Finance Director

27 April 2018

Appendix 1 – Quantitative Reporting Templates (QRTs)

S.02.01.02	**Balance sheet**
S.05.01.02	**Premiums, claims and expenses by line of business**
S.05.02.01	**Premiums, claims and expenses by country**
S.12.01.02	**Life and health similar to life insurance technical provisions**
S.23.01.01	**Own funds**
S.25.01.21	**Solvency Capital Requirement - for undertakings on standard formula**
S.28.01.01	**Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity**

S.02.01.02

Balance sheet

		Solvency II value
		C0010
Assets		£'000
Intangible assets	R0030	-
Deferred tax assets	R0040	0
Pension benefit surplus	R0050	-
Property, plant and equipment held for own use	R0060	-
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	70,269
Property (other than for own use)	R0080	-
Holdings in related undertakings, including participations	R0090	53,647
Equities	R0100	-
Equities - listed	R0110	-
Equities - unlisted	R0120	-
Bonds	R0130	16,623
Government Bonds	R0140	16,623
Corporate Bonds	R0150	-
Structured Notes	R0160	-
Collateralised Securities	R0170	-
Collective Investments Undertakings	R0180	-
Derivatives	R0190	-
Deposits other than cash equivalents	R0200	-
Other investments	R0210	-
Assets held for index-linked and unit-linked contracts	R0220	6,207,369
Loans and mortgages	R0230	-
Loans on policies	R0240	-
Loans and mortgages to individuals	R0250	-
Other loans and mortgages	R0260	-
Reinsurance recoverables from:	R0270	-
Non-life and health similar to non-life	R0280	-
Non-Life excluding Health	R0290	-
Health similar to Non-Life	R0300	-
Life and health similar to life, excluding health, index-linked and unit-linked	R0310	-
Health similar to Life	R0320	-
Life excluding Health and index-linked and unit-linked	R0330	-
Life index-linked and unit-linked	R0340	-
Deposits to cedants	R0350	-
Insurance and intermediaries receivables	R0360	8,395
Reinsurance receivables	R0370	-
Receivables (trade, not insurance)	R0380	-
Own Shares	R0390	-
Amounts due in respect of own funds or initial fund called up but not yet paid in	R0400	-
Cash and cash equivalents	R0410	14,150
Any other assets, not elsewhere shown	R0420	-
Total Assets	**R0500**	**6,300,184**

		Solvency II value
		C0010
Liabilities		£'000
Technical Provisions - Non-life	**R0510**	-
Technical Provisions - Non-Life (excluding Health)	**R0520**	-
TP calculated as a whole	**R0530**	-
Best Estimate	**R0540**	-
Risk Margin	**R0550**	-
Technical Provisions - Health (similar to Non-Life)	**R0560**	-
TP calculated as a whole	**R0570**	-
Best Estimate	**R0580**	-
Risk Margin	**R0590**	-
Technical provisions - Life (excluding index-linked and unit-linked)	**R0600**	-
Technical Provisions - Health (similar to Life)	**R0610**	-
TP calculated as a whole	**R0620**	-
Best Estimate	**R0630**	-
Risk Margin	**R0640**	-
Technical Provisions - Life (excluding Health, index linked and unit-linked)	**R0650**	-
TP calculated as a whole	**R0660**	-
Best Estimate	**R0670**	-
Risk Margin	**R0680**	-
Technical provisions - index-linked and unit-linked	**R0690**	6,119,073
TP calculated as a whole	**R0700**	6,207,369
Best Estimate	**R0710**	-129,432
Risk Margin	**R0720**	41,136
Contingent liabilities	**R0740**	-
Provisions other than technical provisions	**R0750**	2,500
Pension benefit obligations	**R0760**	-
Deposits from reinsurers	**R0770**	-
Deferred tax liabilities	**R0780**	0
Derivatives	**R0790**	-
Debts owed to credit institutions	**R0800**	-
Financial liabilities other than debts owed to credit institutions	**R0810**	-
Insurance and intermediaries payable	**R0820**	42,223
Reinsurance payables	**R0830**	-
Payables (trade, not insurance)	**R0840**	-
Subordinated liabilities	**R0850**	-
Subordinated liabilities not in BOF	**R0860**	-
Subordinated liabilities in BOF	**R0870**	-
Any other liabilities not elsewhere shown	**R0880**	-
Total Liabilities	**R0900**	**6,163,795**
Excess of assets over liabilities	**R1000**	**136,389**

S.05.01.02

Premiums, claims and expenses by Line of Business

		Line of Business for: **non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)**								
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance
		C0010	**C0020**	**C0030**	**C0040**	**C0050**	**C0060**	**C0070**	**C0080**	**C0090**
Premiums written		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gross - Direct Business	**R0110**	0	0	0	0	0	0	0	0	0
Gross - Proportional reinsurance accepted	**R0120**	0	0	0	0	0	0	0	0	0
Gross - Non-proportional reinsurance accepted	**R0130**									
Reinsurers' share	**R0140**	0	0	0	0	0	0	0	0	0
Net	**R0200**	0	0	0	0	0	0	0	0	0
Premiums earned										
Gross - Direct Business	**R0210**	0	0	0	0	0	0	0	0	0
Gross - Proportional reinsurance accepted	**R0220**	0	0	0	0	0	0	0	0	0
Gross - Non-proportional reinsurance accepted	**R0230**									
Reinsurers' share	**R0240**	0	0	0	0	0	0	0	0	0
Net	**R0300**	0	0	0	0	0	0	0	0	0
Claims incurred										
Gross - Direct Business	**R0310**	0	0	0	0	0	0	0	0	0
Gross - Proportional reinsurance accepted	**R0320**	0	0	0	0	0	0	0	0	0
Gross - Non-proportional reinsurance accepted	**R0330**									
Reinsurers' share	**R0340**	0	0	0	0	0	0	0	0	0
Net	**R0400**	0	0	0	0	0	0	0	0	0
Changes in other technical provisions										
Gross - Direct Business	**R0410**	0	0	0	0	0	0	0	0	0
Gross - Proportional reinsurance accepted	**R0420**	0	0	0	0	0	0	0	0	0
Gross - Non- proportional reinsurance accepted	**R0430**									
Reinsurers 'share	**R0440**	0	0	0	0	0	0	0	0	0
Net	**R0500**	0	0	0	0	0	0	0	0	0
Expenses incurred	**R0550**	0	0	0	0	0	0	0	0	0
Other expenses	**R1200**									
Total expenses	**R1300**									

		Line of Business for: **non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)**			Line of business for: **accepted non-proportional reinsurance**				Total
		Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	
		C0100	**C0110**	**C0120**	**C0130**	**C0140**	**C0150**	**C0160**	**C0200**
Premiums written		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gross - Direct Business	**R0110**	0	0	0					0
Gross - Proportional reinsurance accepted	**R0120**	0	0	0					0
Gross - Non-proportional reinsurance accepted	**R0130**				0	0	0	0	0
Reinsurers' share	**R0140**	0	0	0	0	0	0	0	0
Net	**R0200**	0	0	0	0	0	0	0	0
Premiums earned									
Gross - Direct Business	**R0210**	0	0	0					0
Gross - Proportional reinsurance accepted	**R0220**	0	0	0					0
Gross - Non-proportional reinsurance accepted	**R0230**				0	0	0	0	0
Reinsurers' share	**R0240**	0	0	0	0	0	0	0	0
Net	**R0300**	0	0	0	0	0	0	0	0
Claims incurred									
Gross - Direct Business	**R0310**	0	0	0					0
Gross - Proportional reinsurance accepted	**R0320**	0	0	0					0
Gross - Non-proportional reinsurance accepted	**R0330**				0	0	0	0	0
Reinsurers' share	**R0340**	0	0	0	0	0	0	0	0
Net	**R0400**	0	0	0	0	0	0	0	0
Changes in other technical provisions									
Gross - Direct Business	**R0410**	0	0	0					0
Gross - Proportional reinsurance accepted	**R0420**	0	0	0					0
Gross - Non- proportional reinsurance accepted	**R0430**				0	0	0	0	0
Reinsurers' share	**R0440**	0	0	0	0	0	0	0	0
Net	**R0500**	0	0	0	0	0	0	0	0
Expenses incurred	**R0550**	0	0	0	0	0	0	0	0
Other expenses	**R1200**								0
Total expenses	**R1300**								0

		Line of Business for **life insurance obligations**						**Life reinsurance obligations**		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-Life insurance contracts related to health	Annuities stemming from non-life insurance contracts other than health	Health reinsurance	Life reinsurance	
		C0210	**C0220**	**C0230**	**C0240**	**C0250**	**C0260**	**C0270**	**C0280**	**C0300**
Premiums written		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gross	**R1410**	0	0	749,001	0	0	0	0	0	749,001
Reinsurer's share	**R1420**	0	0	0	0	0	0	0	0	0
Net	**R1500**	0	0	749,001	0	0	0	0	0	749,001
Premiums earned										
Gross	**R1510**	0	0	749,001	0	0	0	0	0	749,001
Reinsurer's share	**R1520**	0	0	0	0	0	0	0	0	0
Net	**R1600**	0	0	749,001	0	0	0	0	0	749,001
Claims incurred										
Gross	**R1610**	0	0	387,393	0	0	0	0	0	387,393
Reinsurer's share	**R1620**	0	0	0	0	0	0	0	0	0
Net	**R1700**	0	0	387,393	0	0	0	0	0	387,393
Changes in other technical provisions										
Gross	**R1710**	0	0	768,271	0	0	0	0	0	768,271
Reinsurer's share	**R1720**	0	0	0	0	0	0	0	0	0
Net	**R1800**	0	0	768,271	0	0	0	0	0	768,271
Expenses incurred	**R1900**	0	0	28,912	0	0	0	0	0	28,912
Other expenses	**R2500**									0
Total expenses	**R2600**									28,912

S.05.02.01

Premiums, claims and expenses by country

		Home country	Top 5 countries (by amount of gross premiums written) – non-life obligations	Total Top 5 and home country
		C0010	C0020	C0070
	R0010	IE	GB	
		C0080	C0090	C0140
Premiums written		£'000	£'000	£'000
Gross – Direct Business	**R0110**	0	0	0
Gross - Proportional reinsurance accepted	**R0120**	0	0	0
Gross - Non-proportional reinsurance accepted	**R0130**	0	0	0
Reinsurer's share	**R0140**	0	0	0
Net	**R0200**	0	0	0
Premiums earned				
Gross – Direct Business	**R0210**	0	0	0
Gross - Proportional reinsurance accepted	**R0220**	0	0	0
Gross - Non-proportional reinsurance accepted	**R0230**	0	0	0
Reinsurer's share	**R0240**	0	0	0
Net	**R0300**	0	0	0
Claims incurred				
Gross – Direct Business	**R0310**	0	0	0
Gross - Proportional reinsurance accepted	**R0320**	0	0	0
Gross - Non-proportional reinsurance accepted	**R0330**	0	0	0
Reinsurer's share	**R0340**	0	0	0
Net	**R0400**	0	0	0
Changes in other technical provisions				
Gross – Direct Business	**R0410**	0	0	0
Gross - Proportional reinsurance accepted	**R0420**	0	0	0
Gross - Non-proportional reinsurance accepted	**R0430**	0	0	0
Reinsurer's share	**R0440**	0	0	0
Net	**R0500**	0	0	0
Expenses incurred	**R0550**	0	0	0
Other expenses	**R1200**			0
Total expenses	**R1300**			0

		Home country	Top 5 countries (by amount of gross premiums written) - life obligations	Total Top 5 and home country
		C0150	C0160	C0210
	R1400	IE	GB	
		C0220	C0230	C0280
Premiums written		£'000	£'000	£'000
Gross	**R1410**	0	749,001	749,001
Reinsurer's share	**R1420**	0	0	0
Net	**R1500**	0	749,001	749,001
Premiums earned				
Gross	**R1510**	0	749,001	749,001
Reinsurer's share	**R1520**	0	0	0
Net	**R1600**	0	749,001	749,001
Claims incurred				
Gross	**R1610**	0	387,393	387,393
Reinsurer's share	**R1620**	0	0	0
Net	**R1700**	0	387,393	387,393
Changes in other technical provisions				
Gross	**R1710**	0	768,271	768,271
Reinsurer's share	**R1720**	0	0	0
Net	**R1800**	0	768,271	768,271
Expenses incurred	**R1900**	**0**	**28,912**	**28,912**
Other expenses	**R2500**			**0**
Total expenses	**R2600**			**28,912**

S.12.01.02
Life and health similar to life insurance technical provisions

		Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, incl. Unit-Linked)
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees			
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Technical Provisions calculated as a whole	**R0010**	0	6,207,369			0			0	0	6,207,369
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	**R0020**	0	0			0			0	0	0
Technical provisions calculated as a sum of BE and RM											
Best Estimate											
Gross Best Estimate	**R0030**	0		0	-129,432		0	0	0	0	-129,432
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0080**	0		0	0		0	0	0	0	0
Best estimate minus recoverables from reinsurance/SPV and Finite Re – total	**R0090**	0		0	-129,432		0	0	0	0	-129,432
Risk Margin	**R0100**	0	41,136			0			0	0	41,136
Amount of the transitional on Technical Provisions											
Technical Provisions calculated as a whole	**R0110**	0	0			0			0	0	0
Best Estimate	**R0120**	0		0	0		0	0	0	0	0
Risk Margin	**R0130**	0	0			0			0	0	0
Technical Provisions - total	**R0200**	0	6,119,073			0			0	0	6,119,073

		Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	**Total (Health similar to life insurance)**
			Contracts without options and guarantees	Contracts with options or guarantees			
		C0160	**C0170**	**C0180**	**C0190**	**C0200**	**C0210**
		£'000	£'000	£'000	£'000	£'000	£'000
Technical provisions calculated as a whole	**R0210**	0			0	0	0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	**R0220**	0			0	0	0
Technical provisions calculated as a sum of BE and RM							
Best Estimate							
Gross Best Estimate	**R0030**		0	0	0	0	0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0080**		0	0	0	0	0
Best estimate minus recoverables from reinsurance/SPV and Finite Re - total	**R0090**		0	0	0	0	0
Risk Margin	**R0100**	0			0	0	0
Amount of the transitional on Technical Provisions							
Technical Provisions calculated as a whole	**R0110**	0			0	0	0
Best estimate	**R0120**		0	0	0	0	0
Risk margin	**R0130**	0			0	0	0
Technical provisions - total	**R0200**	0			0	0	0

S.23.01.01
Own Funds

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35		£'000	£'000	£'000	£'000	£'000
Ordinary share capital (gross of own shares)	**R0010**	37,446	37,446		-	
Share premium related to ordinary share capital	**R0030**	43,517	43,517		-	
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	**R0040**	-	-		-	
Subordinated mutual member accounts	**R0050**	-	-	-	-	-
Surplus funds	**R0070**	-	-			
Preference shares	**R0090**	-	-	-	-	-
Share premium account related to preference shares	**R0110**	-	-	-	-	-
Reconciliation reserve	**R0130**	55,426	55,426			
Subordinated liabilities	**R0140**	-		-	-	-
An amount equal to the value of net deferred tax assets	**R0160**	0				0
Other own fund items approved by the supervisory authority as basic own funds not specified above	**R0180**	-	-	-	-	-
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						
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**	-				
Deductions						
Deductions for participations in financial and credit institutions	**R0230**	-	-	-	-	
Total basic own funds after adjustments	**R0290**	136,389	136,389	-	-	0
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	**R0300**	-			-	
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	**R0310**	-			-	
Unpaid and uncalled preference shares callable on demand	**R0320**	-			-	-
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	**R0330**	-			-	-
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	**R0340**	-			-	
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	**R0350**	-			-	-
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	**R0360**	-			-	
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	**R0370**	-			-	-
Other ancillary own funds	**R0390**	-			-	-
Total ancillary own funds	**R0400**	-			-	-
Available and eligible own funds						
Total available own funds to meet the SCR	**R0500**	136,389	136,389	-	-	0
Total available own funds to meet the MCR	**R0510**	136,389	136,389	-	-	
Total eligible own funds to meet the SCR	**R0540**	136,389	136,389	-	-	0
Total eligible own funds to meet the MCR	**R0550**	136,389	136,389	-	-	
Solvency Capital Requirement	**R0580**	101,842				
Minimum Capital Requirement	**R0600**	43,058				
Ratio of Eligible own funds to SCR	**R0620**	133.92%				
Ratio of Eligible own funds to MCR	**R0640**	316.76%				

		C0060
Reconciliation reserve		£'000
Excess of assets over liabilities	**R0700**	136,389
Own shares (held directly and indirectly)	**R0710**	-
Foreseeable dividends, distributions and charges	**R0720**	-
Other basic own funds items	**R0730**	80,963
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	**R0740**	-
Reconciliation reserve	**R0760**	55,426
Expected profits		
Expected profits included in future premiums (EPIFP) - Life business	**R0770**	-
Expected profits included in future premiums (EPIFP) - Non-Life business	**R0780**	-
Total Expected profits included in future premiums (EPIFP)	**R0790**	-

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0100
		£'000	£'000	£'000
Market risk	R0010	63,060		n/a
Counterparty default risk	R0020	2,491		
Life underwriting risk	R0030	63,067	None	n/a
Health underwriting risk	R0040	0	None	n/a
Non-life underwriting risk	R0050	0	None	n/a
Diversification	R0060	-28,091		
Intangible asset risk	R0070	0		
Basic Solvency Capital Requirement	R0100	100,528		

Calculation of Solvency Capital Requirement		C0100
Operational risk	R0130	1,315
Loss-absorbing capacity of technical provisions	R0140	0
Loss absorbing capacity of deferred taxes	R0150	0
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	0
Solvency capital requirement excluding capital add-on	R0200	101,842
Capital add-on already set	R0210	0
Solvency capital requirement	R0220	101,842
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	R0400	0
Total amount of Notional Solvency Capital Requirement for remaining part	R0410	0
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	0
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	0
Diversification effects due to RFF nSCR aggregation for article 304	R0440	0

S.28.01.01

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

Linear formula component for non-life insurance and reinsurance obligations

		C0010
		£'000
MCR_{NL} Result	**R0010**	0

		Net (of reinsurance/ SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	**C0030**
		£'000	£'000
Medical expense insurance and proportional reinsurance	**R0020**	0	0
Income protection insurance and proportional reinsurance	**R0030**	0	0
Workers' compensation insurance and proportional reinsurance	**R0040**	0	0
Motor vehicle liability insurance and proportional reinsurance	**R0050**	0	0
Other motor insurance and proportional reinsurance	**R0060**	0	0
Marine, aviation and transport insurance and proportional reinsurance	**R0070**	0	0
Fire and other damage to property insurance and proportional reinsurance	**R0080**	0	0
General liability insurance and proportional reinsurance	**R0090**	0	0
Credit and suretyship insurance and proportional reinsurance	**R0100**	0	0
Legal expenses insurance and proportional reinsurance	**R0110**	0	0
Assistance and proportional reinsurance	**R0120**	0	0
Miscellaneous financial loss insurance and proportional reinsurance	**R0130**	0	0
Non-proportional health reinsurance	**R0140**	0	0
Non-proportional casualty reinsurance	**R0150**	0	0
Non-proportional marine, aviation and transport reinsurance	**R0160**	0	0
Non-proportional property reinsurance	**R0170**	0	0

Linear formula component for life insurance and reinsurance obligations

		C0040
		£'000
MCR_L Result	**R0200**	43,058

		Net (of reinsurance/ SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	**C0060**
		£'000	£'000
Obligations with profit participation - guaranteed benefits	**R0210**	-	
Obligations with profit participation - future discretionary benefits	**R0220**	-	
Index-linked and unit-linked insurance obligations	**R0230**	6,077,937	
Other life (re)insurance and health (re)insurance obligations	**R0240**	-	
Total capital at risk for all life (re)insurance obligations	**R0250**		731,456

		C0070
Overall MCR calculation		£'000
Linear MCR	**R0300**	43,058
SCR	**R0310**	101,842
MCR cap	**R0320**	45,829
MCR floor	**R0330**	25,461
Combined MCR	**R0340**	43,058
Absolute floor of the MCR	**R0350**	3,251
Minimum Capital Requirement	**R0400**	43,058

Glossary

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

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

Board
The board of Directors of Standard Life International.

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

CBI
The Central Bank of Ireland.

Company
Standard Life plc.

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

Deterministic modelling
An actuarial projection model in which the input variables are defined in terms of a single best estimate value leading to a point estimate of the value of future cash flows. In comparison, stochastic models use a range of input variables (e.g. future investment returns) in the form of probability distributions leading to a number of modelled outcomes.

Delegated regulation
Commission Delegated Regulation supplementing the Solvency II Directive

Director
A director of Standard Life International.

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

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

EIOPA
European Insurance and Occupational Pensions Authority

External fund links (EFL)
These are unit linked fund options on Standard Life products, where the funds are not managed by Standard Life.

FCA
Financial Conduct Authority

Group, Standard Life Group or Standard Life
Prior to demutualisation on 10 July 2006, SLAC and its subsidiaries and, from demutualisation on 10 July 2006, the Company and its subsidiaries.

Implied volatility
Reflects the financial market's view of the probabilities of a range of future market scenarios. It is a key assumption in a market-consistent valuation.

Large fund discounts (LFD)
The practice of reducing the effective annual management charge applied to a policy depending on the size of the unit fund.

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

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

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

Non-economic assumptions
Assumptions in relation to future expenses and future lapse, withdrawal, and mortality rates.

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

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

PRA
Prudential Regulation Authority

Present value of in-force business (PVIF)
The expected future profits (usually excess of charges over expenses) on existing business.

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

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

SLAC
The Standard Life Assurance Company (renamed The Standard Life Assurance Company 2006 on 10 July 2006).

SLAL
Standard Life Assurance Limited.

SL Intl
Standard Life International Designated Activity Company

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

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

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

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

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

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

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

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